AMENDMENT NO._____ Calendar No._____

Purpose: To provide a perfecting amendment.

IN THE SENATE OF THE UNITED STATES—115th Cong., 1st Sess.

H. R. 1

To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

Referred to the Committee on _____ and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by _____ to the amendment (No. _____) proposed by _____

Viz:

1 Strike all after the first word and insert the following:

TITLE I

SEC. 11000. SHORT TITLE, ETC.

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

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

Subtitle A—Individual Tax Reform

PART I—TAX RATE REFORM

SEC. 11001. MODIFICATION OF RATES.

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

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

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

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

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

"(2) RATE TABLES.—

1 "(A) MARRIED INDIVIDUALS FILING JOINT
2 RETURNS AND SURVIVING SPOUSES.—The fol-
3 lowing table shall be applied in lieu of the table
4 contained in subsection (a):

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

5 "(B) HEADS OF HOUSEHOLDS.—The fol-
6 lowing table shall be applied in lieu of the table
7 contained in subsection (b):

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

8 "(C) UNMARRIED INDIVIDUALS OTHER
9 THAN SURVIVING SPOUSES AND HEADS OF
10 HOUSEHOLDS.—The following table shall be ap-

1 plied in lieu of the table contained in subsection
2 (c):

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

3 "(D) MARRIED INDIVIDUALS FILING SEPA-
4 RATE RETURNS.—The following table shall be
5 applied in lieu of the table contained in sub-
6 section (d):

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

7 "(E) ESTATES AND TRUSTS.—The fol-
8 lowing table shall be applied in lieu of the table
9 contained in subsection (e):

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

"(F) REFERENCES TO RATE TABLES.—Any reference in this title to a rate of tax under subsection (c) shall be treated as a reference to the corresponding rate bracket under subparagraph (C) of this paragraph, except that the reference in section 3402(q)(1) to the third lowest rate of tax applicable under subsection (c) shall be treated as a reference to the fourth lowest rate of tax under subparagraph (C).

"(3) ADJUSTMENTS.—

"(A) NO ADJUSTMENT IN 2018.—The tables contained in paragraph (2) shall apply without adjustment for taxable years beginning after December 31, 2017, and before January 1, 2019.

"(B) SUBSEQUENT YEARS.—For taxable years beginning after December 31, 2018, the Secretary shall prescribe tables which shall apply in lieu of the tables contained in paragraph (2) in the same manner as under para-

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

"(i) subsection (f)(3) shall be applied by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof,

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

"(iii) subsection (f)(8) shall not apply.

"(4) SPECIAL RULES FOR CERTAIN CHILDREN WITH UNEARNED INCOME.—

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

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

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

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

"(I) the earned taxable income of such child, plus

"(II) the minimum taxable income for the 35-percent bracket in the table under paragraph (2)(E) (as adjusted under paragraph (3)) for the taxable year.

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

"(I) the earned taxable income of such child, plus

"(II) the minimum taxable income for the 38.5-percent bracket in the table under paragraph (2)(E) (as

adjusted under paragraph (3)) for the taxable year.

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

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

"(I) the earned taxable income of such child, plus

"(II) the amount in effect under paragraph (5)(B)(i)(IV) for the taxable year, and

"(ii) the maximum 15-percent rate amount shall not be more than the sum of—

"(I) the earned taxable income of such child, plus

"(II) the amount in effect under paragraph (5)(B)(ii)(IV) for the taxable year.

"(D) EARNED TAXABLE INCOME.—For purposes of this paragraph, the term 'earned taxable income' means, with respect to any child for any taxable year, the taxable income of such child reduced (but not below zero) by

the net unearned income (as defined in subsection (g)(4)) of such child.

"(5) APPLICATION OF CURRENT INCOME TAX BRACKETS TO CAPITAL GAINS BRACKETS.—

"(A) IN GENERAL.—Section 1(h)(1) shall be applied—

"(i) by substituting 'below the maximum zero rate amount' for 'which would (without regard to this paragraph) be taxed at a rate below 25 percent' in subparagraph (B)(i), and

"(ii) by substituting 'below the maximum 15-percent rate amount' for 'which would (without regard to this paragraph) be taxed at a rate below 39.6 percent' in subparagraph (C)(ii)(I).

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

"(i) MAXIMUM ZERO RATE AMOUNT.—The maximum zero rate amount shall be—

"(I) in the case of a joint return or surviving spouse, $77,200,

"(II) in the case of an individual who is a head of household (as defined in section 2(b)), $51,700,

"(III) in the case of any other individual (other than an estate or trust), an amount equal to ½ of the amount in effect for the taxable year under subclause (I), and

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

"(ii) MAXIMUM 15-PERCENT RATE AMOUNT.—The maximum 15-percent rate amount shall be—

"(I) in the case of a joint return or surviving spouse, $479,000 (½ such amount in the case of a married individual filing a separate return),

"(II) in the case of an individual who is the head of a household (as defined in section 2(b)), $452,400,

"(III) in the case of any other individual (other than an estate or trust), $425,800, and

"(IV) in the case of an estate or trust, $12,700.

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

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under subsection (f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

"(6) SECTION 15 NOT TO APPLY.—Section 15 shall not apply to any change in a rate of tax by reason of this subsection.".

(b) DUE DILIGENCE TAX PREPARER REQUIREMENT WITH RESPECT TO HEAD OF HOUSEHOLD FILING STATUS.—Subsection (g) of section 6695 is amended to read as follows:

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

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

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

shall pay a penalty of $500 for each such failure.".

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

SEC. 11002. INFLATION ADJUSTMENTS BASED ON CHAINED CPI.

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

"(3) COST-OF-LIVING ADJUSTMENT.—For purposes of this subsection—

"(A) IN GENERAL.—The cost-of-living adjustment for any calendar year is the percentage (if any) by which—

"(i) the C-CPI-U for the preceding calendar year, exceeds

"(ii) the CPI for calendar year 2016, multiplied by the amount determined under subparagraph (B).

"(B) AMOUNT DETERMINED.—The amount determined under this clause is the amount obtained by dividing—

"(i) the C-CPI-U for calendar year 2016, by

"(ii) the CPI for calendar year 2016.

"(C) SPECIAL RULE FOR ADJUSTMENTS WITH A BASE YEAR AFTER 2016.—For purposes of any provision of this title which provides for the substitution of a year after 2016 for '2016' in subparagraph (A)(ii), subparagraph (A) shall be applied by substituting 'the C-CPI-U for calendar year 2016' for 'the CPI for calendar year 2016' and all that follows in clause (ii) thereof.".

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

"(6) C-CPI-U.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'C-CPI-U' means the Chained Consumer Price Index for All Urban Consumers (as published by the Bureau of Labor Statistics of the Department of

Labor). The values of the Chained Consumer Price Index for All Urban Consumers taken into account for purposes of determining the cost-of-living adjustment for any calendar year under this subsection shall be the latest values so published as of the date on which such Bureau publishes the initial value of the Chained Consumer Price Index for All Urban Consumers for the month of August for the preceding calendar year.

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

(c) APPLICATION TO PERMANENT TAX TABLES.—Section 1(f)(2)(A) is amended by inserting ", determined by substituting '1992' for '2016' in paragraph (3)(A)(ii)".

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

(1) The following sections are each amended by striking "for 'calendar year 1992' in subparagraph (B)" and inserting "for 'calendar year 2016' in subparagraph (A)(ii)":

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(X) Section 430(c)(7)(D)(vii)(II).

(Y) Section 512(d)(2)(B).

(Z) Section 513(h)(2)(C)(ii).

(AA) Section 831(b)(2)(D)(ii).

(BB) Section 877A(a)(3)(B)(i)(II).

(CC) Section 2010(c)(3)(B)(ii).

(DD) Section 2032A(a)(3)(B).

(EE) Section 2503(b)(2)(B).

(FF) Section 4261(e)(4)(A)(ii).

(GG) Section 5000A(c)(3)(D)(ii).

(HH) Section 6323(i)(4)(B).

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

(JJ) Section 6601(j)(3)(B).

(KK) Section 6651(i)(1).

(LL) Section 6652(c)(7)(A).

(MM) Section 6695(h)(1).

(NN) Section 6698(e)(1).

(OO) Section 6699(e)(1).

(PP) Section 6721(f)(1).

(QQ) Section 6722(f)(1).

(RR) Section 7345(f)(2).

(SS) Section 7430(c)(1).

(TT) Section 9831(d)(2)(D)(ii)(II).

(2) Sections 41(e)(5)(C)(ii) and 68(b)(2)(B) are each amended—

(A) by striking "1(f)(3)(B)" and inserting "1(f)(3)(A)(ii)", and

(B) by striking "1992" and inserting "2016".

(3) Section 42(h)(6)(G) is amended—

(A) by striking "for 'calendar year 1987' " in clause (i)(II) and inserting "for 'calendar year 2016' in subparagraph (A)(ii) thereof", and

(B) by striking "if the CPI for any calendar year" and all that follows in clause (ii) and inserting "if the C-CPI-U for any calendar year (as defined in section 1(f)(6)) exceeds the C-CPI-U for the preceding calendar year by more than 5 percent, the C-CPI-U for the base calendar year shall be increased such that such excess shall never be taken into account under clause (i). In the case of a base calendar year before 2017, the C-CPI-U for such year shall be determined by multiplying the CPI for such year by the amount determined under section 1(f)(3)(B).".

(4) Section 59(j)(2)(B) is amended by striking "for '1992' in subparagraph (B)" and inserting "for '2016' in subparagraph (A)(ii)".

(5) Section 132(f)(6)(A)(ii) is amended by striking "for 'calendar year 1992'" and inserting "for 'calendar year 2016' in subparagraph (A)(ii) thereof".

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

"(A) such amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 1990' for 'calendar year 2016' in subparagraph (A)(ii) thereof".

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

"(ii) MEDICAL CARE COST ADJUSTMENT.—For purposes of clause (i), the medical care cost adjustment for any cal-

1 endar year is the percentage (if any) by
2 which—
3 "(I) the medical care component
4 of the C-CPI-U (as defined in section
5 1(f)(6)) for August of the preceding
6 calendar year, exceeds
7 "(II) such component of the CPI
8 (as defined in section 1(f)(4)) for Au-
9 gust of 1996, multiplied by the
10 amount determined under section
11 1(f)(3)(B).".
12 (8) Subparagraph (B) of section 280F(d)(7) is
13 amended to read as follows:
14 "(B) AUTOMOBILE PRICE INFLATION AD-
15 JUSTMENT.—For purposes of this paragraph—
16 "(i) IN GENERAL.—The automobile
17 price inflation adjustment for any calendar
18 year is the percentage (if any) by which—
19 "(I) the C-CPI-U automobile
20 component for October of the pre-
21 ceding calendar year, exceeds
22 "(II) the automobile component
23 of the CPI (as defined in section
24 1(f)(4)) for October of 1987, multi-

1 plied by the amount determined under
2 1(f)(3)(B).
3 "(ii) C-CPI-U AUTOMOBILE COMPO-
4 NENT.—The term 'C-CPI-U automobile
5 component' means the automobile compo-
6 nent of the Chained Consumer Price Index
7 for All Urban Consumers (as described in
8 section 1(f)(6)).".
9 (9) Section 911(b)(2)(D)(ii)(II) is amended by
10 striking "for '1992' in subparagraph (B)" and in-
11 serting "for '2016' in subparagraph (A)(ii)".
12 (10) Paragraph (2) of section 1274A(d) is
13 amended to read as follows:
14 "(2) ADJUSTMENT FOR INFLATION.—In the
15 case of any debt instrument arising out of a sale or
16 exchange during any calendar year after 1989, each
17 dollar amount contained in the preceding provisions
18 of this section shall be increased by an amount equal
19 to—
20 "(A) such amount, multiplied by
21 "(B) the cost-of-living adjustment deter-
22 mined under section 1(f)(3) for the calendar
23 year in which the taxable year begins, by sub-
24 stituting 'calendar year 1988' for 'calendar year
25 2016' in subparagraph (A)(ii) thereof.

1 Any increase under the preceding sentence shall be
2 rounded to the nearest multiple of $100 (or, if such
3 increase is a multiple of $50, such increase shall be
4 increased to the nearest multiple of $100).".
5 (11) Section 4161(b)(2)(C)(i)(II) is amended by
6 striking "for '1992' in subparagraph (B)" and in-
7 serting "for '2016' in subparagraph (A)(ii)".
8 (12) Section 4980I(b)(3)(C)(v)(II) is amended
9 by striking "for '1992' in subparagraph (B)" and
10 inserting "for '2016' in subparagraph (A)(ii)".
11 (13) Section 6039F(d) is amended by striking
12 "subparagraph (B) thereof shall be applied by sub-
13 stituting '1995' for '1992'" and inserting "subpara-
14 graph (A)(ii) thereof shall be applied by substituting
15 '1995' for '2016'".
16 (14) Section 7872(g)(5) is amended to read as
17 follows:
18 "(5) ADJUSTMENT OF LIMIT FOR INFLATION.—
19 In the case of any loan made during any calendar
20 year after 1986, the dollar amount in paragraph (2)
21 shall be increased by an amount equal to—
22 "(A) such amount, multiplied by
23 "(B) the cost-of-living adjustment deter-
24 mined under section 1(f)(3) for the calendar
25 year in which the taxable year begins, by sub-

1 stituting 'calendar year 1985' for 'calendar year
2 2016' in subparagraph (A)(ii) thereof.
3 Any increase under the preceding sentence shall be
4 rounded to the nearest multiple of $100 (or, if such
5 increase is a multiple of $50, such increase shall be
6 increased to the nearest multiple of $100).".
7 (e) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2017.

10 **PART II—DEDUCTION FOR QUALIFIED BUSINESS**
11 **INCOME OF PASS-THRU ENTITIES**

12 **SEC. 11011. DEDUCTION FOR QUALIFIED BUSINESS IN-**
13 **COME.**

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

17 **"SEC. 199A. QUALIFIED BUSINESS INCOME.**

18 "(a) IN GENERAL.—In the case of a taxpayer other
19 than a corporation, there shall be allowed as a deduction
20 for any taxable year an amount equal to the lesser of—
21 "(1) the combined qualified business income
22 amount of the taxpayer, or
23 "(2) an amount equal to 23 percent of the ex-
24 cess (if any) of—

"(A) the taxable income of the taxpayer for the taxable year, over

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

"(b) COMBINED QUALIFIED BUSINESS INCOME AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The term 'combined qualified business income amount' means, with respect to any taxable year, an amount equal to—

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

"(B) 23 percent of the aggregate amount of the qualified REIT dividends and qualified cooperative dividends of the taxpayer for the taxable year.

"(2) DETERMINATION OF DEDUCTIBLE AMOUNT FOR EACH TRADE OR BUSINESS.—The amount determined under this paragraph with respect to any qualified trade or business is the lesser of—

"(A) 23 percent of the taxpayer's qualified business income with respect to the qualified trade or business, or

"(B) 50 percent of the W-2 wages with respect to the qualified trade or business.

"(3) MODIFICATIONS TO THE WAGE LIMIT BASED ON TAXABLE INCOME.—

"(A) EXCEPTION FROM WAGE LIMIT.—In the case of any taxpayer whose taxable income for the taxable year does not exceed the threshold amount, paragraph (2) shall be applied without regard to subparagraph (B).

"(B) PHASE-IN OF LIMIT FOR CERTAIN TAXPAYERS.—

"(i) IN GENERAL.—If—

"(I) the taxable income of a taxpayer for any taxable year exceeds the threshold amount, but does not exceed the sum of the threshold amount plus $50,000 ($100,000 in the case of a joint return), and

"(II) the amount determined under paragraph (2)(B) (determined without regard to this subparagraph) with respect to any qualified trade or business carried on by the taxpayer is less than the amount determined

under paragraph (2)(A) with respect such trade or business,

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

"(ii) AMOUNT OF REDUCTION.—The amount determined under this subparagraph is the amount which bears the same ratio to the excess amount as—

"(I) the amount by which the taxpayer's taxable income for the taxable year exceeds the threshold amount, bears to

"(II) $50,000 ($100,000 in the case of a joint return).

"(iii) EXCESS AMOUNT.—For purposes of clause (ii), the excess amount is the excess of—

"(I) the amount determined under paragraph (2)(A) (determined without regard to this paragraph), over

"(II) the amount determined under paragraph (2)(B) (determined without regard to this paragraph).

"(4) WAGES, ETC.—

"(A) IN GENERAL.—The term 'W-2 wages' means, with respect to any person for any taxable year of such person, the amounts described in paragraphs (3) and (8) of section 6051(a) paid by such person with respect to employment of employees by such person during the calendar year ending during such taxable year.

"(B) LIMITATION TO WAGES ATTRIBUTABLE TO QUALIFIED BUSINESS INCOME.—Such term shall not include any amount which is not properly allocable to qualified business income for purposes of subsection (c)(1).

"(C) RETURN REQUIREMENT.—Such term shall not include any amount which is not properly included in a return filed with the Social Security Administration on or before the 60th day after the due date (including extensions) for such return.

"(5) ACQUISITIONS, DISPOSITIONS, AND SHORT TAXABLE YEARS.—The Secretary shall provide for the application of this subsection in cases of a short

1 taxable year or where the taxpayer acquires, or dis-
2 poses of, the major portion of a trade or business or
3 the major portion of a separate unit of a trade or
4 business during the taxable year.

5 "(c) QUALIFIED BUSINESS INCOME.—For purposes
6 of this section—

7 "(1) IN GENERAL.—The term 'qualified busi-
8 ness income' means, for any taxable year, the net
9 amount of qualified items of income, gain, deduc-
10 tion, and loss with respect to any qualified trade or
11 business of the taxpayer.

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

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

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

"(i) effectively connected with the conduct of a trade or business within the United States (within the meaning of section 864(c), determined by substituting 'qualified trade or business (within the meaning of section 199A)' for 'nonresident alien individual or a foreign corporation' or for 'a foreign corporation' each place it appears), and

"(ii) included or allowed in determining taxable income for the taxable year.

"(B) EXCEPTIONS.—The following investment items shall not be taken into account as a qualified item of income, gain, deduction, or loss:

"(i) Any item of short-term capital gain, short-term capital loss, long-term capital gain, or long-term capital loss.

"(ii) Any dividend, income equivalent to a dividend, or payment in lieu of dividends described in section 954(c)(1)(G).

"(iii) Any interest income other than interest income which is properly allocable to a trade or business.

"(iv) Any item of gain or loss described in subparagraph (C) or (D) of section 954(c)(1) (applied by substituting 'qualified trade or business' for 'controlled foreign corporation').

"(v) Any item of income, gain, deduction, or loss taken into account under section 954(c)(1)(F) (determined without regard to clause (ii) thereof and other than items attributable to notional principal contracts entered into in transactions qualifying under section 1221(a)(7)).

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

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

"(4) TREATMENT OF REASONABLE COMPENSATION AND GUARANTEED PAYMENTS.—Qualified business income shall not include—

"(A) reasonable compensation paid to the taxpayer by any qualified trade or business of the taxpayer for services rendered with respect to the trade or business,

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

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

"(d) QUALIFIED TRADE OR BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified trade or business' means any trade or business other than a specified service trade or business or the trade or business of performing services as an employee.

"(2) SPECIFIED SERVICE TRADE OR BUSINESS.—The term 'specified service trade or business' means any trade or business involving the performance of services described in section 1202(e)(3)(A), including investing and investment management, trading, or dealing in securities (as defined in section 475(c)(2)), partnership interests, or commodities (as defined in section 475(e)(2)).

"(3) EXCEPTION FOR SPECIFIED SERVICE BUSINESSES BASED ON TAXPAYER'S INCOME.—

"(A) IN GENERAL.—If, for any taxable year, the taxable income of any taxpayer is less than the sum of the threshold amount plus $50,000 ($100,000 in the case of a joint return), then—

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

"(ii) only the applicable percentage of qualified items of income, gain, deduction, or loss, and the W-2 wages, of the taxpayer allocable to such specified service trades or businesses shall be taken into account in computing the qualified business income and W-2 wages of the taxpayer for the taxable year for purposes of applying this section.

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the term 'applicable percentage' means, with respect to any taxable year, 100 percent reduced (not below zero) by the percentage equal to the ratio of—

"(i) the taxable income of the taxpayer for the taxable year in excess of the threshold amount, bears to

"(ii) $50,000 ($100,000 in the case of a joint return).

"(e) OTHER DEFINITIONS.—For purposes of this section—

"(1) TAXABLE INCOME.—Taxable income shall be computed without regard to the deduction allowable under this section.

"(2) THRESHOLD AMOUNT.—

"(A) IN GENERAL.—The term 'threshold amount' means $250,000 (200 percent of such amount in the case of a joint return).

"(B) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2018, the dollar amount in paragraph (1) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

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

"(3) QUALIFIED REIT DIVIDEND.—The term 'qualified REIT dividend' means any dividend from a real estate investment trust received during the taxable year which—

"(A) is not a capital gain dividend, as defined in section 857(b)(3), and

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

"(4) QUALIFIED COOPERATIVE DIVIDEND.—The term 'qualified cooperative dividend' means any patronage dividend (as defined in section 1388(a)), any per-unit retain allocation (as defined in section 1388(f)), and any qualified written notice of allocation (as defined in section 1388(c)), or any similar amount received from an organization described in subparagraph (B)(ii), which—

"(A) is includible in gross income, and

"(B) is received from—

"(i) an organization or corporation described in section 501(c)(12) or 1381(a), or

"(ii) an organization which is governed under this title by the rules applicable to cooperatives under this title before the enactment of subchapter T.

"(f) SPECIAL RULES.—

"(1) APPLICATION TO PARTNERSHIPS AND S CORPORATIONS.—

"(A) IN GENERAL.—In the case of a partnership or S corporation—

"(i) this section shall be applied at the partner or shareholder level,

"(ii) each partner or shareholder shall take into account such person's allocable share of each qualified item of income, gain, deduction, and loss, and

"(iii) each partner or shareholder shall be treated for purposes of subsection (b) as having W-2 wages for the taxable year in an amount equal to such person's allocable share of the W-2 wages of the partnership or S corporation for the taxable year (as determined under regulations prescribed by the Secretary).

For purposes of clause (iii), a partner's or shareholder's allocable share of W-2 wages shall

be determined in the same manner as the partner's or shareholder's allocable share of wage expenses. For purposes of this subparagraph, in the case of an S corporation, an allocable share shall be the shareholder's pro rata share of an item.

"(B) APPLICATION TO TRUSTS AND ESTATES.—This section shall not apply to any trust or estate.

"(C) TREATMENT OF TRADES OR BUSINESS IN PUERTO RICO.—

"(i) IN GENERAL.—In the case of any taxpayer with qualified business income from sources within the commonwealth of Puerto Rico, if all such income is taxable under section 1 for such taxable year, then for purposes of determining the qualified business income of such taxpayer for such taxable year, the term 'United States' shall include the Commonwealth of Puerto Rico.

"(ii) SPECIAL RULE FOR APPLYING WAGE LIMITATION.—In the case of any taxpayer described in clause (i), the determination of W-2 wages of such taxpayer with respect to any qualified trade or busi-

1 ness conducted in Puerto Rico shall be
2 made without regard to any exclusion
3 under section 3401(a)(8) for remuneration
4 paid for services in Puerto Rico.
5 "(2) COORDINATION WITH MINIMUM TAX.—For
6 purposes of determining alternative minimum tax-
7 able income under section 55, qualified business in-
8 come shall be determined without regard to any ad-
9 justments under sections 56 through 59.
10 "(3) DEDUCTION LIMITED TO INCOME
11 TAXES.—The deduction under subsection (a) shall
12 only be allowed for purposes of this chapter.
13 "(4) REGULATIONS.—The Secretary shall pre-
14 scribe such regulations as are necessary to carry out
15 the purposes of this section, including regulations—
16 "(A) for requiring or restricting the alloca-
17 tion of items and wages under this section and
18 such reporting requirements as the Secretary
19 determines appropriate, and
20 "(B) for the application of this section in
21 the case of tiered entities.
22 "(g) DEDUCTION ALLOWED TO SPECIFIED AGRICUL-
23 TURAL OR HORTICULTURAL COOPERATIVES.—
24 "(1) IN GENERAL.—In the case of any taxable
25 year of a specified agricultural or horticultural coop-

1 erative beginning after December 31, 2018, there
2 shall be allowed a deduction in an amount equal to
3 the lesser of—
4 "(A) 23 percent of the cooperative's tax-
5 able income for the taxable year, or
6 "(B) 50 percent of the W-2 wages of the
7 cooperative with respect to its trade or busi-
8 ness.
9 "(2) SPECIFIED AGRICULTURAL OR HORTI-
10 CULTURAL COOPERATIVE.—For purposes of this
11 subsection, the term 'specified agricultural or horti-
12 cultural cooperative' means an organization to which
13 part I of subchapter T applies which is engaged in—
14 "(A) the manufacturing, production,
15 growth, or extraction in whole or significant
16 part of any agricultural or horticultural prod-
17 uct,
18 "(B) the marketing of agricultural or hor-
19 ticultural products which its patrons have so
20 manufactured, produced, grown, or extracted,
21 or
22 "(C) the provision of supplies, equipment,
23 or services to farmers or to organizations de-
24 scribed in subparagraph (A) or (B).

"(h) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2025.".

(b) APPLICATION TO PUBLICLY TRADED PARTNERSHIPS.—

(1) IN GENERAL.—Section 199A(b)(1)(B), as added by subsection (a), is amended by striking "and qualified cooperative dividends" and inserting ", qualified cooperative dividends, and qualified publicly traded partnership income".

(2) QUALIFIED PUBLICLY TRADED PARTNERSHIP INCOME.—Section 199A(e), as added by subsection (a), is amended by adding at the end the following new paragraph:

"(5) QUALIFIED PUBLICLY TRADED PARTNERSHIP INCOME.—The term 'qualified publicly traded partnership income' means, with respect to any qualified trade or business of a taxpayer, the sum of—

"(A) the net amount of such taxpayer's allocable share of each qualified item of income, gain, deduction, and loss (as defined in subsection (c)(3) and determined after the application of subsection (c)(4)) from a publicly traded partnership (as defined in section 7704(a))

which is not treated as a corporation under section 7704(c), plus

"(B) any gain recognized by such taxpayer upon disposition of its interest in such partnership to the extent such gain is treated as an amount realized from the sale or exchange of property other than a capital asset under section 751(a).".

(3) CONFORMING AMENDMENT.—Section 199A(c)(1), as added by subsection (a), is amended by adding at the end the following new sentence: "Such term shall not include any qualified publicly traded partnership income.".

(c) ACCURACY-RELATED PENALTY ON DETERMINATION OF APPLICABLE PERCENTAGE.—Section 6662(d)(1) is amended by inserting at the end the following new subparagraph:

"(C) SPECIAL RULE FOR TAXPAYERS CLAIMING SECTION 199A DEDUCTION.—In the case of any taxpayer who claims the deduction allowed under section 199A for the taxable year, subparagraph (A) shall be applied by substituting '5 percent' for '10 percent'.".

(d) CONFORMING AMENDMENTS.—

(1) Section 170(b)(2)(D) is amended by striking ", and" at the end of clause (iv), by redesignating clause (v) as clause (vi), and by inserting after clause (iv) the following new clause:

"(v) section 199A, and".

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

"(8) QUALIFIED BUSINESS INCOME DEDUCTION.—The deduction under section 199A shall not be allowed.".

(3) Section 246(b)(1) is amended by inserting "199A," before "243(a)(1)".

(4) Section 613(a) is amended by inserting "and without the deduction under section 199A" after "and without the deduction under section 199".

(5) Section 613A(d)(1) is amended by redesignating subparagraphs (C), (D), and (E) as subparagraphs (D), (E), and (F), respectively, and by inserting after subparagraph (B), the following new subparagraph:

"(C) any deduction allowable under section 199A,".

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

"Sec. 199A. Qualified business income.".

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

SEC. 11012. LIMITATION ON LOSSES FOR TAXPAYERS OTHER THAN CORPORATIONS.

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

"(l) LIMITATION ON EXCESS BUSINESS LOSSES OF NONCORPORATE TAXPAYERS.—

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

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

"(B) any excess business loss of the taxpayer for the taxable year shall not be allowed.

"(2) DISALLOWED LOSS CARRYOVER.—Any loss which is disallowed under paragraph (1) shall be treated as a net operating loss carryover to the following taxable year under section 172.

"(3) EXCESS BUSINESS LOSS.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'excess business loss' means the excess (if any) of—

"(i) the aggregate deductions of the taxpayer for the taxable year which are attributable to trades or businesses of such taxpayer (determined without regard to whether or not such deductions are disallowed for such taxable year under paragraph (1)), over

"(ii) the sum of—

"(I) the aggregate gross income or gain of such taxpayer for the taxable year which is attributable to such trades or businesses, plus

"(II) $250,000 (200 percent of such amount in the case of a joint return).

"(B) ADJUSTMENT FOR INFLATION.—In the case of any taxable year beginning after December 31, 2018, the $250,000 amount in subparagraph (A)(ii)(II) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2017' for '2016' in subparagraph (A)(ii) thereof.

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

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

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

"(B) each partner's or shareholder's allocable share of the items of income, gain, deduction, or loss of the partnership or S corporation for any taxable year from trades or businesses attributable to the partnership or S corporation shall be taken into account by the partner or shareholder in applying this subsection to the taxable year of such partner or shareholder with or within which the taxable year of the partnership or S corporation ends.

For purposes of this paragraph, in the case of an S corporation, an allocable share shall be the shareholder's pro rata share of an item.

"(5) ADDITIONAL REPORTING.—The Secretary shall prescribe such additional reporting requirements as the Secretary determines appropriate to carry out the purposes of this subsection.

"(6) COORDINATION WITH SECTION 469.—This subsection shall be applied after the application of section 469.".

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

PART III—TAX BENEFITS FOR FAMILIES AND INDIVIDUALS

SEC. 11021. INCREASE IN STANDARD DEDUCTION.

(a) IN GENERAL.—Subsection (c) of section 63 is amended by adding at the end the following new paragraph:

"(7) SPECIAL RULES FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

"(A) INCREASE IN STANDARD DEDUCTION.—Paragraph (2) shall be applied—

"(i) by substituting '$18,000' for '$4,400' in subparagraph (B), and

"(ii) by substituting '$12,000' for '$3,000' in subparagraph (C).

"(B) ADJUSTMENT FOR INFLATION.—

"(i) IN GENERAL.—Paragraph (4) shall not apply to the dollar amounts contained in paragraphs (2)(B) and (2)(C).

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

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2017' for '2016' in subparagraph (A)(ii) thereof.".

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

SEC. 11022. INCREASE IN AND MODIFICATION OF CHILD TAX CREDIT.

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

"(h) SPECIAL RULES FOR TAXABLE YEARS 2018 THROUGH 2025.—

"(1) IN GENERAL.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026, this section shall be applied as provided in paragraphs (2), (3), (5), (6), (7) and ~~through~~ (8). In the case of taxable year beginning after 12/31/17 and before 1/1/2025, this section shall be applied as provided in paragraph (4).

"(2) CREDIT AMOUNT.—Subsection (a) shall be applied by substituting '$2,000' for '$1,000'.

"(3) LIMITATION.—In lieu of the amount determined under subsection (b)(2), the threshold amount shall be $500,000.

"(4) DEFINITION OF QUALIFYING CHILD.—Paragraph (1) of subsection (c) shall be applied by substituting '18' for '17'.

"(5) PARTIAL CREDIT ALLOWED FOR CERTAIN OTHER DEPENDENTS.—

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

1 scribed in subsection (c) (after the application
2 of paragraph (4)).
3 "(B) EXCEPTION FOR CERTAIN NONCITI-
4 ZENS.—Subparagraph (A) shall not apply with
5 respect to any individual who would not be a
6 dependent if subparagraph (A) of section
7 152(b)(3) were applied without regard to all
8 that follows 'resident of the United States'.
9 "(6) MAXIMUM AMOUNT OF REFUNDABLE
10 CREDIT.—
11 "(A) IN GENERAL.—Subsection (d)(1)(A)
12 shall be applied without regard to paragraphs
13 (2) and (5) of this subsection.
14 "(B) ADJUSTMENT FOR INFLATION.—In
15 the case of a taxable year beginning after 2017,
16 subsection (d)(1)(A) shall be applied as if the
17 $1,000 amount in subsection (a) were increased
18 (but not to exceed the amount under paragraph
19 (2) of this subsection) by an amount equal to—
20 "(i) such dollar amount, multiplied by
21 "(ii) the cost-of-living adjustment de-
22 termined under section 1(f)(3) for the cal-
23 endar year in which the taxable year be-
24 gins.

1 Any increase determined under the preceding
2 sentence shall be rounded to the next highest
3 multiple of $100.
4 "(7) EARNED INCOME THRESHOLD FOR RE-
5 FUNDABLE CREDIT.—Subsection (d)(1)(B)(i) shall
6 be applied by substituting '$2,500' for '$3,000'.
7 "(8) SOCIAL SECURITY NUMBER REQUIRED.—
8 No credit shall be allowed under subsection (d) to a
9 taxpayer with respect to any qualifying child unless
10 the taxpayer includes the social security number of
11 such child on the return of tax for the taxable year.
12 For purposes of the preceding sentence, the term
13 'social security number' means a social security
14 number issued to an individual by the Social Secu-
15 rity Administration, but only if the social security
16 number is issued to a citizen of the United States
17 or is issued pursuant to subclause (I) (or that por-
18 tion of subclause (III) that relates to subclause (I))
19 of section 205(c)(2)(B)(i) of the Social Security
20 Act.".
21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to taxable years beginning after
23 December 31, 2017.

SEC. 11023. INCREASED LIMITATION FOR CERTAIN CHARITABLE CONTRIBUTIONS.

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

"(G) INCREASED LIMITATION FOR CASH CONTRIBUTIONS.—

"(i) IN GENERAL.—In the case of any contribution of cash to an organization described in subparagraph (A), the total amount of such contributions which may be taken into account under subsection (a) for any taxable year beginning after December 31, 2017, and before January 1, 2026, shall not exceed 60 percent of the taxpayer's contribution base for such year.

"(ii) CARRYOVER.—If the aggregate amount of contributions described in clause (i) exceeds the applicable limitation under clause (i) for any taxable year described in such clause, such excess shall be treated (in a manner consistent with the rules of subsection (d)(1)) as a charitable contribution to which clause (i) applies in each of the 5 succeeding years in order of time.

"(iii) COORDINATION WITH SUBPARAGRAPHS (A) AND (B).—

"(I) IN GENERAL.—Contributions taken into account under this subparagraph shall not be taken into account under subparagraph (A).

"(II) LIMITATION REDUCTION.—For each taxable year described in clause (i), and each taxable year to which any contribution under this subparagraph is carried over under clause (ii), subparagraph (A) shall be applied by reducing (but not below zero) the contribution limitation allowed for the taxable year under such subparagraph by the aggregate contributions allowed under this subparagraph for such taxable year, and subparagraph (B) shall be applied by treating any reference to subparagraph (A) as a reference to both subparagraph (A) and this subparagraph.".

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

4 **SEC. 11024. INCREASED CONTRIBUTIONS TO ABLE AC-**
5 **COUNTS.**

6 (a) INCREASE IN LIMITATION FOR CONTRIBUTIONS
7 FROM COMPENSATION OF INDIVIDUALS WITH DISABIL-
8 ITIES.—

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

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

17 "(i) the amount in effect under sec-
18 tion 2503(b) for the calendar year in which
19 the taxable year begins, plus

20 "(ii) in the case of any contribution
21 by a designated beneficiary described in
22 paragraph (7) before January 1, 2026, the
23 lesser of—

24 "(I) compensation (as defined by
25 section 219(f)(1)) includible in the

1 designated beneficiary's gross income
2 for the taxable year, or
3 "(II) an amount equal to the
4 poverty line for a one-person house-
5 hold, as determined for the calendar
6 year preceding the calendar year in
7 which the taxable year begins.".
8 (2) LIABILITY FOR CONTRIBUTION LIMITA-
9 TION.—Paragraph (2) of section 529A(b) is amend-
10 ed by adding at the end the following: "A designated
11 beneficiary (or a person acting on behalf of such
12 beneficiary) shall maintain adequate records for pur-
13 poses of ensuring, and shall be responsible for ensur-
14 ing, that the requirements of subparagraph (B)(ii)
15 are met."
16 (3) ELIGIBLE DESIGNATED BENEFICIARY.—
17 Section 529A(b) is amended by adding at the end
18 the following:
19 "(7) SPECIAL RULES RELATED TO CONTRIBU-
20 TION LIMIT.—For purposes of paragraph
21 (2)(B)(ii)—
22 "(A) DESIGNATED BENEFICIARY.—A des-
23 ignated beneficiary described in this paragraph
24 is an employee (including an employee within

the meaning of section 401(c)) with respect to whom—

"(i) no contribution is made for the taxable year to a defined contribution plan (within the meaning of section 414(i)) with respect to which the requirements of section 401(a) or 403(a) are met,

"(ii) no contribution is made for the taxable year to an annuity contract described in section 403(b), and

"(iii) no contribution is made for the taxable year to an eligible deferred compensation plan described in section 457(b).

"(B) POVERTY LINE.—The term 'poverty line' has the meaning given such term by section 673 of the Community Services Block Grant Act (42 U.S.C. 9902).".

(b) ALLOWANCE OF SAVER'S CREDIT FOR ABLE CONTRIBUTIONS BY ACCOUNT HOLDER.—Section 25B(d)(1) is amended by striking "and" at the end of subparagraph (B)(ii), by striking the period at the end of subparagraph (C) and inserting ", and", and by inserting at the end the following:

"(D) the amount of contributions made before January 1, 2026, by such individual to the

ABLE account (within the meaning of section 529A) of which such individual is the designated beneficiary.".

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

SEC. 11025. ROLLOVERS TO ABLE PROGRAMS FROM 529 PROGRAMS.

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

"(III) before January 1, 2026, to an ABLE account (as defined in section 529A(e)(6)) of the designated beneficiary or a member of the family of the designated beneficiary.

Subclause (III) shall not apply to so much of a distribution which, when added to all other contributions made to the ABLE account for the taxable year, exceeds the limitation under section 529A(b)(2)(B)(i).".

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

SEC. 11026. TREATMENT OF CERTAIN INDIVIDUALS PERFORMING SERVICES IN THE SINAI PENINSULA OF EGYPT.

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

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

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

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

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

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

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

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

1 (8) Section 7508 (relating to time for per-
2 forming certain acts postponed by reason of service
3 in combat zone).
4 (b) QUALIFIED HAZARDOUS DUTY AREA.—For pur-
5 poses of this section, the term "qualified hazardous duty
6 area" means the Sinai Peninsula of Egypt, if as of the
7 date of the enactment of this section any member of the
8 Armed Forces of the United States is entitled to special
9 pay under section 310 of title 37, United States Code (re-
10 lating to special pay; duty subject to hostile fire or immi-
11 nent danger), for services performed in such location.
12 Such term includes such location only during the period
13 such entitlement is in effect.
14 (c) APPLICABLE PERIOD.—
15 (1) IN GENERAL.—Except as provided in para-
16 graph (2), the applicable period is—
17 (A) the portion of the first taxable year
18 ending after June 9, 2015, which begins on
19 such date, and
20 (B) any subsequent taxable year beginning
21 before January 1, 2026.
22 (2) WITHHOLDING.—In the case of subsection
23 (a)(5), the applicable period is—

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

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

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the provisions of this section shall take effect on June 9, 2015.

(2) WITHHOLDING.—Subsection (a)(5) shall apply to remuneration paid after the date of the enactment of this Act.

SEC. 11027. EXTENSION OF WAIVER OF LIMITATIONS WITH RESPECT TO EXCLUDING FROM GROSS INCOME AMOUNTS RECEIVED BY WRONGFULLY INCARCERATED INDIVIDUALS.

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

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

1 **SEC. 11028. TEMPORARY REDUCTION IN MEDICAL EXPENSE**
2 **DEDUCTION FLOOR.**

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

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

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

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

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

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

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

1 **SEC. 11029. RELIEF FOR 2016 DISASTER AREAS.**

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

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

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

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

16 (B) AGGREGATE DOLLAR LIMITATION.—

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

23 (I) $100,000, over

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

1 tions received by such individual for
2 all prior taxable years.
3 (ii) TREATMENT OF PLAN DISTRIBU-
4 TIONS.—If a distribution to an individual
5 would (without regard to clause (i)) be a
6 qualified 2016 disaster distribution, a plan
7 shall not be treated as violating any re-
8 quirement of this title merely because the
9 plan treats such distribution as a qualified
10 2016 disaster distribution, unless the ag-
11 gregate amount of such distributions from
12 all plans maintained by the employer (and
13 any member of any controlled group which
14 includes the employer) to such individual
15 exceeds $100,000.
16 (iii) CONTROLLED GROUP.—For pur-
17 poses of clause (ii), the term "controlled
18 group" means any group treated as a sin-
19 gle employer under subsection (b), (c),
20 (m), or (o) of section 414 of the Internal
21 Revenue Code of 1986.
22 (C) AMOUNT DISTRIBUTED MAY BE RE-
23 PAID.—
24 (i) IN GENERAL.—Any individual who
25 receives a qualified 2016 disaster distribu-

1 tion may, at any time during the 3-year
2 period beginning on the day after the date
3 on which such distribution was received,
4 make one or more contributions in an ag-
5 gregate amount not to exceed the amount
6 of such distribution to an eligible retire-
7 ment plan of which such individual is a
8 beneficiary and to which a rollover con-
9 tribution of such distribution could be
10 made under section 402(c), 403(a)(4),
11 403(b)(8), 408(d)(3), or 457(e)(16) of the
12 Internal Revenue Code of 1986, as the
13 case may be.
14 (ii) TREATMENT OF REPAYMENTS OF
15 DISTRIBUTIONS FROM ELIGIBLE RETIRE-
16 MENT PLANS OTHER THAN IRAS.—For
17 purposes of the Internal Revenue Code of
18 1986, if a contribution is made pursuant
19 to clause (i) with respect to a qualified
20 2016 disaster distribution from an eligible
21 retirement plan other than an individual
22 retirement plan, then the taxpayer shall, to
23 the extent of the amount of the contribu-
24 tion, be treated as having received the
25 qualified 2016 disaster distribution in an

1 eligible rollover distribution (as defined in
2 section 402(c)(4) of the Internal Revenue
3 Code of 1986) and as having transferred
4 the amount to the eligible retirement plan
5 in a direct trustee to trustee transfer with-
6 in 60 days of the distribution.
7 (iii) TREATMENT OF REPAYMENTS
8 FOR DISTRIBUTIONS FROM IRAS.—For
9 purposes of the Internal Revenue Code of
10 1986, if a contribution is made pursuant
11 to clause (i) with respect to a qualified
12 2016 disaster distribution from an indi-
13 vidual retirement plan (as defined by sec-
14 tion 7701(a)(37) of the Internal Revenue
15 Code of 1986), then, to the extent of the
16 amount of the contribution, the qualified
17 2016 disaster distribution shall be treated
18 as a distribution described in section
19 408(d)(3) of such Code and as having been
20 transferred to the eligible retirement plan
21 in a direct trustee to trustee transfer with-
22 in 60 days of the distribution.
23 (D) DEFINITIONS.—For purposes of this
24 paragraph—

1 (i) QUALIFIED 2016 DISASTER DIS-
2 TRIBUTION.—Except as provided in sub-
3 paragraph (B), the term "qualified 2016
4 disaster distribution" means any distribu-
5 tion from an eligible retirement plan made
6 on or after January 1, 2016, and before
7 January 1, 2018, to an individual whose
8 principal place of abode at any time during
9 calendar year 2016 was located in a dis-
10 aster area described in subsection (a) and
11 who has sustained an economic loss by rea-
12 son of the events giving rise to the Presi-
13 dential declaration described in subsection
14 (a) which was applicable to such area.
15 (ii) ELIGIBLE RETIREMENT PLAN.—
16 The term "eligible retirement plan" shall
17 have the meaning given such term by sec-
18 tion 402(c)(8)(B) of the Internal Revenue
19 Code of 1986.
20 (E) INCOME INCLUSION SPREAD OVER 3-
21 YEAR PERIOD.—
22 (i) IN GENERAL.—In the case of any
23 qualified 2016 disaster distribution, unless
24 the taxpayer elects not to have this sub-
25 paragraph apply for any taxable year, any

1 amount required to be included in gross in-
2 come for such taxable year shall be so in-
3 cluded ratably over the 3-taxable-year pe-
4 riod beginning with such taxable year.
5 (ii) SPECIAL RULE.—For purposes of
6 clause (i), rules similar to the rules of sub-
7 paragraph (E) of section 408A(d)(3) of the
8 Internal Revenue Code of 1986 shall apply.
9 (F) SPECIAL RULES.—
10 (i) EXEMPTION OF DISTRIBUTIONS
11 FROM TRUSTEE TO TRUSTEE TRANSFER
12 AND WITHHOLDING RULES.—For purposes
13 of sections 401(a)(31), 402(f), and 3405 of
14 the Internal Revenue Code of 1986, quali-
15 fied 2016 disaster distribution shall not be
16 treated as eligible rollover distributions.
17 (ii) QUALIFIED 2016 DISASTER DIS-
18 TRIBUTIONS TREATED AS MEETING PLAN
19 DISTRIBUTION REQUIREMENTS.—For pur-
20 poses of the Internal Revenue Code of
21 1986, a qualified 2016 disaster distribu-
22 tion shall be treated as meeting the re-
23 quirements of sections 401(k)(2)(B)(i),
24 403(b)(7)(A)(ii), 403(b)(11), and

1 457(d)(1)(A) of the Internal Revenue Code
2 of 1986.
3 (2) PROVISIONS RELATING TO PLAN AMEND-
4 MENTS.—
5 (A) IN GENERAL.—If this paragraph ap-
6 plies to any amendment to any plan or annuity
7 contract, such plan or contract shall be treated
8 as being operated in accordance with the terms
9 of the plan during the period described in sub-
10 paragraph (B)(ii)(I).
11 (B) AMENDMENTS TO WHICH SUBSECTION
12 APPLIES.—
13 (i) IN GENERAL.—This paragraph
14 shall apply to any amendment to any plan
15 or annuity contract which is made—
16 (I) pursuant to any provision of
17 this section, or pursuant to any regu-
18 lation under any provision of this sec-
19 tion; and
20 (II) on or before the last day of
21 the first plan year beginning on or
22 after January 1, 2018, or such later
23 date as the Secretary prescribes.
24 In the case of a governmental plan (as de-
25 fined in section 414(d) of the Internal Rev-

1 enue Code of 1986), subclause (II) shall be
2 applied by substituting the date which is 2
3 years after the date otherwise applied
4 under subclause (II).
5 (ii) CONDITIONS.—This paragraph
6 shall not apply to any amendment unless—
7 (I) during the period—
8 (aa) beginning on the date
9 that this section or the regulation
10 described in clause (i)(I) takes
11 effect (or in the case of a plan or
12 contract amendment not required
13 by this section or such regula-
14 tion, the effective date specified
15 by the plan); and
16 (bb) ending on the date de-
17 scribed in clause (i)(II) (or, if
18 earlier, the date the plan or con-
19 tract amendment is adopted),
20 the plan or contract is operated as if
21 such plan or contract amendment
22 were in effect; and
23 (II) such plan or contract amend-
24 ment applies retroactively for such pe-
25 riod.

1 (c) SPECIAL RULES FOR PERSONAL CASUALTY
2 LOSSES RELATED TO 2016 MAJOR DISASTER.—
3 (1) IN GENERAL.—If an individual has a net
4 disaster loss for any taxable year beginning after
5 December 31, 2017, and before January 1, 2026—
6 (A) the amount determined under section
7 165(h)(2)(A)(ii) of the Internal Revenue Code
8 of 1986 shall be equal to the sum of—
9 (i) such net disaster loss, and
10 (ii) so much of the excess referred to
11 in the matter preceding clause (i) of sec-
12 tion 165(h)(2)(A) of such Code (reduced
13 by the amount in clause (i) of this sub-
14 paragraph) as exceeds 10 percent of the
15 adjusted gross income of the individual,
16 (B) section 165(h)(1) of such Code shall
17 be applied by substituting "$500" for "$500
18 ($100 for taxable years beginning after Decem-
19 ber 31, 2009)",
20 (C) the standard deduction determined
21 under section 63(c) of such Code shall be in-
22 creased by the net disaster loss, and
23 (D) section 56(b)(1)(E) of such Code shall
24 not apply to so much of the standard deduction

as is attributable to the increase under subparagraph (C) of this paragraph.

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

(3) QUALIFIED DISASTER-RELATED PERSONAL CASUALTY LOSSES.—For purposes of this paragraph, the term "qualified disaster-related personal casualty losses" means losses described in section 165(c)(3) of the Internal Revenue Code of 1986 which arise in a disaster area described in subsection (a) on or after January 1, 2016, and which are attributable to the events giving rise to the Presidential declaration described in subsection (a) which was applicable to such area.

PART IV—EDUCATION

SEC. 11031. TREATMENT OF STUDENT LOANS DISCHARGED ON ACCOUNT OF DEATH OR DISABILITY.

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

"(5) DISCHARGES ON ACCOUNT OF DEATH OR DISABILITY.—

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

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

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

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

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

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

"(ii) a private education loan (as defined in section 140(7) of the Consumer

Credit Protection Act (15 U.S.C. 1650(7))).".

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

SEC. 11032. INCREASE IN DEDUCTION FOR TEACHER EXPENSES.

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

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

SEC. 11033. DEDUCTION FOR TUITION PAYMENTS FOR QUALIFIED RELIGIOUS INSTRUCTION.

(a) IN GENERAL.—Section 170 is amended by redesignating subsection (p) as subsection (q), and by inserting after subsection (o) the following new subsection:

"(p) TREATMENT OF CERTAIN TUITION PAYMENTS PAID FOR QUALIFIED RELIGIOUS INSTRUCTION.—

"(1) IN GENERAL.—For purposes of this section, 25 percent of any amount described in paragraph (2) shall be treated as a charitable contribution.

"(2) AMOUNT DESCRIBED.—For purposes of paragraph (1), an amount is described in this paragraph if—

"(A) such amount would be treated as payment of qualified tuition and related expenses for purposes of section 25A(f)(1) but for the fact that such payment is made to a primary or secondary educational organization described in subparagraph (b)(1)(A)(ii) rather than an eligible educational institution (as defined in section 25A(f)(2)),

"(B) such payment is made after December 31, 2018, and before January 1, 2021,

"(C) such organization certifies that 30 percent of the instruction it provides each academic year consists of qualified religious instruction, and

"(D) such organization has provided the taxpayer a statement which contains the information required by section 6050Z.

"(3) QUALIFIED RELIGIOUS INSTRUCTION.—For purposes of this subsection, the term 'qualified religious instruction' means academic instruction or training regarding a particular religion (including tenets, doctrines, beliefs, rituals, customs, and rites) of

1 a type not generally offered in public school cur-
2 ricula, which is provided by a teacher or other in-
3 structor who is certified as having had significant
4 post-secondary religious studies.
5 "(4) NO DOUBLE BENEFIT.—No deduction
6 shall be allowed under this subsection for the
7 amount of any expense for which a deduction, credit,
8 or exclusion is allowed to the taxpayer under any
9 other provision of this chapter.".
10 (b) INFORMATION RETURNS.—
11 (1) IN GENERAL.—Subpart B of part III of
12 subchapter A of chapter 61, as amended by sections
13 13306 and 13518, is amended by adding at the end
14 the following new section:
15 **"SEC. 6050Z. RETURNS RELATING TO TUITION FOR QUALI-**
16 **FIED RELIGIOUS EDUCATION.**
17 "(a) IN GENERAL.—Any educational institution de-
18 scribed in section 170(p)(2)(A) which meets the require-
19 ments of section 170(p)(2)(C) shall make a return with
20 respect to any individual from whom it receives tuition
21 payments and related expenses, in such manner and at
22 such time as the Secretary may by regulations prescribe,
23 which contains:

"(1) the name, address, and TIN of the individual with respect to whom tuition payments and related expenses are received,

"(2) the net amount of payments for tuition and related expenses described in section 170(p)(2)(A) received with respect to the individual during the calendar year,

"(3) a certification that the institution meets the requirements of section 170(p)(2)(C), and

"(4) such other information as the Secretary may prescribe.

"(b) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (a)(1) a written statement showing—

"(1) the name, address, and phone number of the information contact of the person required to make such return, and

"(2) the information described in subsection (a).

The written statement required under the preceding sentence shall be furnished on or before January 31 of the

1 year following the calendar year for which the return
2 under subsection (a) was required to be made.".
3 (2) CONFORMING AMENDMENT.—The table of
4 sections for subpart B of part III of subchapter A
5 of chapter 61, as amended by sections 13306 and
6 13518, is amended by adding at the end the fol-
7 lowing new item:

"Sec. 6050Z. Returns relating to tuition for qualified religious education.".

8 (c) EXEMPTION FROM SUBSTANTIATION REQUIRE-
9 MENT.—Section 170(f)(8)(A) is amended by adding at the
10 end the following: "The preceding sentence shall not apply
11 to any amount treated as a charitable contribution by rea-
12 son of subsection (p)."
13 (d) EFFECTIVE DATE.—
14 (1) IN GENERAL.—The amendments made by
15 this section shall apply to taxable years beginning
16 after December 31, 2018.
17 (2) NO INFERENCE.—Nothing in the amend-
18 ments made by this section shall create any infer-
19 ence regarding the tax treatment of any other pay-
20 ment for religious education or training made before,
21 on, or after such date.

PART V—DEDUCTIONS AND EXCLUSIONS

SEC. 11041. SUSPENSION OF DEDUCTION FOR PERSONAL EXEMPTIONS.

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

(1) by striking "In the case of" in paragraph (4) and inserting "Except as provided in paragraph (5), in the case of", and

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

"(5) SPECIAL RULES FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

"(A) EXEMPTION AMOUNT.—The term 'exemption amount' means zero.

"(B) REFERENCES.—For purposes of any other provision of this title, the reduction of the exemption amount to zero under subparagraph (A) shall not be taken into account in determining whether a deduction is allowed or allowable, or whether a taxpayer is entitled to a deduction, under this section.".

(b) APPLICATION TO ESTATES AND TRUSTS.—Section 642(b)(2)(C) is amended by adding at the end the following new clause:

"(iii) YEARS WHEN PERSONAL EXEMPTION AMOUNT IS ZERO.—

"(I) IN GENERAL.—In the case of any taxable year in which the exemption amount under section 151(d) is zero, clause (i) shall be applied by substituting '$4,150' for 'the exemption amount under section 151(d)'.

"(II) INFLATION ADJUSTMENT.—In the case of any calendar year beginning after 2018, the $4,150 amount in subparagraph (A) shall be increased by an amount equal to—

"(aa) such dollar amount, multiplied by

"(bb) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2017' for '2016' in subparagraph (A)(ii) thereof.

If any increase determined under the preceding sentence is not a multiple of

$100, such increase shall be rounded to the next lowest multiple of $100.".

(c) EXCEPTION FOR WAGE WITHHOLDING RULES.—Section 3402(a) is amended by adding at the end the following new paragraph:

"(3) YEARS WHEN PERSONAL EXEMPTION AMOUNT IS ZERO.—

"(A) IN GENERAL.—In the case of any taxable year in which the exemption amount under section 151(d) is zero, paragraph (2) shall be applied by substituting '$4,150' for 'the amount of one personal exemption provided in section 151(b)'.

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

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2017' for '2016' in subparagraph (A)(ii) thereof.

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

1 crease shall be rounded to the next lowest mul-
2 tiple of $100.".
3 (d) EXCEPTION FOR DETERMINING PROPERTY EX-
4 EMPT FROM LEVY.—Section 6334(d) is amended by add-
5 ing at the end the following new paragraph:
6 "(4) YEARS WHEN PERSONAL EXEMPTION
7 AMOUNT IS ZERO.—
8 "(A) IN GENERAL.—In the case of any
9 taxable year in which the exemption amount
10 under section 151(d) is zero, paragraph (2)
11 shall not apply and for purposes of paragraph
12 (1) the term 'exempt amount' means an amount
13 equal to—
14 "(i) the sum of the amount deter-
15 mined under subparagraph (B) and the
16 standard deduction, divided by
17 "(ii) 52.
18 "(B) AMOUNT DETERMINED.—For pur-
19 poses of subparagraph (A), the amount deter-
20 mined under this subparagraph is $4,150 multi-
21 plied by the number of the taxpayer's depend-
22 ents for the taxable year in which the levy oc-
23 curs.
24 "(C) INFLATION ADJUSTMENT.—In the
25 case of any taxable year beginning after 2018,

the $4,150 amount in subparagraph (B) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2017' for '2016' in subparagraph (A)(ii) thereof.

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

"(D) VERIFIED STATEMENT.—Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with no dependents.".

(e) PERSONS REQUIRED TO MAKE RETURNS OF INCOME.—Section 6012 is amended by adding at the end the following new subsection:

"(f) SPECIAL RULE FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of a taxable year beginning

after December 31, 2017, and before January 1, 2026, subsection (a)(1) shall not apply, and every individual who has gross income for the taxable year shall be required to make returns with respect to income taxes under subtitle A, except that a return shall not be required of—

"(1) an individual who is not married (determined by applying section 7703) and who has gross income for the taxable year which does not exceed the standard deduction applicable to such individual for such taxable year under section 63, or

"(2) an individual entitled to make a joint return if—

"(A) the gross income of such individual, when combined with the gross income of such individual's spouse, for the taxable year does not exceed the standard deduction which would be applicable to the taxpayer for such taxable year under section 63 if such individual and such individual's spouse made a joint return,

"(B) such individual and such individual's spouse have the same household as their home at the close of the taxable year,

"(C) such individual's spouse does not make a separate return, and

"(D) neither such individual nor such individual's spouse is an individual described in section 63(c)(5) who has income (other than earned income) in excess of the amount in effect under section 63(c)(5)(A).".

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

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

(a) IN GENERAL.—Subsection (b) of section 164 is amended by adding at the end the following new paragraph:

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

"(A) foreign real property taxes (other than taxes which are paid or accrued in carrying on a trade or business or an activity described in section 212) shall not be taken into account under subsection (a)(1),

"(B) the aggregate amount of taxes (other than taxes which are paid or accrued in car-

rying on a trade or business or an activity described in section 212) taken into account under subsection (a)(1) for any taxable year shall not exceed $10,000 ($5,000 in the case of a married individual filing a separate return),

"(C) subsection (a)(2) shall only apply to taxes which are paid or accrued in carrying on a trade or business or an activity described in section 212,

"(D) subsection (a)(3) shall not apply to State and local taxes, and

"(E) paragraph (5) shall not apply.".

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

SEC. 11043. SUSPENSION OF DEDUCTION FOR HOME EQUITY INTEREST.

(a) IN GENERAL.—Section 163(h)(3)(A)(ii) is amended by inserting "in the case of taxable years beginning before January 1, 2018, or after December 31, 2025," before "home equity indebtedness".

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

SEC. 11044. MODIFICATION OF DEDUCTION FOR PERSONAL CASUALTY LOSSES.

(a) IN GENERAL.—Subsection (h) of section 165 is amended by adding at the end the following new paragraph:

"(5) LIMITATION FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of an individual, any loss described in subsection (c)(3) which (but for this paragraph) would be deductible in a taxable year beginning after December 31, 2017, and before January 1, 2026, shall be allowed only to the extent it is attributable to a Federally declared disaster (as defined in subsection (i)(5)). The preceding sentence shall not apply to any deduction under section 172 which is carried to such a taxable year from a taxable year beginning before January 1, 2018.".

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

SEC. 11045. SUSPENSION OF MISCELLANEOUS ITEMIZED DEDUCTIONS.

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

"(g) SUSPENSION FOR TAXABLE YEARS 2018 THROUGH 2025.—Notwithstanding subsection (a), no miscellaneous itemized deduction shall be allowed for any

1 taxable year beginning after December 31, 2017, and be-
2 fore January 1, 2026.".
3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2017.

6 **SEC. 11046. SUSPENSION OF OVERALL LIMITATION ON**
7 **ITEMIZED DEDUCTIONS.**

8 (a) IN GENERAL.—Section 68 is amended by adding
9 at the end the following new subsection:
10 "(f) SECTION NOT TO APPLY.—This section shall not
11 apply to any taxable year beginning after December 31,
12 2017, and before January 1, 2025.".
13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2017.

16 **SEC. 11047. MODIFICATION OF EXCLUSION OF GAIN FROM**
17 **SALE OF PRINCIPAL RESIDENCE.**

18 (a) IN GENERAL.—Section 121 is amended by adding
19 at the end the following new subsection:
20 "(h) SPECIAL RULES FOR SALES OR EXCHANGES IN
21 TAXABLE YEARS 2018 THROUGH 2025.—
22 "(1) IN GENERAL.—In applying this section
23 with respect to sales or exchanges after December
24 31, 2017, and before January 1, 2026—

"(A) '8-year' shall be substituted for '5-year' each place it appears in subsections (a), (b)(5)(C)(ii)(I), and (c)(1)(B)(i)(I) and paragraphs (7), (9), (10), and (12) of subsection (d),

"(B) '5 years' shall be substituted for '2 years' each place it appears in subsections (a), (b)(3), (b)(4), (b)(5)(C)(ii)(III), and (c)(1)(B)(ii), and

"(C) '5-year' shall be substituted for '2-year' in subsection (b)(3).

"(2) EXCEPTION FOR BINDING CONTRACTS.—Paragraph (1) shall not apply to any sale or exchange with respect to which there was a written binding contract in effect before January 1, 2018, and at all times thereafter before the sale or exchange.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after December 31, 2017.

SEC. 11048. SUSPENSION OF EXCLUSION FOR QUALIFIED BICYCLE COMMUTING REIMBURSEMENT.

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

"(8) SUSPENSION OF QUALIFIED BICYCLE COMMUTING REIMBURSEMENT EXCLUSION.—Paragraph (1)(D) shall not apply to any taxable year beginning after December 31, 2017, and before January 1, 2026.".

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

SEC. 11049. SUSPENSION OF EXCLUSION FOR QUALIFIED MOVING EXPENSE REIMBURSEMENT.

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

(1) by striking "For purposes of this section, the term" and inserting "For purposes of this section—

"(1) IN GENERAL.—The term", and

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

"(2) SUSPENSION FOR TAXABLE YEARS 2018 THROUGH 2025.—Except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order and incident to a permanent change of station, subsection (a)(6) shall not apply to any taxable year beginning after December 31, 2017, and before January 1, 2026.".

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

4 **SEC. 11050. SUSPENSION OF DEDUCTION FOR MOVING EX-**
5 **PENSES.**

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

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

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

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

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

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

PART VI—INCREASE IN ESTATE AND GIFT TAX EXEMPTION

SEC. 11061. INCREASE IN ESTATE AND GIFT TAX EXEMPTION.

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

"(C) INCREASE IN BASIC EXCLUSION AMOUNT.—In the case of estates of decedents dying or gifts made after December 31, 2017, and before January 1, 2026, subparagraph (A) shall be applied by substituting '$10,000,000' for '$5,000,000'.".

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

"(g) MODIFICATIONS TO TAX PAYABLE.—

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

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

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

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

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

"(2) MODIFICATIONS TO ESTATE TAX PAYABLE TO REFLECT DIFFERENT BASIC EXCLUSION AMOUNTS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this section with respect to any difference between—

"(A) the basic exclusion amount under section 2010(c)(3) applicable at the time of the decedent's death, and

"(B) the basic exclusion amount under such section applicable with respect to any gifts made by the decedent.".

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

PART VII—TAXPAYER RIGHTS AND TAX ADMINISTRATION

SEC. 11071. EXTENSION OF TIME LIMIT FOR CONTESTING IRS LEVY.

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

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

(1) by striking "9 months" in paragraph (1) and inserting "2 years", and

(2) by striking "9-month" in paragraph (2) and inserting "2-year".

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

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

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

SEC. 11072. MODIFICATION OF USER FEE REQUIREMENTS FOR INSTALLMENT AGREEMENTS.

(a) IN GENERAL.—Section 6159 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

1 "(f) INSTALLMENT AGREEMENT FEES.—

2 "(1) LIMITATION ON FEE AMOUNT.—The
3 amount of any fee imposed on an installment agree-
4 ment under this section may not exceed the amount
5 of such fee as in effect on the date of the enactment
6 of this subsection.

7 "(2) WAIVER OR REIMBURSEMENT.—In the
8 case of any taxpayer with an adjusted gross income,
9 as determined for the most recent year for which
10 such information is available, which does not exceed
11 250 percent of the applicable poverty level (as deter-
12 mined by the Secretary)—

13 "(A) if the taxpayer has agreed to make
14 payments under the installment agreement by
15 electronic payment through a debit instrument,
16 no fee shall be imposed on an installment agree-
17 ment under this section, and

18 "(B) if the taxpayer is unable to make
19 payments under the installment agreement by
20 electronic payment through a debit instrument,
21 the Secretary shall, upon completion of the in-
22 stallment agreement, pay the taxpayer an
23 amount equal to any such fees imposed.".

24 (b) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to agreements entered into on or

1 after the date which is 60 days after the date of the enact-
2 ment of this Act.

3 **SEC. 11073. ATTORNEYS' FEES RELATING TO AWARDS TO**
4 **WHISTLEBLOWERS.**

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

7 "(21) ATTORNEYS' FEES RELATING TO AWARDS
8 TO WHISTLEBLOWERS.—

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

13 "(i) section 7623(b), or

14 "(ii) any action brought under—

15 "(I) section 21F of the Securities
16 Exchange Act of 1934 (15 U.S.C.
17 78u-6),

18 "(II) a State false claims act, in-
19 cluding a State false claims act with
20 qui tam provisions, or

21 "(III) section 23 of the Com-
22 modity Exchange Act (7 U.S.C. 26).

23 "(B) MAY NOT EXCEED AWARD.—Sub-
24 paragraph (A) shall not apply to any deduction
25 in excess of the amount includible in the tax-

1 payer's gross income for the taxable year on ac-
2 count of such award.".
3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2017.

6 **SEC. 11074. CLARIFICATION OF WHISTLEBLOWER AWARDS.**

7 (a) DEFINITION OF PROCEEDS.—
8 (1) IN GENERAL.—Section 7623 is amended by
9 adding at the end the following new subsection:
10 "(c) PROCEEDS.—For purposes of this section, the
11 term 'proceeds' includes—
12 "(1) penalties, interest, additions to tax, and
13 additional amounts provided under the internal rev-
14 enue laws, and
15 "(2) any proceeds arising from laws for which
16 the Internal Revenue Service is authorized to admin-
17 ister, enforce, or investigate, including—
18 "(A) criminal fines and civil forfeitures,
19 and
20 "(B) violations of reporting require-
21 ments.".
22 (2) CONFORMING AMENDMENTS.—Paragraphs
23 (1) and (2)(A) of section 7623(b) are each amended
24 by striking "collected proceeds (including penalties,
25 interest, additions to tax, and additional amounts)

1 resulting from the action" and inserting "proceeds
2 collected as a result of the action".
3 (b) AMOUNT OF PROCEEDS DETERMINED WITHOUT
4 REGARD TO AVAILABILITY.—Paragraphs (1) and (2)(A)
5 of section 7623(b) are each amended by inserting "(deter-
6 mined without regard to whether such proceeds are avail-
7 able to the Secretary)" after "in response to such action".
8 (c) DISPUTED AMOUNT THRESHOLD.—Section
9 7623(b)(5)(B) is amended by striking "tax, penalties, in-
10 terest, additions to tax, and additional amounts" and in-
11 serting "proceeds".
12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to information provided before, on,
14 or after the date of the enactment of this Act with respect
15 to which a final determination for an award has not been
16 made before such date of enactment.

17 **PART VIII—INDIVIDUAL MANDATE**

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

21 (a) IN GENERAL.—Section 5000A(c) is amended—
22 (1) in paragraph (2)(B)(iii), by striking "2.5
23 percent" and inserting "Zero percent", and
24 (2) in paragraph (3)—

(A) by striking "$695" in subparagraph (A) and inserting "$0", and

(B) by striking subparagraph (D).

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

Subtitle B—Alternative Minimum Tax

SEC. 12001. INCREASED EXEMPTION FOR INDIVIDUALS.

(a) INCREASED EXEMPTION.—Section 55(d) is amended by adding at the end the following new paragraph:

"(5) SPECIAL RULE FOR TAXABLE YEARS BEGINNING AFTER 2017 AND BEFORE 2026.—

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

"(i) paragraph (1) shall be applied—

"(I) by substituting '$109,400' for '$78,750' in subparagraph (A), and

"(II) by substituting '$70,300' for '$50,600' in subparagraph (B), and

"(ii) paragraph (3) shall be applied—

"(I) by substituting '$208,400' for '$150,000' in subparagraph (A),

"(II) by substituting '$156,300' for '$112,500' in subparagraph (B), and

"(III) in the case of a taxpayer described in paragraph (1)(D), without regard to the substitution under subclause (I).

"(B) INFLATION ADJUSTMENT.—

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

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

"(ii) AMOUNTS DESCRIBED.—The amounts described in this clause are the $109,400 amount in subparagraph (A)(i)(I), the $70,300 amount in subparagraph (A)(i)(II), the $208,400 amount in subparagraph (A)(ii)(I), and the $156,300 amount in subparagraph (A)(ii)(II).

"(iii) ROUNDING.—Any increased amount determined under clause (i) shall be rounded to the nearest multiple of $100.".

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

Subtitle C—Business-related Provisions

PART I—CORPORATE PROVISIONS

SEC. 13001. 20-PERCENT CORPORATE TAX RATE.

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

"(b) AMOUNT OF TAX.—The amount of the tax imposed by subsection (a) shall be 20 percent of taxable income.".

(b) CONFORMING AMENDMENTS.—

(1) The following sections are each amended by striking "section 11(b)(1)" and inserting "section 11(b)":

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

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

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

(2)(A) Part I of subchapter P of chapter 1 is amended by striking section 1201 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 12 is amended by striking paragraphs (4) and (6), and by redesignating paragraph (5) as paragraph (4).

(C) Section 453A(c)(3) is amended by striking "or 1201 (whichever is appropriate)".

(D) Section 527(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes "is hereby imposed" and inserting:

"(b) TAX IMPOSED.—A tax".

(E) Sections 594(a) is amended by striking "taxes imposed by section 11 or 1201(a)" and inserting "tax imposed by section 11".

(F) Section 691(c)(4) is amended by striking "1201,".

(G) Section 801(a) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes "is hereby imposed" and inserting:

"(a) TAX IMPOSED.—A tax".

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

(I) Sections 832(c)(5) and 834(b)(1)(D) are each amended by striking "sec. 1201 and following,".

(J) Section 852(b)(3)(A) is amended by striking "section 1201(a)" and inserting "section 11(b)".

(K) Section 857(b)(3) is amended—

(i) by striking subparagraph (A) and redesignating subparagraphs (B) through (F) as subparagraphs (A) through (E), respectively,

(ii) in subparagraph (C), as so redesignated—

(I) by striking "subparagraph (A)(ii)" in clause (i) thereof and inserting "paragraph (1)",

(II) by striking "the tax imposed by subparagraph (A)(ii)" in clauses (ii) and (iv) thereof and inserting "the tax imposed by paragraph (1) on undistributed capital gain",

(iii) in subparagraph (E), as so redesignated, by striking "subparagraph (B) or (D)" and inserting "subparagraph (A) or (C)", and

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

"(F) UNDISTRIBUTED CAPITAL GAIN.—For purposes of this paragraph, the term 'undistributed capital gain' means the excess of the net capital gain over the deduction for dividends paid (as defined in section 561) determined with reference to capital gain dividends only.".

(L) Section 882(a)(1) is amended by striking ", 55, or 1201(a)" and inserting "or 55".

(M) Section 904(b) is amended—

(i) by striking "or 1201(a)" in paragraph (2)(C),

(ii) by striking paragraph (3)(D) and inserting the following:

1 "(D) CAPITAL GAIN RATE DIFFEREN-
2 TIAL.—There is a capital gain rate differential
3 for any year if subsection (h) of section 1 ap-
4 plies to such taxable year.", and
5 (iii) by striking paragraph (3)(E) and in-
6 serting the following:
7 "(E) RATE DIFFERENTIAL PORTION.—The
8 rate differential portion of foreign source net
9 capital gain, net capital gain, or the excess of
10 net capital gain from sources within the United
11 States over net capital gain, as the case may
12 be, is the same proportion of such amount as—
13 "(i) the excess of—
14 "(I) the highest rate of tax set
15 forth in subsection (a), (b), (c), (d), or
16 (e) of section 1 (whichever applies),
17 over
18 "(II) the alternative rate of tax
19 determined under section 1(h), bears
20 to
21 "(ii) that rate referred to in subclause
22 (I).".
23 (N) Section 1374(b) is amended by striking
24 paragraph (4).

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

(P) Sections 6425(c)(1)(A) and 6655(g)(1)(A)(i) are each amended by striking "or 1201(a),".

(Q) Section 7518(g)(6)(A) is amended by striking "or 1201(a)".

(3)(A) Section 1445(e)(1) is amended—

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

(ii) by striking "of the gain" and inserting "multiplied by the gain".

(B) Section 1445(e)(2) is amended by striking "35 percent of the amount" and inserting "the highest rate of tax in effect for the taxable year under section 11(b) multiplied by the amount".

(C) Section 1445(e)(6) is amended—

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

(ii) by striking "of the amount" and inserting "multiplied by the amount".

(D) Section 1446(b)(2)(B) is amended by striking "section 11(b)(1)" and inserting "section 11(b)".

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

(5)(A) Part I of subchapter B of chapter 5 is amended by striking section 1551 (and by striking the item relating to such section in the table of sections for such part).

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

"(5) CROSS REFERENCE.—For limitation on credit provided in paragraph (2) or (3) in the case of certain controlled corporations, see section 1561.".

(6)(A) Section 1561(a) is amended—

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

(ii) by striking "amounts specified in paragraph (1) and the amount specified in paragraph (3)" and inserting "the amount specified in paragraph (2)",

1 (iii) by striking "The amounts specified in
2 paragraph (2)" and inserting "The amounts
3 specified in paragraph (1)",
4 (iv) by striking the third sentence in the
5 flush language, and
6 (v) by striking "under paragraph (3)" and
7 inserting "under paragraph (2)".
8 (B) The first sentence of section 1561(b) is
9 amended to read as follows: "If a corporation has a
10 short taxable year which does not include a Decem-
11 ber 31 and is a component member of a controlled
12 group of corporations with respect to such taxable
13 year, then for purposes of this subtitle the amount
14 to be used in computing the accumulated earnings
15 credit under section 535(c)(2) and (3) of such cor-
16 poration for such taxable year shall be the amount
17 specified in subsection (a)(1) divided by the number
18 of corporations which are component members of
19 such group on the last day of such taxable year."
20 (7) Section 7518(g)(6)(A) is amended—
21 (A) by striking "With respect to the por-
22 tion" and inserting "In the case of a taxpayer
23 other than a corporation, with respect to the
24 portion", and

1 (B) by striking "(34 percent in the case of
2 a corporation)".
3 (c) EFFECTIVE DATE.—
4 (1) IN GENERAL.—Except as otherwise pro-
5 vided in this subsection, the amendments made by
6 this section shall apply to taxable years beginning
7 after December 31, 2018.
8 (2) WITHHOLDING.—The amendments made by
9 subsection (b)(3) shall apply to distributions made
10 after December 31, 2018.
11 (3) CERTAIN TRANSFERS.—The amendments
12 made by subsection (b)(6) shall apply to transfers
13 made after December 31, 2018.
14 (d) NORMALIZATION REQUIREMENTS.—
15 (1) IN GENERAL.—A normalization method of
16 accounting shall not be treated as being used with
17 respect to any public utility property for purposes of
18 section 167 or 168 of the Internal Revenue Code of
19 1986 if the taxpayer, in computing its cost of service
20 for ratemaking purposes and reflecting operating re-
21 sults in its regulated books of account, reduces the
22 excess tax reserve more rapidly or to a greater ex-
23 tent than such reserve would be reduced under the
24 average rate assumption method.

1 (2) ALTERNATIVE METHOD FOR CERTAIN TAX-
2 PAYERS.—If, as of the first day of the taxable year
3 that includes the date of enactment of this Act—
4 (A) the taxpayer was required by a regu-
5 latory agency to compute depreciation for public
6 utility property on the basis of an average life
7 or composite rate method, and
8 (B) the taxpayer's books and underlying
9 records did not contain the vintage account
10 data necessary to apply the average rate as-
11 sumption method,
12 the taxpayer will be treated as using a normalization
13 method of accounting if, with respect to such juris-
14 diction, the taxpayer uses the alternative method for
15 public utility property that is subject to the regu-
16 latory authority of that jurisdiction.
17 (3) DEFINITIONS.—For purposes of this sub-
18 section—
19 (A) EXCESS TAX RESERVE.—The term
20 "excess tax reserve" means the excess of—
21 (i) the reserve for deferred taxes (as
22 described in section 168(i)(9)(A)(ii) of the
23 Internal Revenue Code of 1986) as deter-
24 mined under the Internal Revenue Code of

1986 as in effect on the day before the date of the enactment of this Act, over

(ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods.

(B) AVERAGE RATE ASSUMPTION METHOD.—The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, if timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—

(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by

(ii) the amount of the timing differences which reverse during such period.

1 (C) ALTERNATIVE METHOD.—The "alter-
2 native method" is the method in which the tax-
3 payer—
4 (i) computes the excess tax reserve on
5 all public utility property included in the
6 plant account on the basis of the weighted
7 average life or composite rate used to com-
8 pute depreciation for regulatory purposes,
9 and
10 (ii) reduces the excess tax reserve rat-
11 ably over the remaining regulatory life of
12 the property.
13 (4) TAX INCREASED FOR NORMALIZATION VIO-
14 LATION.—If, for any taxable year ending after the
15 date of the enactment of this Act, the taxpayer does
16 not use a normalization method of accounting, the
17 taxpayer's tax for the taxable year shall be increased
18 by the amount by which it reduces its excess tax re-
19 serve more rapidly than permitted under a normal-
20 ization method of accounting.

21 **SEC. 13002. REDUCTION IN DIVIDEND RECEIVED DEDUC-**
22 **TIONS TO REFLECT LOWER CORPORATE IN-**
23 **COME TAX RATES.**

24 (a) DIVIDENDS RECEIVED BY CORPORATIONS.—

1 (1) IN GENERAL.—Section 243(a)(1) is amend-
2 ed by striking "70 percent" and inserting "50 per-
3 cent".
4 (2) DIVIDENDS FROM 20-PERCENT OWNED COR-
5 PORATIONS.—Section 243(c)(1) is amended—
6 (A) by striking "80 percent" and inserting
7 "65 percent", and
8 (B) by striking "70 percent" and inserting
9 "50 percent".
10 (3) CONFORMING AMENDMENT.—The heading
11 for section 243(c) is amended by striking "RETEN-
12 TION OF 80-PERCENT DIVIDEND RECEIVED DEDUC-
13 TION" and inserting "INCREASED PERCENTAGE".
14 (b) DIVIDENDS RECEIVED FROM FSC.—Section
15 245(c)(1)(B) is amended—
16 (1) by striking "70 percent" and inserting "50
17 percent", and
18 (2) by striking "80 percent" and inserting "65
19 percent".
20 (c) LIMITATION ON AGGREGATE AMOUNT OF DEDUC-
21 TIONS.—Section 246(b)(3) is amended—
22 (1) by striking "80 percent" in subparagraph
23 (A) and inserting "65 percent", and
24 (2) by striking "70 percent" in subparagraph
25 (B) and inserting "50 percent".

1 (d) REDUCTION IN DEDUCTION WHERE PORTFOLIO
2 STOCK IS DEBT-FINANCED.—Section 246A(a)(1) is
3 amended—
4 (1) by striking "70 percent" and inserting "50
5 percent", and
6 (2) by striking "80 percent" and inserting "65
7 percent".
8 (e) INCOME FROM SOURCES WITHIN THE UNITED
9 STATES.—Section 861(a)(2) is amended—
10 (1) by striking "100/70th" and inserting "100/
11 50th" in subparagraph (B), and
12 (2) in the flush sentence at the end—
13 (A) by striking "100/80th" and inserting
14 "100/65th", and
15 (B) by striking "100/70th" and inserting
16 "100/50th".
17 (f) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2018.

20 **PART II—SMALL BUSINESS REFORMS**

21 **SEC. 13101. MODIFICATIONS OF RULES FOR EXPENSING DE-**
22 **PRECIABLE BUSINESS ASSETS.**

23 (a) INCREASE IN LIMITATION.—

(1) DOLLAR LIMITATION.—Section 179(b)(1) is amended by striking "$500,000" and inserting "$1,000,000".

(2) REDUCTION IN LIMITATION.—Section 179(b)(2) is amended by striking "$2,000,000" and inserting "$2,500,000".

(3) INFLATION ADJUSTMENTS.—

(A) IN GENERAL.—Subparagraph (A) of section 179(b)(6), as amended by section 11002(d), is amended—

(i) by striking "2015" and inserting "2018", and

(ii) in clause (ii), by striking "calendar year 2014" and inserting "calendar year 2017".

(B) SPORT UTILITY VEHICLES.—Section 179(b)(6) is amended—

(i) in subparagraph (A), by striking "paragraphs (1) and (2)" and inserting "paragraphs (1), (2), and (5)(A)", and

(ii) in subparagraph (B), by inserting "($100 in the case of any increase in the amount under paragraph (5)(A))" after "$10,000".

1 (b) SECTION 179 PROPERTY TO INCLUDE QUALIFIED
2 REAL PROPERTY.—
3 (1) IN GENERAL.—Subparagraph (B) of section
4 179(d)(1) is amended to read as follows:
5 "(B) which is—
6 "(i) section 1245 property (as defined
7 in section 1245(a)(3)), or
8 "(ii) at the election of the taxpayer,
9 qualified real property (as defined in sub-
10 section (f)), and".
11 (2) QUALIFIED REAL PROPERTY DEFINED.—
12 Subsection (f) of section 179 is amended to read as
13 follows:
14 "(f) QUALIFIED REAL PROPERTY.—For purposes of
15 this section, the term 'qualified real property' means—
16 "(1) any qualified improvement property de-
17 scribed in section 168(e)(6), and
18 "(2) any of the following improvements to non-
19 residential real property placed in service after the
20 date such property was first placed in service:
21 "(A) Roofs.
22 "(B) Heating, ventilation, and air-condi-
23 tioning property.
24 "(C) Fire protection and alarm systems.
25 "(D) Security systems.".

1 (c) REPEAL OF EXCLUSION FOR CERTAIN PROP-
2 ERTY.—The last sentence of section 179(d)(1) is amended
3 by inserting "(other than paragraph (2) thereof)" after
4 "section 50(b)".
5 (d) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to property placed in service in
7 taxable years beginning after December 31, 2017.

8 **SEC. 13102. MODIFICATIONS OF GROSS RECEIPTS TEST FOR**
9 **USE OF CASH METHOD OF ACCOUNTING BY**
10 **CORPORATIONS AND PARTNERSHIPS.**

11 (a) MODIFICATIONS OF GROSS RECEIPTS TEST.—
12 (1) IN GENERAL.—So much of section 448(c)
13 as precedes paragraph (2) is amended to read as fol-
14 lows:
15 "(c) GROSS RECEIPTS TEST.—
16 "(1) IN GENERAL.—A corporation or partner-
17 ship meets the gross receipts test of this subsection
18 for any taxable year if the average annual gross re-
19 ceipts of such entity for the 3-taxable-year period
20 ending with the taxable year which precedes such
21 taxable year does not exceed the applicable dollar
22 limit.".
23 (2) APPLICABLE DOLLAR LIMIT.—Subsection
24 (c) of section 448 is amended by adding at the end
25 the following new paragraph:

"(4) APPLICABLE DOLLAR LIMIT.—

"(A) IN GENERAL.—The applicable dollar limit is $15,000,000.

"(B) ADJUSTMENT FOR INFLATION.—In the case of any taxable year beginning after December 31, 2018, the $15,000,000 amount under subparagraph (A) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

If any amount as increased under the preceding sentence is not a multiple of $1,000, such amount shall be rounded to the next lowest multiple of $1,000.".

(3) CHANGE IN METHOD OF ACCOUNTING.—Paragraph (7) of section 448(d) is amended—

(A) by striking "In the case of" and all that follows up to subparagraph (A) and inserting: "If a taxpayer changes its method of accounting because the taxpayer is prohibited

from using the cash receipts and disbursement method of accounting by reason of subsection (a) or is no longer prohibited from using such method by reason of such subsection—", and

(B) by inserting "and" at the end of subparagraph (A), by striking ", and" at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(4) CONFORMING AMENDMENT.—Paragraph (3) of section 448(b) is amended to read as follows:

"(3) ENTITIES SATISFYING GROSS RECEIPTS TEST.—Paragraphs (1) and (2) of subsection (a) shall not apply to any corporation or partnership for any taxable year if such entity meets the gross receipts test of subsection (c) for the taxable year.".

(b) APPLICATION OF MODIFICATIONS TO FARMING CORPORATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 447(d) is amended to read as follows:

"(1) IN GENERAL.—A corporation meets the requirements of this subsection for any taxable year with respect to its gross receipts if the corporation meets the gross receipts test of section 448(c) for the taxable year.".

1 (2) FAMILY CORPORATIONS.—Paragraph (2) of
2 section 447(d) is amended—
3 (A) by striking subparagraph (A) and in-
4 serting the following:
5 "(A) IN GENERAL.—In the case of a fam-
6 ily corporation, in applying section 448(c) for
7 purposes of paragraph (1)—
8 "(i) paragraph (1) of section 448(c)
9 shall be applied by substituting the appli-
10 cable family corporation limit for the appli-
11 cable dollar limit, and
12 "(ii) the rules of subparagraph (B)
13 shall apply in computing gross receipts.",
14 (B) in subparagraph (B)(i), by striking
15 "the last sentence of paragraph (1)" and insert-
16 ing "paragraph (2) of section 448(c)", and
17 (C) by adding at the end the following new
18 subparagraph:
19 "(D) APPLICABLE FAMILY CORPORATION
20 LIMIT.—
21 "(i) IN GENERAL.—The applicable
22 family corporation limit is $25,000,000.
23 "(ii) ADJUSTMENT FOR INFLATION.—
24 In the case of any taxable year beginning
25 after December 31, 2018, the $25,000,000

amount under clause (i) shall be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 2017' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

If any amount as increased under the preceding sentence is not a multiple of $1,000, such amount shall be rounded to the next lowest multiple of $1,000.".

(3) EXCEPTION FOR CERTAIN CORPORATIONS.—Subsection (c) of section 447 is amended by inserting "for any taxable year" after "not being a corporation".

(4) CHANGE IN METHOD OF ACCOUNTING.—Section 447(f) is amended—

(A) by striking "In the case of" and all that follows up to paragraph (1) and inserting the following: "If a taxpayer changes its method of accounting because the taxpayer is required to use an accrual method of accounting by rea-

son of subsection (a) or is no longer required to use such method by reason of such subsection—", and

(B) by striking paragraph (2) and inserting the following:

"(2) such change shall be treated as initiated by the taxpayer, and".

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

SEC. 13103. CLARIFICATION OF INVENTORY ACCOUNTING RULES FOR SMALL BUSINESSES.

(a) CLARIFICATION OF INVENTORY RULES.—

(1) IN GENERAL.—Section 471 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED TO USE INVENTORIES.—

"(1) IN GENERAL.—A qualified taxpayer shall not be required to use inventories under this section for a taxable year.

"(2) TREATMENT OF TAXPAYERS NOT USING INVENTORIES.—A qualified taxpayer who is not required under this subsection to use inventories with

respect to any property for a taxable year beginning after December 31, 2017, may treat such property—

"(A) as a non-incidental material or supply, or

"(B) in a manner which conforms to the taxpayer's method for accounting for such property in—

"(i) an applicable financial statement (as defined in section 451(b)(3)), or

"(ii) in the case of a taxpayer that does not have an applicable financial statement, their books and records used for purposes of determining tax imposed by this title.

"(3) QUALIFIED TAXPAYER.—For purposes of this subsection, the term 'qualified taxpayer' means, with respect to any taxable year, a taxpayer who meets the gross receipts test of section 448(c) for the taxable year (or, in the case of a sole proprietorship, who would meet such test if such proprietorship were a corporation). Such term shall not include a tax shelter prohibited from using the cash receipts and disbursements method of accounting under section 448(a)(3).

1 "(4) COORDINATION WITH SECTION 481.—If a
2 taxpayer changes its method of accounting because
3 the taxpayer is not required to use inventories by
4 reason of paragraph (1) or is required to use inven-
5 tories because such paragraph no longer applies to
6 the taxpayer—
7 "(A) such change shall be treated as initi-
8 ated by the taxpayer, and
9 "(B) such change shall be treated as made
10 with the consent of the Secretary.".
11 (2) CONFORMING AMENDMENT.—Subsection (c)
12 of section 263A is amended by adding at the end the
13 following new paragraph:
14 "(8) EXCLUSION FROM INVENTORY RULES.—
15 Nothing in this section shall require the use of in-
16 ventories for any taxable year by a qualified tax-
17 payer (within the meaning of section 471(c)(3)) who
18 is not required to use inventories under section 471
19 for such taxable year.".
20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2017.

1 **SEC. 13104. MODIFICATION OF RULES FOR UNIFORM CAP-**
2 **ITALIZATION OF CERTAIN EXPENSES.**

3 (a) IN GENERAL.—Section 263A(b) is amended by
4 striking all that follows paragraph (1) and inserting the
5 following new paragraphs:

6 "(2) PROPERTY ACQUIRED FOR RESALE.—Real
7 or personal property described in section 1221(a)(1)
8 which is acquired by the taxpayer for resale.

9 "(3) EXCEPTION FOR SMALL BUSINESSES.—
10 This section shall not apply to any taxpayer who
11 meets the gross receipts test under section 448(c)
12 for the taxable year (or, in the case of a sole propri-
13 etorship, who would meet such test if such propri-
14 etorship were a corporation), other than a tax shel-
15 ter prohibited from using the cash receipts and dis-
16 bursements method of accounting under section
17 448(a)(3).

18 "(4) FILMS, SOUND RECORDINGS, BOOKS,
19 ETC.—For purposes of this subsection, the term
20 'tangible personal property' shall include a film,
21 sound recording, video tape, book, or similar prop-
22 erty.

23 "(5) COORDINATION WITH SECTION 481.—If a
24 taxpayer changes its method of accounting because
25 this section does not apply to the taxpayer by reason
26 of the exception under paragraph (3) or this section

applies to the taxpayer because such exception no longer applies to the taxpayer—

"(A) such change shall be treated as initiated by the taxpayer, and

"(B) such change shall be treated as made with the consent of the Secretary.".

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

SEC. 13105. INCREASE IN GROSS RECEIPTS TEST FOR CONSTRUCTION CONTRACT EXCEPTION TO PERCENTAGE OF COMPLETION METHOD.

(a) INCREASE.—

(1) IN GENERAL.—Section 460(e)(1)(B) is amended—

(A) in the matter preceding clause (i), by inserting "(other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under section 448(a)(3))" after "taxpayer", and

(B) by striking clause (ii) and inserting the following:

"(ii) who meets the gross receipts test of section 448(c) for the taxable year in which such contract is entered into (or, in

the case of a sole proprietorship, who would meet such test if such proprietorship were a corporation).".

(2) CONFORMING AMENDMENTS.—

(A) Section 460(e) is amended by striking paragraphs (2) and (3) and by redesignating paragraphs (4) through (6) as paragraphs (2) through (4), respectively.

(B) The last sentence of section 56(a)(3) is amended by striking "section 460(e)(6)" and inserting "section 460(e)(4)".

(b) COORDINATION WITH SECTION 481.—Section 460(e), as amended by subsection (a), is amended by adding at the end the following:

"(5) COORDINATION WITH SECTION 481.—If a taxpayer changes its method of accounting because subsections (a), (b), (c)(1), and (c)(2) do not apply by reason of the exception under paragraph (1)(B) or such subsections apply to the taxpayer because such exception no longer applies to the taxpayer—

"(A) such change shall be treated as initiated by the taxpayer,

"(B) such change shall be treated as made with the consent of the Secretary, and

"(C) such change shall be permitted only on a cut-off basis for all similarly classified contracts entered into on or after the year of change and no adjustments under section 481(a) shall be made.".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to contracts entered into after December 31, 2017, in taxable years ending after such date.

PART III—COST RECOVERY AND ACCOUNTING METHODS

Subpart A—Cost Recovery

SEC. 13201. TEMPORARY 100-PERCENT EXPENSING FOR CERTAIN BUSINESS ASSETS.

(a) INCREASED EXPENSING.—

(1) IN GENERAL.—Section 168(k) is amended—

(A) in paragraph (1)(A), by striking "50 percent" and inserting "the applicable percentage", and

(B) in paragraph (5)(A)(i), by striking "50 percent" and inserting "the applicable percentage".

(2) APPLICABLE PERCENTAGE.—Paragraph (6) of section 168(k) is amended to read as follows:

1 "(6) APPLICABLE PERCENTAGE.—For purposes
2 of this subsection—
3 "(A) IN GENERAL.—Except as otherwise
4 provided in this paragraph, the term 'applicable
5 percentage' means—
6 "(i) in the case of property placed in
7 service after September 27, 2017, and be-
8 fore January 1, 2023, 100 percent,
9 "(ii) in the case of property placed in
10 service after December 31, 2022, and be-
11 fore January 1, 2024, 80 percent,
12 "(iii) in the case of property placed in
13 service after December 31, 2023, and be-
14 fore January 1, 2025, 60 percent,
15 "(iv) in the case of property placed in
16 service after December 31, 2024, and be-
17 fore January 1, 2026, 40 percent, and
18 "(v) in the case of property placed in
19 service after December 31, 2025, and be-
20 fore January 1, 2027, 20 percent.
21 "(B) RULE FOR PROPERTY WITH LONGER
22 PRODUCTION PERIODS.—In the case of property
23 described in paragraph (2)(B) or (C), the term
24 'applicable percentage' means—

"(i) in the case of property placed in service after September 27, 2017, and before January 1, 2024, 100 percent,

"(ii) in the case of property placed in service after December 31, 2023, and before January 1, 2025, 80 percent,

"(iii) in the case of property placed in service after December 31, 2024, and before January 1, 2026, 60 percent,

"(iv) in the case of property placed in service after December 31, 2025, and before January 1, 2027, 40 percent, and

"(v) in the case of property placed in service after December 31, 2026, and before January 1, 2028, 20 percent.

"(C) RULE FOR PLANTS BEARING FRUITS AND NUTS.—In the case of a specified plant described in paragraph (5), the term 'applicable percentage' means—

"(i) in the case of a plant which is planted or grafted after September 27, 2017, and before January 1, 2023, 100 percent,

"(ii) in the case of a plant which is planted or grafted after December 31,

2022, and before January 1, 2024, 80 percent,

"(iii) in the case of a plant which is planted or grafted after December 31, 2023, and before January 1, 2025, 60 percent,

"(iv) in the case of a plant which is planted or grafted after December 31, 2024, and before January 1, 2026, 40 percent, and

"(v) in the case of a plant which is planted or grafted after December 31, 2025, and before January 1, 2027, 20 percent.".

(3) CONFORMING AMENDMENT.—Paragraph (5) of section 168(k) is amended by striking subparagraph (F).

(b) EXTENSION.—

(1) IN GENERAL.—Section 168(k) is amended—

(A) in paragraph (2)—

(i) in subparagraph (A)(iii), clauses (i)(III) and (ii) of subparagraph (B), and subparagraph (E)(i), by striking "January

1, 2020" each place it appears and inserting "January 1, 2027", and

(ii) in subparagraph (B)—

(I) in clause (i)(II), by striking "January 1, 2021" and inserting "January 1, 2028", and

(II) in the heading of clause (ii), by striking "PRE-JANUARY 1, 2020" and inserting "PRE-JANUARY 1, 2027", and

(B) in paragraph (5)(A), by striking "January 1, 2020" and inserting "January 1, 2027".

(2) CONFORMING AMENDMENTS.—

(A) Clause (ii) of section 460(c)(6)(B) is amended by striking "January 1, 2020 (January 1, 2021" and inserting "January 1, 2027 (January 1, 2028".

(B) The heading of section 168(k) is amended by striking "ACQUIRED AFTER DECEMBER 31, 2007, AND BEFORE JANUARY 1, 2020".

(c) EXCEPTION FOR PUBLIC UTILITIES.—Section 168(k) is amended by adding at the end the following new paragraph:

"(8) EXCEPTION FOR CERTAIN PROPERTY.—The term 'qualified property' shall not include any property which is primarily used in a trade or business described in clause (iv) of section 163(j)(7)(A).".

(d) SPECIAL RULE.—Section 168(k), as amended by subsection (c), is amended by adding at the end the following new paragraph:

"(9) SPECIAL RULE FOR PROPERTY PLACED IN SERVICE DURING CERTAIN PERIODS.—

"(A) IN GENERAL.—In the case of qualified property placed in service by the taxpayer during the first taxable year ending after September 27, 2017, if the taxpayer elects to have this paragraph apply for such taxable year, paragraphs (1)(A) and (5)(A)(i) shall be applied by substituting '50 percent' for 'the applicable percentage'.

"(B) FORM OF ELECTION.—Any election under this paragraph shall be made at such time and in such form and manner as the Secretary may prescribe.".

(e) COORDINATION WITH SECTION 280F.—Section 168(k)(2)(F) is amended by striking clause (iii).

1 (f) QUALIFIED FILM AND TELEVISION AND LIVE
2 THEATRICAL PRODUCTIONS.—
3 (1) IN GENERAL.—Clause (i) of section
4 168(k)(2)(A), as amended by section 13204, is
5 amended—
6 (A) in subclause (II), by striking "or",
7 (B) in subclause (III), by adding "or"
8 after the comma, and
9 (C) by adding at the end the following:
10 "(IV) which is a qualified film or tele-
11 vision production (as defined in subsection
12 (d) of section 181) for which a deduction
13 would have been allowable under section
14 181 without regard to subsections (a)(2)
15 and (g) of such section or this subsection,
16 or
17 "(V) which is a qualified live theat-
18 rical production (as defined in subsection
19 (e) of section 181) for which a deduction
20 would have been allowable under section
21 181 without regard to subsections (a)(2)
22 and (g) of such section or this sub-
23 section,".

(2) PRODUCTION PLACED IN SERVICE.—Paragraph (2) of section 168(k) is amended by adding at the end the following:

"(H) PRODUCTION PLACED IN SERVICE.—For purposes of subparagraph (A)—

"(i) a qualified film or television production shall be considered to be placed in service at the time of initial release or broadcast, and

"(ii) a qualified live theatrical production shall be considered to be placed in service at the time of the initial live staged performance.".

(g) EFFECTIVE DATES.—The amendments made by this section shall apply to property placed in service, and specified plants planted or grafted after, after September 27, 2017, in taxable years ending after such date.

SEC. 13202. MODIFICATIONS TO DEPRECIATION LIMITATIONS ON LUXURY AUTOMOBILES AND PERSONAL USE PROPERTY.

(a) LUXURY AUTOMOBILES.—

(1) IN GENERAL.—280F(a)(1)(A) is amended—

(A) in clause (i), by striking "$2,560" and inserting "$10,000",

(B) in clause (ii), by striking "$4,100" and inserting "$16,000",

(C) in clause (iii), by striking "$2,450" and inserting "$9,600", and

(D) in clause (iv), by striking "$1,475" and inserting "$5,760".

(2) CONFORMING AMENDMENTS.—

(A) Clause (ii) of section 280F(a)(1)(B) is amended by striking "$1,475" in the text and heading and inserting "$5,760".

(B) Paragraph (7) of section 280F(d) is amended—

(i) in subparagraph (A), by striking "1988" and inserting "2018", and

(ii) in subparagraph (B)(i)(II), by striking "1987" and inserting "2017".

(b) REMOVAL OF COMPUTER EQUIPMENT FROM LISTED PROPERTY.—

(1) IN GENERAL.—Section 280F(d)(4)(A) is amended—

(A) by inserting "and" at the end of clause (iii),

(B) by striking clause (iv), and

(C) by redesignating clause (v) as clause (iv).

1 (2) CONFORMING AMENDMENT.—Section
2 280F(d)(4) is amended by striking subparagraph
3 (B) and by redesignating subparagraph (C) as sub-
4 paragraph (B).
5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to property placed in service after
7 December 31, 2017, in taxable years ending after such
8 date.

9 **SEC. 13203. MODIFICATIONS OF TREATMENT OF CERTAIN**
10 **FARM PROPERTY.**

11 (a) TREATMENT OF CERTAIN FARM PROPERTY AS 5-
12 YEAR PROPERTY.—Clause (vii) of section 168(e)(3)(B) is
13 amended by striking "after December 31, 2008, and which
14 is placed in service before January 1, 2010" and inserting
15 "after December 31, 2017".
16 (b) REPEAL OF REQUIRED USE OF 150-PERCENT
17 DECLINING BALANCE METHOD.—Section 168(b)(2) is
18 amended by striking subparagraph (B) and by redesig-
19 nating subparagraphs (C) and (D) as subparagraphs (B)
20 and (C), respectively.
21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to property placed in service after
23 December 31, 2017, in taxable years ending after such
24 date.

1 **SEC. 13204. APPLICABLE RECOVERY PERIOD FOR REAL**
2 **PROPERTY.**
3 (a) RESIDENTIAL RENTAL PROPERTY AND NONRESI-
4 DENTIAL REAL PROPERTY.—
5 (1) REDUCTION OF RECOVERY PERIOD.—The
6 table contained in section 168(c) is amended—
7 (A) by striking "27.5 years" and inserting
8 "25 years", and
9 (B) by striking "39 years" and inserting
10 "25 years".
11 (2) STATUTORY RECOVERY PERIOD.—The table
12 contained in section 467(e)(3)(A) is amended—
13 (A) by inserting "(other than residential
14 rental property and nonresidential real prop-
15 erty)" after "15-year and 20-year property",
16 and
17 (B) by striking "19 years" and inserting
18 "25 years".
19 (3) CONFORMING AMENDMENT.—Clause (ii) of
20 section 168(e)(2)(B) is amended by striking "27.5
21 years" and inserting "25 years".
22 (b) IMPROVEMENTS TO REAL PROPERTY.—
23 (1) CLASSIFICATION OF QUALIFIED IMPROVE-
24 MENT PROPERTY AS 10-YEAR PROPERTY.—Subpara-
25 graph (D) of section 168(e)(3) is amended—
26 (A) in clause (iii), by striking "and",

(B) in clause (iv), by striking the period and inserting ", and", and

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

"(v) any qualified improvement property described in subsection (e)(6).".

(2) ELIMINATION OF QUALIFIED LEASEHOLD IMPROVEMENT, QUALIFIED RESTAURANT, AND QUALIFIED RETAIL IMPROVEMENT PROPERTY.—Subsection (e) of section 168 is amended—

(A) in subparagraph (E) of paragraph (3)—

(i) by striking clauses (iv), (v), and (ix),

(ii) in clause (vii), by inserting "and" at the end,

(iii) in clause (viii), by striking ", and" and inserting a period, and

(iv) by redesignating clauses (vi), (vii), and (viii), as so amended, as clauses (iv), (v), and (vi), respectively, and

(B) by striking paragraphs (6), (7), and (8).

1 (3) APPLICATION OF STRAIGHT LINE METHOD
2 TO QUALIFIED IMPROVEMENT PROPERTY.—Para-
3 graph (3) of section 168(b) is amended—
4 (A) by striking subparagraphs (G), (H),
5 and (I), and
6 (B) by inserting after subparagraph (F)
7 the following new subparagraph:
8 "(G) Qualified improvement property de-
9 scribed in subsection (e)(6).".
10 (4) ALTERNATIVE DEPRECIATION SYSTEM.—
11 (A) ELECTING REAL PROPERTY TRADE OR
12 BUSINESS.—Subsection (g) of section 168 is
13 amended—
14 (i) in paragraph (1)—
15 (I) in subparagraph (D), by
16 striking "and" at the end,
17 (II) in subparagraph (E), by in-
18 serting "and" at the end, and
19 (III) by inserting after subpara-
20 graph (E) the following new subpara-
21 graph:
22 "(F) any property described in paragraph
23 (8),", and
24 (ii) by adding at the end the following
25 new paragraph:

"(8) ELECTING REAL PROPERTY TRADE OR BUSINESS.—The property described in this paragraph shall consist of any nonresidential real property, residential rental property, and qualified improvement property held by an electing real property trade or business (as defined in 163(j)(7)(B)).".

(B) QUALIFIED IMPROVEMENT PROPERTY.—The table contained in subparagraph (B) of section 168(g)(3) is amended—

(i) by inserting after the item relating to subparagraph (D)(ii) the following new item:

"(D)(v)	20".

, and

(ii) by striking the item relating to subparagraph (E)(iv) and all that follows through the item relating to subparagraph (E)(ix) and inserting the following:

"(E)(iv)	20
(E)(v)	30
(E)(vi)	35".

(C) APPLICABLE RECOVERY PERIOD FOR RESIDENTIAL RENTAL PROPERTY.—The table contained in subparagraph (C) of section 168(g)(2) is amended by striking clauses (iii) and (iv) and inserting the following:

"(iii) Residential rental property	30 years
(iv) Nonresidential real property	40 years
(v) Any railroad grading or tunnel bore or water utility property	50 years".

1 (5) CONFORMING AMENDMENTS.—
2 (A) Clause (i) of section 168(k)(2)(A) is
3 amended—
4 (i) in subclause (II), by inserting "or"
5 after the comma,
6 (ii) in subclause (III), by striking
7 "or" at the end, and
8 (iii) by striking subclause (IV).
9 (B) Section 168 is amended—
10 (i) in subsection (e), as amended by
11 paragraph (2)(B), by adding at the end
12 the following:
13 "(6) QUALIFIED IMPROVEMENT PROPERTY.—
14 "(A) IN GENERAL.—The term 'qualified
15 improvement property' means any improvement
16 to an interior portion of a building which is
17 nonresidential real property if such improve-
18 ment is placed in service after the date such
19 building was first placed in service.
20 "(B) CERTAIN IMPROVEMENTS NOT IN-
21 CLUDED.—Such term shall not include any im-
22 provement for which the expenditure is attrib-
23 utable to—
24 "(i) the enlargement of the building,
25 "(ii) any elevator or escalator, or

"(iii) the internal structural framework of the building.".

(ii) in subsection (k), by striking paragraph (3).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to property placed in service after December 31, 2017.

(2) AMENDMENTS RELATED TO ELECTING REAL PROPERTY TRADE OR BUSINESS.—The amendments made by subsection (b)(4)(A) shall apply to taxable years beginning after December 31, 2017.

SEC. 13205. USE OF ALTERNATIVE DEPRECIATION SYSTEM FOR ELECTING FARMING BUSINESSES.

(a) IN GENERAL.—Section 168(g)(1), as amended by section 13204, is amended by striking "and" at the end of subparagraph (E), by inserting "and" at the end of subparagraph (F), and by inserting after subparagraph (F) the following new subparagraph:

"(G) any property with a recovery period of 10 years or more which is held by an electing farming business (as defined in section 163(j)(7)(C)),".

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

4 **SEC. 13206. AMORTIZATION OF RESEARCH AND EXPERI-**
5 **MENTAL EXPENDITURES.**

6 (a) IN GENERAL.—Section 174 is amended to read
7 as follows:

8 **"SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**
9 **MENTAL EXPENDITURES.**

10 "(a) IN GENERAL.—In the case of a taxpayer's speci-
11 fied research or experimental expenditures for any taxable
12 year—

13 "(1) except as provided in paragraph (2), no
14 deduction shall be allowed for such expenditures,
15 and

16 "(2) the taxpayer shall—

17 "(A) charge such expenditures to capital
18 account, and

19 "(B) be allowed an amortization deduction
20 of such expenditures ratably over the 5-year pe-
21 riod (15-year period in the case of any specified
22 research or experimental expenditures which are
23 attributable to foreign research (within the
24 meaning of section 41(d)(4)(F))) beginning

with the midpoint of the taxable year in which such expenditures are paid or incurred.

"(b) SPECIFIED RESEARCH OR EXPERIMENTAL EXPENDITURES.—For purposes of this section, the term 'specified research or experimental expenditures' means, with respect to any taxable year, research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer's trade or business.

"(c) SPECIAL RULES.—

"(1) LAND AND OTHER PROPERTY.—This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section 167, and allowances under section 611, shall be considered as expenditures.

"(2) EXPLORATION EXPENDITURES.—This section shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence,

1 location, extent, or quality of any deposit of ore or
2 other mineral (including oil and gas).
3 "(3) SOFTWARE DEVELOPMENT.—For purposes
4 of this section, any amount paid or incurred in con-
5 nection with the development of any software shall
6 be treated as a research or experimental expendi-
7 ture.
8 "(d) TREATMENT UPON DISPOSITION, RETIREMENT,
9 OR ABANDONMENT.—If any property with respect to
10 which specified research or experimental expenditures are
11 paid or incurred is disposed, retired, or abandoned during
12 the period during which such expenditures are allowed as
13 an amortization deduction under this section, no deduction
14 shall be allowed with respect to such expenditures on ac-
15 count of such disposition, retirement, or abandonment and
16 such amortization deduction shall continue with respect to
17 such expenditures.".
18 (b) CHANGE IN METHOD OF ACCOUNTING.—The
19 amendments made by subsection (a) shall be treated as
20 a change in method of accounting for purposes of section
21 481 of the Internal Revenue Code of 1986 and—
22 (1) such change shall be treated as initiated by
23 the taxpayer,
24 (2) such change shall be treated as made with
25 the consent of the Secretary, and

(3) such change shall be applied only on a cut-off basis for any research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2025, and no adjustments under section 481(a) shall be made.

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 174 and inserting the following new item:

"Sec. 174. Amortization of research and experimental expenditures.".

(d) CONFORMING AMENDMENTS.—

(1) Section 41(d)(1)(A) is amended by striking "expenses under section 174" and inserting "specified research or experimental expenditures under section 174".

(2) Subsection (c) of section 280C is amended—

(A) by striking paragraph (1) and inserting the following:

"(1) IN GENERAL.—If—

"(A) the amount of the credit determined for the taxable year under section 41(a)(1), exceeds

"(B) the amount allowable as a deduction for such taxable year for qualified research expenses or basic research expenses,

the amount chargeable to capital account for the taxable year for such expenses shall be reduced by the amount of such excess.",

(B) by striking paragraph (2),

(C) by redesignating paragraphs (3) (as amended by this Act) and (4) as paragraphs (2) and (3), respectively, and

(D) in paragraph (2), as redesignated by subparagraph (C), by striking "paragraphs (1) and (2)" and inserting "paragraph (1)".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2025.

SEC. 13207. EXPENSING OF CERTAIN COSTS OF REPLANTING CITRUS PLANTS LOST BY REASON OF CASUALTY.

(a) IN GENERAL.—Section 263A(d)(2) is amended by adding at the end the following new subparagraph:

"(C) SPECIAL TEMPORARY RULE FOR CITRUS PLANTS LOST BY REASON OF CASUALTY.—

"(i) IN GENERAL.—In the case of the replanting of citrus plants, subparagraph (A) shall apply to amounts paid or incurred by a person (other than the taxpayer described in subparagraph (A)) if—

"(I) the taxpayer described in subparagraph (A) has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which such amounts were paid or incurred and such other person holds any part of the remaining equity interest, or

"(II) such other person acquired the entirety of such taxpayer's equity interest in the land on which the lost or damaged citrus plants were located at the time of such loss or damage, and the replanting is on such land.

"(ii) TERMINATION.—Clause (i) shall not apply to any cost paid or incurred after the date which is 10 years after the date of the enactment of the Tax Cuts and Jobs Act.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to costs paid or incurred after the date of the enactment of this Act.

1 **Subpart B—Accounting Methods**

2 **SEC. 13221. CERTAIN SPECIAL RULES FOR TAXABLE YEAR**
3 **OF INCLUSION.**

4 (a) INCLUSION NOT LATER THAN FOR FINANCIAL
5 ACCOUNTING PURPOSES.—Section 451 is amended by re-
6 designating subsections (b) through (i) as subsections (c)
7 through (j), respectively, and by inserting after subsection
8 (a) the following new subsection:

9 "(b) INCLUSION NOT LATER THAN FOR FINANCIAL
10 ACCOUNTING PURPOSES.—

11 "(1) INCOME TAKEN INTO ACCOUNT IN FINAN-
12 CIAL STATEMENT.—

13 "(A) IN GENERAL.—In the case of a tax-
14 payer the taxable income of which is computed
15 under an accrual method of accounting, the all
16 events test with respect to any item of gross in-
17 come (or portion thereof) shall not be treated as
18 met any later than when such item (or portion
19 thereof) is taken into account as revenue in—

20 "(i) an applicable financial statement
21 of the taxpayer, or

22 "(ii) such other financial statement as
23 the Secretary may specify for purposes of
24 this subsection.

25 "(B) EXCEPTION.—This paragraph shall
26 not apply to—

"(i) a taxpayer which does not have a financial statement described in clause (i) or (ii) of subparagraph (A) for a taxable year, or

"(ii) any item of gross income in connection with a mortgage servicing contract.

"(C) ALL EVENTS TEST.—For purposes of this section, the all events test is met with respect to any item of gross income if all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy.

"(2) COORDINATION WITH SPECIAL METHODS OF ACCOUNTING.—Paragraph (1) shall not apply with respect to any item of gross income for which the taxpayer uses a special method of accounting provided under any other provision of this chapter, other than any provision of part V of subchapter P (except as provided in clause (ii) of paragraph (1)(B)).

"(3) APPLICABLE FINANCIAL STATEMENT.—For purposes of this subsection, the term 'applicable financial statement' means—

"(A) a financial statement which is certified as being prepared in accordance with generally accepted accounting principles and which is—

"(i) a 10–K (or successor form), or annual statement to shareholders, required to be filed by the taxpayer with the United States Securities and Exchange Commission,

"(ii) an audited financial statement of the taxpayer which is used for—

"(I) credit purposes,

"(II) reporting to shareholders, partners, or other proprietors, or to beneficiaries, or

"(III) any other substantial nontax purpose,

but only if there is no statement of the taxpayer described in clause (i), or

"(iii) filed by the taxpayer with any other Federal agency for purposes other than Federal tax purposes, but only if there is no statement of the taxpayer described in clause (i) or (ii),

"(B) a financial statement which is made on the basis of international financial reporting standards and is filed by the taxpayer with an agency of a foreign government which is equivalent to the United States Securities and Exchange Commission and which has reporting standards not less stringent than the standards required by such Commission, but only if there is no statement of the taxpayer described in subparagraph (A), or

"(C) a financial statement filed by the taxpayer with any other regulatory or governmental body specified by the Secretary, but only if there is no statement of the taxpayer described in subparagraph (A) or (B).

"(4) ALLOCATION OF TRANSACTION PRICE.—For purposes of this subsection, in the case of a contract which contains multiple performance obligations, the allocation of the transaction price to each performance obligation shall be equal to the amount allocated to each performance obligation for purposes of including such item in revenue in the applicable financial statement of the taxpayer.

"(5) GROUP OF ENTITIES.—For purposes of paragraph (1), if the financial results of a taxpayer

are reported on the applicable financial statement (as defined in paragraph (3)) for a group of entities, such statement may be treated as the applicable financial statement of the taxpayer.".

(b) TREATMENT OF ADVANCE PAYMENTS.—Section 451, as amended by subsection (a), is amended by redesignating subsections (c) through (j) as subsections (d) through (k), respectively, and by inserting after subsection (b) the following new subsection:

"(c) TREATMENT OF ADVANCE PAYMENTS.—

"(1) IN GENERAL.—A taxpayer which computes taxable income under the accrual method of accounting, and receives any advance payment during the taxable year, shall—

"(A) except as provided in subparagraph (B), include such advance payment in gross income for such taxable year, or

"(B) if the taxpayer elects the application of this subparagraph with respect to the category of advance payments to which such advance payment belongs, the taxpayer shall—

"(i) to the extent that any portion of such advance payment is required under subsection (b) to be included in gross income in the taxable year in which such

1 payment is received, so include such por-
2 tion, and
3 "(ii) include the remaining portion of
4 such advance payment in gross income in
5 the taxable year following the taxable year
6 in which such payment is received.
7 "(2) ELECTION.—
8 "(A) IN GENERAL.—Except as otherwise
9 provided in this paragraph, the election under
10 paragraph (1)(B) shall be made at such time,
11 in such form and manner, and with respect to
12 such categories of advance payments, as the
13 Secretary may provide.
14 "(B) PERIOD TO WHICH ELECTION AP-
15 PLIES.—An election under paragraph (1)(B)
16 shall be effective for the taxable year with re-
17 spect to which it is first made and for all subse-
18 quent taxable years, unless the taxpayer secures
19 the consent of the Secretary to revoke such
20 election. For purposes of this title, the com-
21 putation of taxable income under an election
22 made under paragraph (1)(B) shall be treated
23 as a method of accounting.
24 "(3) TAXPAYERS CEASING TO EXIST.—Except
25 as otherwise provided by the Secretary, the election

1 under paragraph (1)(B) shall not apply with respect
2 to advance payments received by the taxpayer during
3 a taxable year if such taxpayer ceases to exist during
4 (or with the close of) such taxable year.
5 "(4) ADVANCE PAYMENT.—For purposes of this
6 subsection—
7 "(A) IN GENERAL.—The term 'advance
8 payment' means any payment—
9 "(i) the full inclusion of which in the
10 gross income of the taxpayer for the tax-
11 able year of receipt is a permissible method
12 of accounting under this section (deter-
13 mined without regard to this subsection),
14 "(ii) any portion of which is included
15 in revenue by the taxpayer in a financial
16 statement described in clause (i) or (ii) of
17 subsection (b)(1)(A) for a subsequent tax-
18 able year, and
19 "(iii) which is for goods, services, or
20 such other items as may be identified by
21 the Secretary for purposes of this clause.
22 "(B) EXCLUSIONS.—Except as otherwise
23 provided by the Secretary, such term shall not
24 include—
25 "(i) rent,

"(ii) insurance premiums governed by subchapter L,

"(iii) payments with respect to financial instruments,

"(iv) payments with respect to warranty or guarantee contracts under which a third party is the primary obligor,

"(v) payments subject to section 871(a), 881, 1441, or 1442,

"(vi) payments in property to which section 83 applies, and

"(vii) any other payment identified by the Secretary for purposes of this subparagraph.

"(C) RECEIPT.—For purposes of this subsection, an item of gross income is received by the taxpayer if it is actually or constructively received, or if it is due and payable to the taxpayer.

"(D) ALLOCATION OF TRANSACTION PRICE.—For purposes of this subsection, rules similar to subsection (b)(4) shall apply.".

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

1 (d) COORDINATION WITH SECTION 481.—
2 (1) IN GENERAL.—In the case of any qualified
3 change in method of accounting for the taxpayer's
4 first taxable year beginning after December 31,
5 2017—
6 (A) such change shall be treated as initi-
7 ated by the taxpayer, and
8 (B) such change shall be treated as made
9 with the consent of the Secretary of the Treas-
10 ury.
11 (2) QUALIFIED CHANGE IN METHOD OF AC-
12 COUNTING.—For purposes of this subsection, the
13 term "qualified change in method of accounting"
14 means any change in method of accounting which—
15 (A) is required by the amendments made
16 by this section, or
17 (B) was prohibited under the Internal Rev-
18 enue Code of 1986 prior to such amendments
19 and is permitted under such Code after such
20 amendments.
21 (e) SPECIAL RULES FOR ORIGINAL ISSUE DIS-
22 COUNT.—Notwithstanding subsection (c), in the case of
23 income from a debt instrument having original issue dis-
24 count—

(1) the amendments made by this section shall apply to taxable years beginning after December 31, 2018, and

(2) the period for taking into account any adjustments under section 481 by reason of a qualified change in method of accounting (as defined in subsection (d)) shall be 6 years.

PART IV—BUSINESS-RELATED EXCLUSIONS AND DEDUCTIONS

SEC. 13301. LIMITATION ON DEDUCTION FOR INTEREST.

(a) IN GENERAL.—Section 163(j) is amended to read as follows:

"(j) LIMITATION ON BUSINESS INTEREST.—

"(1) IN GENERAL.—The amount allowed as a deduction under this chapter for any taxable year for business interest shall not exceed the sum of—

"(A) the business interest income of such taxpayer for such taxable year, plus

"(B) 30 percent of the adjusted taxable income of such taxpayer for such taxable year.

The amount determined under subparagraph (B) shall not be less than zero.

"(2) CARRYFORWARD OF DISALLOWED BUSINESS INTEREST.—The amount of any business interest not allowed as a deduction for any taxable

1 year by reason of paragraph (1) shall be treated as
2 business interest paid or accrued in the succeeding
3 taxable year.

4 "(3) EXEMPTION FOR CERTAIN SMALL BUSI-
5 NESSES.—In the case of any taxpayer (other than a
6 tax shelter prohibited from using the cash receipts
7 and disbursements method of accounting under sec-
8 tion 448(a)(3)) which meets the gross receipts test
9 of section 448(c) for any taxable year, paragraph (1)
10 shall not apply to such taxpayer for such taxable
11 year. In the case of any taxpayer which is not a cor-
12 poration or a partnership, the gross receipts test of
13 section 448(c) shall be applied in the same manner
14 as if such taxpayer were a corporation or partner-
15 ship.

16 "(4) APPLICATION TO PARTNERSHIPS, ETC.—

17 "(A) IN GENERAL.—In the case of any
18 partnership—

19 "(i) this subsection shall be applied at
20 the partnership level and any deduction for
21 business interest shall be taken into ac-
22 count in determining the non-separately
23 stated taxable income or loss of the part-
24 nership, and

"(ii) the adjusted taxable income of each partner of such partnership—

"(I) shall be determined without regard to such partner's distributive share of any items of income, gain, deduction, or loss of such partnership, and

"(II) shall be increased by such partner's distributive share of such partnership's excess taxable income.

For purposes of clause (ii)(II), a partner's distributive share of partnership excess taxable income shall be determined in the same manner as the partner's distributive share of nonseparately stated taxable income or loss of the partnership.

"(B) SPECIAL RULES FOR CARRYFORWARDS.—

"(i) IN GENERAL.—The amount of any business interest not allowed as a deduction to a partnership for any taxable year by reason of paragraph (1) for any taxable year—

"(I) shall not be treated under paragraph (2) as business interest

1 paid or accrued by the partnership in
2 the succeeding taxable year, and
3 "(II) shall, subject to clause (ii),
4 be treated as excess business interest
5 which is allocated to each partner in
6 the same manner as the non-sepa-
7 rately stated taxable income or loss of
8 the partnership.
9 "(ii) TREATMENT OF EXCESS BUSI-
10 NESS INTEREST ALLOCATED TO PART-
11 NERS.—If a partner is allocated any excess
12 business interest from a partnership under
13 clause (i) for any taxable year—
14 "(I) such excess business interest
15 shall be treated as business interest
16 paid or accrued by the partner in the
17 next succeeding taxable year in which
18 the partner is allocated excess taxable
19 income from such partnership, but
20 only to the extent of such excess tax-
21 able income, and
22 "(II) any portion of such excess
23 business interest remaining after the
24 application of subclause (I) shall, sub-
25 ject to the limitations of subclause (I),

be treated as business interest paid or accrued in succeeding taxable years.

For purposes of applying this paragraph, excess taxable income allocated to a partner from a partnership for any taxable year shall not be taken into account under paragraph (1)(A) with respect to any business interest other than excess business interest from the partnership until all such excess business interest for such taxable year and all preceding taxable years has been treated as paid or accrued under clause (ii).

"(iii) BASIS ADJUSTMENTS.—

"(I) IN GENERAL.—The adjusted basis of a partner in a partnership interest shall be reduced (but not below zero) by the amount of excess business interest allocated to the partner under clause (i)(II).

"(II) SPECIAL RULE FOR DISPOSITIONS.—If a partner disposes of a partnership interest, the adjusted basis of the partner in the partnership interest shall be increased immediately

before the disposition by the amount of the excess (if any) of the amount of the basis reduction under subclause (I) over the portion of any excess business interest allocated to the partner under clause (i)(II) which has previously been treated under clause (ii) as business interest paid or accrued by the partner. The preceding sentence shall also apply to transfers of the partnership interest (including by reason of death) in a transaction in which gain is not recognized in whole or in part. No deduction shall be allowed to the transferor or transferee under this chapter for any excess business interest resulting in a basis increase under this subclause.

"(C) EXCESS TAXABLE INCOME.—The term 'excess taxable income' means, with respect to any partnership, the amount which bears the same ratio to the partnership's adjusted taxable income as—

"(i) the excess (if any) of—

"(I) the amount determined for the partnership under paragraph (1)(B), over

"(II) the amount (if any) by which the business interest of the partnership exceeds the business interest income of the partnership, bears to

"(ii) the amount determined for the partnership under paragraph (1)(B).

"(D) APPLICATION TO S CORPORATIONS.—Rules similar to the rules of subparagraphs (A) and (C) shall apply with respect to any S corporation and its shareholders.

"(5) BUSINESS INTEREST.—For purposes of this subsection, the term 'business interest' means any interest paid or accrued on indebtedness properly allocable to a trade or business. Such term shall not include investment interest (within the meaning of subsection (d)).

"(6) BUSINESS INTEREST INCOME.—For purposes of this subsection, the term 'business interest income' means the amount of interest includible in the gross income of the taxpayer for the taxable year which is properly allocable to a trade or business.

1 Such term shall not include investment income
2 (within the meaning of subsection (d)).
3 "(7) TRADE OR BUSINESS.—For purposes of
4 this subsection—
5 "(A) IN GENERAL.—The term 'trade or
6 business' shall not include—
7 "(i) the trade or business of per-
8 forming services as an employee,
9 "(ii) any electing real property trade
10 or business,
11 "(iii) any electing farming business,
12 or
13 "(iv) the trade or business of the fur-
14 nishing or sale of—
15 "(I) electrical energy, water, or
16 sewage disposal services,
17 "(II) gas or steam through a
18 local distribution system, or
19 "(III) transportation of gas or
20 steam by pipeline,
21 if the rates for such furnishing or sale, as
22 the case may be, have been established or
23 approved by a State or political subdivision
24 thereof, by any agency or instrumentality
25 of the United States, by a public service or

1 public utility commission or other similar
2 body of any State or political subdivision
3 thereof, or by the governing or ratemaking
4 body of an electric cooperative.

5 "(B) ELECTING REAL PROPERTY TRADE
6 OR BUSINESS.—For purposes of this paragraph,
7 the term 'electing real property trade or busi-
8 ness' means any trade or business which is de-
9 scribed in section 469(c)(7)(C) and which
10 makes an election under this subparagraph.
11 Any such election shall be made at such time
12 and in such manner as the Secretary shall pre-
13 scribe, and, once made, shall be irrevocable.

14 "(C) ELECTING FARMING BUSINESS.—For
15 purposes of this paragraph, the term 'electing
16 farming business' means—

17 "(i) a farming business (as defined in
18 section 263A(e)(4)) which makes an elec-
19 tion under this subparagraph, or

20 "(ii) any trade or business of a speci-
21 fied agricultural or horticultural coopera-
22 tive (as defined in section 199A(g)(2))
23 with respect to which the cooperative
24 makes an election under this subpara-
25 graph.

1 Any such election shall be made at such time
2 and in such manner as the Secretary shall pre-
3 scribe, and, once made, shall be irrevocable.
4 "(8) ADJUSTED TAXABLE INCOME.—For pur-
5 poses of this subsection, the term 'adjusted taxable
6 income' means the taxable income of the taxpayer—
7 "(A) computed without regard to—
8 "(i) any item of income, gain, deduc-
9 tion, or loss which is not properly allocable
10 to a trade or business,
11 "(ii) any business interest or business
12 interest income,
13 "(iii) the amount of any net operating
14 loss deduction under section 172, and
15 "(iv) the amount of any deduction al-
16 lowed under section 199 or 199A, and
17 "(B) computed with such other adjust-
18 ments as provided by the Secretary.
19 "(9) CROSS REFERENCES.—
20 "(A) For requirement that an electing real
21 property trade or business use the alternative
22 depreciation system, see section 168(g)(1)(F).
23 "(B) For requirement that an electing
24 farming business use the alternative depreciation
25 system, see section 168(g)(1)(G).".

1 (b) TREATMENT OF CARRYFORWARD OF DIS-
2 ALLOWED BUSINESS INTEREST IN CERTAIN CORPORATE
3 ACQUISITIONS.—
4 (1) IN GENERAL.—Section 381(c) is amended
5 by inserting after paragraph (19) the following new
6 paragraph:
7 "(20) CARRYFORWARD OF DISALLOWED BUSI-
8 NESS INTEREST.—The carryover of disallowed busi-
9 ness interest described in section 163(j)(2) to tax-
10 able years ending after the date of distribution or
11 transfer.".
12 (2) APPLICATION OF LIMITATION.—Section
13 382(d) is amended by adding at the end the fol-
14 lowing new paragraph:
15 "(3) APPLICATION TO CARRYFORWARD OF DIS-
16 ALLOWED INTEREST.—The term 'pre-change loss'
17 shall include any carryover of disallowed interest de-
18 scribed in section 163(n) under rules similar to the
19 rules of paragraph (1).".
20 (3) CONFORMING AMENDMENT.—Section
21 382(k)(1) is amended by inserting after the first
22 sentence the following: "Such term shall include any
23 corporation entitled to use a carryforward of dis-
24 allowed interest described in section 381(c)(20).".

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

4 **SEC. 13302. MODIFICATION OF NET OPERATING LOSS DE-**
5 **DUCTION.**

6 (a) LIMITATION ON DEDUCTION.—
7 (1) IN GENERAL.—Section 172(a) is amended
8 to read as follows:
9 "(a) DEDUCTION ALLOWED.—There shall be allowed
10 as a deduction for the taxable year an amount equal to
11 the lesser of—
12 "(1) the aggregate of the net operating loss
13 carryovers to such year, plus the net operating loss
14 carrybacks to such year, or
15 "(2) 90 percent (80 percent in the case of tax-
16 able years beginning after December 31, 2022) of
17 taxable income computed without regard to the de-
18 duction allowable under this section.
19 For purposes of this subtitle, the term 'net operating loss
20 deduction' means the deduction allowed by this sub-
21 section.".
22 (2) COORDINATION OF LIMITATION WITH
23 CARRYBACKS AND CARRYOVERS.—Section 172(b)(2)
24 is amended by striking "shall be computed—" and
25 all that follows and inserting "shall—

"(A) be computed with the modifications specified in subsection (d) other than paragraphs (1), (4), and (5) thereof, and by determining the amount of the net operating loss deduction without regard to the net operating loss for the loss year or for any taxable year thereafter,

"(B) not be considered to be less than zero, and

"(C) not exceed the amount determined under subsection (a)(2) for such prior taxable year.".

(3) CONFORMING AMENDMENT.—Section 172(d)(6) is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting "; and", and by adding at the end the following new subparagraph:

"(C) subsection (a)(2) shall be applied by substituting 'real estate investment trust taxable income (as defined in section 857(b)(2) but without regard to the deduction for dividends paid (as defined in section 561))' for 'taxable income'.".

1 (b) REPEAL OF NET OPERATING LOSS CARRYBACK;
2 INDEFINITE CARRYFORWARD.—
3 (1) IN GENERAL.—Section 172(b)(1)(A) is
4 amended—
5 (A) by striking "shall be a net operating
6 loss carryback to each of the 2 taxable years"
7 in clause (i) and inserting "except as otherwise
8 provided in this paragraph, shall not be a net
9 operating loss carryback to any taxable year",
10 and
11 (B) by striking "to each of the 20 taxable
12 years" in clause (ii) and inserting "to each tax-
13 able year".
14 (2) CONFORMING AMENDMENT.—Section
15 172(b)(1) is amended by striking subparagraphs (B)
16 through (F).
17 (c) TREATMENT OF FARMING LOSSES.—
18 (1) ALLOWANCE OF CARRYBACKS.—Section
19 172(b)(1), as amended by subsection (b)(2), is
20 amended by adding at the end the following new
21 subparagraph:
22 "(B) FARMING LOSSES.—
23 "(i) IN GENERAL.—In the case of any
24 portion of a net operating loss for the tax-
25 able year which is a farming loss with re-

1 spect to the taxpayer, such loss shall be a
2 net operating loss carryback to each of the
3 2 taxable years preceding the taxable year
4 of such loss.
5 "(ii) FARMING LOSS.—For purposes
6 of this section, the term 'farming loss'
7 means the lesser of—
8 "(I) the amount which would be
9 the net operating loss for the taxable
10 year if only income and deductions at-
11 tributable to farming businesses (as
12 defined in section 263A(e)(4)) are
13 taken into account, or
14 "(II) the amount of the net oper-
15 ating loss for such taxable year.
16 "(iii) COORDINATION WITH PARA-
17 GRAPH (2).—For purposes of applying
18 paragraph (2), a farming loss for any tax-
19 able year shall be treated as a separate net
20 operating loss for such taxable year to be
21 taken into account after the remaining
22 portion of the net operating loss for such
23 taxable year.
24 "(iv) ELECTION.—Any taxpayer enti-
25 tled to a 2-year carryback under clause (i)

from any loss year may elect not to have such clause apply to such loss year. Such election shall be made in such manner as prescribed by the Secretary and shall be made by the due date (including extensions of time) for filing the taxpayer's return for the taxable year of the net operating loss. Such election, once made for any taxable year, shall be irrevocable for such taxable year.".

(2) CONFORMING AMENDMENTS.—

(A) Section 172 is amended by striking subsections (f), (g), and (h), and by redesignating subsection (i) as subsection (f).

(B) Section 537(b)(4) is amended by inserting "(as in effect before the date of enactment of the Tax Cuts and Jobs Act)" after "as defined in section 172(f)".

(d) TREATMENT OF CERTAIN INSURANCE LOSSES.—

(1) TREATMENT OF CARRYFORWARDS AND CARRYBACKS.—Section 172(b)(1), as amended by subsections (b)(2) and (c)(1), is amended by adding at the end the following new subparagraph:

"(C) INSURANCE COMPANIES.—In the case of an insurance company (as defined in section

816(a)) other than a life insurance company, the net operating loss for any taxable year—

"(i) shall be a net operating loss carryback to each of the 2 taxable years preceding the taxable year of such loss, and

"(ii) shall be a net operating loss carryover to each of the 20 taxable years following the taxable year of the loss.".

(2) EXEMPTION FROM LIMITATION.—Section 172, as amended by subsection (c)(2)(A), is amended by redesignating subsection (f) as subsection (g) and inserting after subsection (e) the following new subsection:

"(f) SPECIAL RULE FOR INSURANCE COMPANIES.—In the case of an insurance company (as defined in section 816(a)) other than a life insurance company—

"(1) the amount of the deduction allowed under subsection (a) shall be the aggregate of the net operating loss carryovers to such year, plus the net operating loss carrybacks to such year, and

"(2) subparagraph (C) of subsection (b)(2) shall not apply.".

(e) EFFECTIVE DATE.—

1 (1) NET OPERATING LOSS LIMITATION.—The
2 amendments made by subsections (a) and (d)(2)
3 shall apply to losses arising in taxable years begin-
4 ning after December 31, 2017.
5 (2) CARRYFORWARDS AND CARRYBACKS.—The
6 amendments made by subsections (b), (c), and
7 (d)(1) shall apply to net operating losses arising in
8 taxable years ending after December 31, 2017.

9 **SEC. 13303. LIKE-KIND EXCHANGES OF REAL PROPERTY.**

10 (a) IN GENERAL.—Section 1031(a)(1) is amended by
11 striking "property" each place it appears and inserting
12 "real property".
13 (b) CONFORMING AMENDMENTS.—
14 (1)(A) Paragraph (2) of section 1031(a) is
15 amended to read as follows:
16 "(2) EXCEPTION FOR REAL PROPERTY HELD
17 FOR SALE.—This subsection shall not apply to any
18 exchange of real property held primarily for sale.".
19 (B) Section 1031 is amended by striking sub-
20 section (i).
21 (2) Section 1031 is amended by striking sub-
22 section (e).
23 (3) Section 1031, as amended by paragraph
24 (2), is amended by inserting after subsection (d) the
25 following new subsection:

1 "(e) APPLICATION TO CERTAIN PARTNERSHIPS.—
2 For purposes of this section, an interest in a partnership
3 which has in effect a valid election under section 761(a)
4 to be excluded from the application of all of subchapter
5 K shall be treated as an interest in each of the assets of
6 such partnership and not as an interest in a partnership.".
7 (4) Section 1031(h) is amended to read as fol-
8 lows:
9 "(h) SPECIAL RULES FOR FOREIGN REAL PROP-
10 ERTY.—Real property located in the United States and
11 real property located outside the United States are not
12 property of a like kind.".
13 (5) The heading of section 1031 is amended by
14 striking "**PROPERTY**" and inserting "**REAL PROP-**
15 **ERTY**".
16 (6) The table of sections for part III of sub-
17 chapter O of chapter 1 is amended by striking the
18 item relating to section 1031 and inserting the fol-
19 lowing new item:

"Sec. 1031. Exchange of real property held for productive use or investment.".

20 (c) EFFECTIVE DATE.—
21 (1) IN GENERAL.—Except as otherwise pro-
22 vided in this subsection, the amendments made by
23 this section shall apply to exchanges completed after
24 December 31, 2017.

1 (2) TRANSITION RULE.—The amendments
2 made by this section shall not apply to any exchange
3 if—
4 (A) the property disposed of by the tax-
5 payer in the exchange is disposed of on or be-
6 fore December 31 2017, or
7 (B) the property received by the taxpayer
8 in the exchange is received on or before Decem-
9 ber 31, 2017.

10 **SEC. 13304. LIMITATION ON DEDUCTION BY EMPLOYERS OF**
11 **EXPENSES FOR FRINGE BENEFITS.**

12 (a) NO DEDUCTION ALLOWED FOR ENTERTAINMENT
13 EXPENSES.—
14 (1) IN GENERAL.—Section 274(a) is amend-
15 ed—
16 (A) in paragraph (1)(A), by striking "un-
17 less" and all that follows through "trade or
18 business,",
19 (B) by striking the flush sentence at the
20 end of paragraph (1), and
21 (C) by striking paragraph (2)(C).
22 (2) CONFORMING AMENDMENTS.—
23 (A) Section 274(d) is amended—

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

(ii) in the flush text following paragraph (3) (as so redesignated)—

(I) by striking ", entertainment, amusement, recreation, or use of the facility or property," in item (B), and

(II) by striking "(D) the business relationship to the taxpayer of persons entertained, using the facility or property, or receiving the gift" and inserting "(D) the business relationship to the taxpayer of the person receiving the benefit",

(B) Section 274 is amended by striking subsection (l).

(C) Section 274(n) is amended by striking "AND ENTERTAINMENT" in the heading.

(D) Section 274(n)(1) is amended to read as follows:

"(1) IN GENERAL.—The amount allowable as a deduction under this chapter for any expense for food or beverages shall not exceed 50 percent of the amount of such expense which would (but for this

1 paragraph) be allowable as a deduction under this
2 chapter.".
3 (E) Section 274(n)(2) is amended—
4 (i) in subparagraph (B), by striking
5 "in the case of an expense for food or bev-
6 erages,",
7 (ii) by striking subparagraph (C) and
8 redesignating subparagraphs (D) and (E)
9 as subparagraphs (C) and (D), respec-
10 tively,
11 (iii) by striking "of subparagraph
12 (E)" the last sentence and inserting "of
13 subparagraph (D)", and
14 (iv) by striking "in subparagraph
15 (D)" in the last sentence and inserting "in
16 subparagraph (C)".
17 (F) Clause (iv) of section 7701(b)(5)(A) is
18 amended to read as follows:
19 "(iv) a professional athlete who is
20 temporarily in the United States to com-
21 pete in a sports event—
22 "(I) which is organized for the
23 primary purpose of benefiting an or-
24 ganization which is described in sec-

1 tion 501(c)(3) and exempt from tax
2 under section 501(a),
3 "(II) all of the net proceeds of
4 which are contributed to such organi-
5 zation, and,
6 "(III) which utilizes volunteers
7 for substantially all of the work per-
8 formed in carrying out such event.".
9 (b) ONLY 50 PERCENT OF EXPENSES FOR MEALS
10 PROVIDED ON OR NEAR BUSINESS PREMISES ALLOWED
11 AS DEDUCTION.—Paragraph (2) of section 274(n), as
12 amended by subsection (a), is amended—
13 (1) by striking subparagraph (B),
14 (2) by redesignating subparagraphs (C) and
15 (D) as subparagraphs (B) and (C), respectively,
16 (3) by striking "of subparagraph (D)" in the
17 last sentence and inserting "of subparagraph (C)",
18 and
19 (4) by striking "in subparagraph (C)" in the
20 last sentence and inserting "in subparagraph (B)".
21 (c) TREATMENT OF TRANSPORTATION BENEFITS.—
22 Section 274, as amended by subsection (a), is amended—
23 (1) in subsection (a)—

(A) in the heading, by striking "OR RECREATION" and inserting "RECREATION, OR QUALIFIED TRANSPORTATION FRINGES", and

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

"(4) QUALIFIED TRANSPORTATION FRINGES.—No deduction shall be allowed under this chapter for the expense of any qualified transportation fringe (as defined in section 132(f)) provided to an employee of the taxpayer.", and

(2) by inserting after subsection (k) the following new subsection:

"(l) TRANSPORTATION AND COMMUTING BENEFITS.—No deduction shall be allowed under this chapter for any expense incurred for providing any transportation, or any payment or reimbursement, to an employee of the taxpayer in connection with travel between the employee's residence and place of employment, except as necessary for ensuring the safety of the employee.".

(d) ELIMINATION OF DEDUCTION FOR MEALS PROVIDED AT CONVENIENCE OF EMPLOYER.—Section 274, as amended by subsection (c), is amended—

(1) by redesignating subsection (o) as subsection (p), and

(2) by inserting after subsection (n) the following new subsection:

"(o) MEALS PROVIDED AT CONVENIENCE OF EMPLOYER.—No deduction shall be allowed under this chapter for—

"(1) any expense for the operation of a facility described in section 132(e)(2), and any expense for food or beverages, including under section 132(e)(1), associated with such facility, or

"(2) any expense for meals described in section 119(a).".

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to amounts incurred or paid after December 31, 2017.

(2) EFFECTIVE DATE FOR ELIMINATION OF DEDUCTION FOR MEALS PROVIDED AT CONVENIENCE OF EMPLOYER.—The amendments made by subsection (d) shall apply to amounts incurred or paid after December 31, 2025.

SEC. 13305. REPEAL OF DEDUCTION FOR INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES.

(a) REPEAL.—

1 (1) TAXPAYERS OTHER THAN CORPORA-
2 TIONS.—Section 199 is amended by adding at the
3 end the following new subsection:
4 "(e) PARTIAL TERMINATION FOR TAXPAYERS OTHER
5 THAN CORPORATIONS.—In the case of a taxpayer other
6 than a C corporation, this section shall not apply to any
7 taxable year beginning after December 31, 2017.".
8 (2) CERTAIN SPECIAL RULES FOR COOPERA-
9 TIVES.—Section 199(d)(3) is amended by adding at
10 the end the following new subparagraph:
11 "(G) PARTIAL TERMINATION.—Subpara-
12 graphs (A) and (B) shall not apply to any tax-
13 able year beginning after December 31, 2017.".
14 (3) TOTAL REPEAL.—Part VI of subchapter B
15 of chapter 1, as amended by paragraphs (1) and (2),
16 is amended by striking section 199 (and by striking
17 the item relating to such section in the table of sec-
18 tions for such part).
19 (b) CONFORMING AMENDMENTS.—
20 (1) Sections 74(d)(2)(B), 86(b)(2)(A),
21 135(c)(4)(A), 137(b)(3)(A), 219(g)(3)(A)(ii),
22 221(b)(2)(C), 222(b)(2)(C), 246(b)(1), and
23 469(i)(3)(F)(iii) are each amended by striking
24 "199,".

(2) Section 170(b)(2)(D), as amended by section 11011, is amended by striking clause (iv) and by redesignating clauses (v) and (vi) as redesignating clauses (iv) as clause (v), respectively.

(3) Section 172(d) is amended by striking paragraph (7).

(4) Section 613(a) is amended by striking "and without the deduction under section 199".

(5) Section 613A(d)(1) is amended by striking subparagraph (B) and by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2018.

(2) EARLIER TERMINATION FOR CERTAIN TAXPAYERS.—The amendment made by paragraphs (1) and (2) of subsection (a) shall apply to taxable years beginning after December 31, 2017.

SEC. 13306. DENIAL OF DEDUCTION FOR CERTAIN FINES, PENALTIES, AND OTHER AMOUNTS.

(a) DENIAL OF DEDUCTION.—

1 (1) IN GENERAL.—Subsection (f) of section 162
2 is amended to read as follows:
3 "(f) FINES, PENALTIES, AND OTHER AMOUNTS.—
4 "(1) IN GENERAL.—Except as provided in the
5 following paragraphs of this subsection, no deduction
6 otherwise allowable shall be allowed under this chap-
7 ter for any amount paid or incurred (whether by
8 suit, agreement, or otherwise) to, or at the direction
9 of, a government or governmental entity in relation
10 to the violation of any law or the investigation or in-
11 quiry by such government or entity into the potential
12 violation of any law.
13 "(2) EXCEPTION FOR AMOUNTS CONSTITUTING
14 RESTITUTION OR PAID TO COME INTO COMPLIANCE
15 WITH LAW.—
16 "(A) IN GENERAL.—Paragraph (1) shall
17 not apply to any amount that—
18 "(i) the taxpayer establishes—
19 "(I) constitutes restitution (in-
20 cluding remediation of property) for
21 damage or harm which was or may be
22 caused by the violation of any law or
23 the potential violation of any law, or
24 "(II) is paid to come into compli-
25 ance with any law which was violated

1 or otherwise involved in the investiga-
2 tion or inquiry described in paragraph
3 (1),
4 "(ii) is identified as restitution or as
5 an amount paid to come into compliance
6 with such law, as the case may be, in the
7 court order or settlement agreement, and
8 "(iii) in the case of any amount of
9 restitution for failure to pay any tax im-
10 posed under this title in the same manner
11 as if such amount were such tax, would
12 have been allowed as a deduction under
13 this chapter if it had been timely paid.
14 The identification under clause (ii) alone shall
15 not be sufficient to make the establishment re-
16 quired under clause (i).
17 "(B) LIMITATION.—Subparagraph (A)
18 shall not apply to any amount paid or incurred
19 as reimbursement to the government or entity
20 for the costs of any investigation or litigation.
21 "(3) EXCEPTION FOR AMOUNTS PAID OR IN-
22 CURRED AS THE RESULT OF CERTAIN COURT OR-
23 DERS.—Paragraph (1) shall not apply to any
24 amount paid or incurred by reason of any order of

1 a court in a suit in which no government or govern-
2 mental entity is a party.
3 "(4) EXCEPTION FOR TAXES DUE.—Paragraph
4 (1) shall not apply to any amount paid or incurred
5 as taxes due.
6 "(5) TREATMENT OF CERTAIN NONGOVERN-
7 MENTAL REGULATORY ENTITIES.—For purposes of
8 this subsection, the following nongovernmental enti-
9 ties shall be treated as governmental entities:
10 "(A) Any nongovernmental entity which
11 exercises self-regulatory powers (including im-
12 posing sanctions) in connection with a qualified
13 board or exchange (as defined in section
14 1256(g)(7)).
15 "(B) To the extent provided in regulations,
16 any nongovernmental entity which exercises
17 self-regulatory powers (including imposing sanc-
18 tions) as part of performing an essential gov-
19 ernmental function.".
20 (2) EFFECTIVE DATE.—The amendment made
21 by this subsection shall apply to amounts paid or in-
22 curred on or after the date of the enactment of this
23 Act, except that such amendments shall not apply to
24 amounts paid or incurred under any binding order
25 or agreement entered into before such date. Such ex-

1 ception shall not apply to an order or agreement re-
2 quiring court approval unless the approval was ob-
3 tained before such date.
4 (b) REPORTING OF DEDUCTIBLE AMOUNTS.—
5 (1) IN GENERAL.—Subpart B of part III of
6 subchapter A of chapter 61 is amended by inserting
7 after section 6050W the following new section:
8 **"SEC. 6050X. INFORMATION WITH RESPECT TO CERTAIN**
9 **FINES, PENALTIES, AND OTHER AMOUNTS.**
10 "(a) REQUIREMENT OF REPORTING.—
11 "(1) IN GENERAL.—The appropriate official of
12 any government or any entity described in section
13 162(f)(5) which is involved in a suit or agreement
14 described in paragraph (2) shall make a return in
15 such form as determined by the Secretary setting
16 forth—
17 "(A) the amount required to be paid as a
18 result of the suit or agreement to which para-
19 graph (1) of section 162(f) applies,
20 "(B) any amount required to be paid as a
21 result of the suit or agreement which con-
22 stitutes restitution or remediation of property,
23 and
24 "(C) any amount required to be paid as a
25 result of the suit or agreement for the purpose

of coming into compliance with any law which was violated or involved in the investigation or inquiry.

"(2) SUIT OR AGREEMENT DESCRIBED.—

"(A) IN GENERAL.—A suit or agreement is described in this paragraph if—

"(i) it is—

"(I) a suit with respect to a violation of any law over which the government or entity has authority and with respect to which there has been a court order, or

"(II) an agreement which is entered into with respect to a violation of any law over which the government or entity has authority, or with respect to an investigation or inquiry by the government or entity into the potential violation of any law over which such government or entity has authority, and

"(ii) the aggregate amount involved in all court orders and agreements with respect to the violation, investigation, or inquiry is $600 or more.

"(B) ADJUSTMENT OF REPORTING THRESHOLD.—The Secretary shall adjust the $600 amount in subparagraph (A)(ii) as necessary in order to ensure the efficient administration of the internal revenue laws.

"(3) TIME OF FILING.—The return required under this subsection shall be filed at the time the agreement is entered into, as determined by the Secretary.

"(b) STATEMENTS TO BE FURNISHED TO INDIVIDUALS INVOLVED IN THE SETTLEMENT.—Every person required to make a return under subsection (a) shall furnish to each person who is a party to the suit or agreement a written statement showing—

"(1) the name of the government or entity, and

"(2) the information supplied to the Secretary under subsection (a)(1).

The written statement required under the preceding sentence shall be furnished to the person at the same time the government or entity provides the Secretary with the information required under subsection (a).

"(c) APPROPRIATE OFFICIAL DEFINED.—For purposes of this section, the term 'appropriate official' means the officer or employee having control of the suit, inves-

1 tigation, or inquiry or the person appropriately designated
2 for purposes of this section.".

3 (2) CONFORMING AMENDMENT.—The table of
4 sections for subpart B of part III of subchapter A
5 of chapter 61 is amended by inserting after the item
6 relating to section 6050W the following new item:

"Sec. 6050X. Information with respect to certain fines, penalties, and other amounts.".

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to amounts paid or in-
9 curred on or after the date of the enactment of this
10 Act, except that such amendments shall not apply to
11 amounts paid or incurred under any binding order
12 or agreement entered into before such date. Such ex-
13 ception shall not apply to an order or agreement re-
14 quiring court approval unless the approval was ob-
15 tained before such date.

16 **SEC. 13307. DENIAL OF DEDUCTION FOR SETTLEMENTS**
17 **SUBJECT TO NONDISCLOSURE AGREEMENTS**
18 **PAID IN CONNECTION WITH SEXUAL HARASS-**
19 **MENT OR SEXUAL ABUSE.**

20 (a) DENIAL OF DEDUCTION.—Section 162 is amend-
21 ed by redesignating subsection (q) as subsection (r) and
22 by inserting after subsection (p) the following new sub-
23 section:

1 "(q) PAYMENTS RELATED TO SEXUAL HARASSMENT
2 AND SEXUAL ABUSE.—No deduction shall be allowed
3 under this chapter for—
4 "(1) any settlement or payment related to sex-
5 ual harassment or sexual abuse if such settlement or
6 payment is subject to a nondisclosure agreement, or
7 "(2) attorney's fees related to such a settlement
8 or payment.".
9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to amounts paid or incurred after
11 the date of the enactment of this Act.

12 **SEC. 13308. UNIFORM TREATMENT OF EXPENSES IN CON-**
13 **TINGENCY FEE CASES.**

14 (a) IN GENERAL.—Section 162, as amended by sec-
15 tion 13307, is amended by redesignating subsection (r) as
16 subsection (s) and by inserting after subsection (q) the
17 following new subsection:
18 "(r) EXPENSES IN CONTINGENCY FEE CASES.—No
19 deduction shall be allowed under subsection (a) to a tax-
20 payer for any expense—
21 "(1) paid or incurred in the course of the trade
22 or business of practicing law, and
23 "(2) resulting from a case for which the tax-
24 payer is compensated primarily on a contingent
25 basis,

until such time as such contingency is resolved.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to expenses and costs paid or incurred in taxable years beginning after the date of the enactment of this Act.

SEC. 13309. REPEAL OF DEDUCTION FOR LOCAL LOBBYING EXPENSES.

(a) IN GENERAL.—Section 162(e) is amended by striking paragraphs (2) and (7) and by redesignating paragraphs (3), (4), (5), (6), and (8) as paragraphs (2), (3), (4), (5), and (6), respectively.

(b) CONFORMING AMENDMENT.—Section 6033(e)(1)(B)(ii) is amended by striking "section 162(e)(5)(B)(ii)" and inserting "section 162(e)(4)(B)(ii)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred on or after the date of the enactment of this Act.

SEC. 13310. RECHARACTERIZATION OF CERTAIN GAINS IN THE CASE OF PARTNERSHIP PROFITS INTERESTS HELD IN CONNECTION WITH PERFORMANCE OF INVESTMENT SERVICES.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1 is amended—

1 (1) by redesignating section 1061 as section
2 1062, and
3 (2) by inserting after section 1060 the following
4 new section:

5 **"SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**
6 **TION WITH PERFORMANCE OF SERVICES.**

7 "(a) IN GENERAL.—If one or more applicable part-
8 nership interests are held by a taxpayer at any time during
9 the taxable year, the excess (if any) of—
10 "(1) the taxpayer's net long-term capital gain
11 with respect to such interests for such taxable year,
12 over
13 "(2) the taxpayer's net long-term capital gain
14 with respect to such interests for such taxable year
15 computed by applying paragraphs (3) and (4) of sec-
16 tions 1222 by substituting '3 years' for '1 year',
17 shall be treated as short-term capital gain, notwith-
18 standing section 83 or any election in effect under section
19 83(b).
20 "(b) SPECIAL RULE.—To the extent provided by the
21 Secretary, subsection (a) shall not apply to income or gain
22 attributable to any asset not held for portfolio investment
23 on behalf of third party investors.
24 "(c) APPLICABLE PARTNERSHIP INTEREST.—For
25 purposes of this section—

1 "(1) IN GENERAL.—Except as provided in this
2 paragraph or paragraph (4), the term 'applicable
3 partnership interest' means any interest in a part-
4 nership which, directly or indirectly, is transferred to
5 (or is held by) the taxpayer in connection with the
6 performance of substantial services by the taxpayer,
7 or any other related person, in any applicable trade
8 or business. The previous sentence shall not apply to
9 an interest held by a person who is employed by an-
10 other entity that is conducting a trade or business
11 (other than an applicable trade or business) and
12 only provides services to such other entity.
13 "(2) APPLICABLE TRADE OR BUSINESS.—The
14 term 'applicable trade or business' means any activ-
15 ity conducted on a regular, continuous, and substan-
16 tial basis which, regardless of whether the activity is
17 conducted in one or more entities, consists, in whole
18 or in part, of—
19 "(A) raising or returning capital, and
20 "(B) either—
21 "(i) investing in (or disposing of)
22 specified assets (or identifying specified as-
23 sets for such investing or disposition), or
24 "(ii) developing specified assets.

1 "(3) SPECIFIED ASSET.—The term 'specified
2 asset' means securities (as defined in section
3 475(c)(2) without regard to the last sentence there-
4 of), commodities (as defined in section 475(e)(2)),
5 real estate held for rental or investment, cash or
6 cash equivalents, options or derivative contracts with
7 respect to any of the foregoing, and an interest in
8 a partnership to the extent of the partnership's pro-
9 portionate interest in any of the foregoing.
10 "(4) EXCEPTIONS.—The term 'applicable part-
11 nership interest' shall not include—
12 "(A) any interest in a partnership directly
13 or indirectly held by a corporation, or
14 "(B) any capital interest in the partner-
15 ship which provides the taxpayer with a right to
16 share in partnership capital commensurate
17 with—
18 "(i) the amount of capital contributed
19 (determined at the time of receipt of such
20 partnership interest), or
21 "(ii) the value of such interest subject
22 to tax under section 83 upon the receipt or
23 vesting of such interest.
24 "(5) THIRD PARTY INVESTOR.—The term 'third
25 party investor' means a person who—

"(A) holds an interest in the partnership which does not constitute property held in connection with an applicable trade or business; and

"(B) is not (and has not been) actively engaged, and is (and was) not related to a person so engaged, in (directly or indirectly) providing substantial services described in paragraph (1) for such partnership or any applicable trade or business.

"(d) TRANSFER OF APPLICABLE PARTNERSHIP INTEREST TO RELATED PERSON.—

"(1) IN GENERAL.—If a taxpayer transfers any applicable partnership interest, directly or indirectly, to a person related to the taxpayer, the taxpayer shall include in gross income (as short term capital gain) the excess (if any) of—

"(A) so much of the taxpayer's long-term capital gains with respect to such interest for such taxable year attributable to the sale or exchange of any asset held for not more than 3 years as is allocable to such interest, over

"(B) any amount treated as short term capital gain under subsection (a) with respect to the transfer of such interest.

1 "(2) RELATED PERSON.—For purposes of this
2 paragraph, a person is related to the taxpayer if—
3 "(A) the person is a member of the tax-
4 payer's family within the meaning of section
5 318(a)(1), or
6 "(B) the person performed a service within
7 the current calendar year or the preceding three
8 calendar years in any applicable trade or busi-
9 ness in which or for which the taxpayer per-
10 formed a service.
11 "(e) REPORTING.—The Secretary shall require such
12 reporting (at the time and in the manner prescribed by
13 the Secretary) as is necessary to carry out the purposes
14 of this section.
15 "(f) REGULATIONS.—The Secretary shall issue such
16 regulations or other guidance as is necessary or appro-
17 priate to carry out the purposes of this section".
18 (b) CLERICAL AMENDMENT.—The table of sections
19 for part IV of subchapter O of chapter 1 is amended by
20 striking the item relating to 1061 and inserting the fol-
21 lowing new items:

"Sec. 1061. Partnership interests held in connection with performance of services.
"Sec. 1062. Cross references.".

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

1 **SEC. 13311. PROHIBITION ON CASH, GIFT CARDS, AND**
2 **OTHER NON-TANGIBLE PERSONAL PROPERTY**
3 **AS EMPLOYEE ACHIEVEMENT AWARDS.**

4 (a) IN GENERAL.—Subparagraph (A) of section
5 274(j)(3) is amended—

6 (1) by striking "The term" and inserting the
7 following:

8 "(i) IN GENERAL.—The term".

9 (2) by redesignating clauses (i), (ii), and (iii) as
10 subclauses (I), (II), and (III), respectively, and con-
11 forming the margins accordingly, and

12 (3) by adding at the end the following new
13 clause:

14 "(ii) TANGIBLE PERSONAL PROP-
15 ERTY.—For purposes of clause (i), the
16 term 'tangible personal property' shall not
17 include—

18 "(I) cash, cash equivalents, gift
19 cards, gift coupons, or gift certificates
20 (other than arrangements conferring
21 only the right to select and receive
22 tangible personal property from a lim-
23 ited array of such items pre-selected
24 or pre-approved by the employer), or

25 "(II) vacations, meals, lodging,
26 tickets to theater or sporting events,

1 stocks, bonds, other securities, and
2 other similar items.".
3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to amounts paid or incurred after
5 December 31, 2017.
6 **SEC. 13312. FLOOR PLAN FINANCING.**
7 (a) APPLICATION OF INTEREST LIMITATION.—
8 (1) IN GENERAL.—Section 163(j), as amended
9 by section 13301, is amended—
10 (A) in paragraph (1), by striking "plus" at
11 the end of subparagraph (A), by striking the
12 period at the end of subparagraph (B) and in-
13 serting ", plus", and by inserting after subpara-
14 graph (B) the following new subparagraph:
15 "(C) the floor plan financing interest of
16 such taxpayer for such taxable year.", and
17 (B) in paragraph (4)(C)(i)(II), by inserting
18 ", reduced by the floor plan financing interest,"
19 after "business interest of the partnership",
20 and
21 (C) by redesignating paragraph (9) as
22 paragraph (10) and inserting after paragraph
23 (8) the following new paragraph:
24 "(9) FLOOR PLAN FINANCING INTEREST DE-
25 FINED.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'floor plan financing interest' means interest paid or accrued on floor plan financing indebtedness.

"(B) FLOOR PLAN FINANCING INDEBTEDNESS.—The term 'floor plan financing indebtedness' means indebtedness—

"(i) used to finance the acquisition of motor vehicles held for sale or lease, and

"(ii) secured by the inventory so acquired.

"(C) MOTOR VEHICLE.—The term 'motor vehicle' means a motor vehicle that is any of the following:

"(i) An automobile.

"(ii) A truck.

"(iii) A recreational vehicle.

"(iv) A motorcycle.

"(v) Any self-propelled vehicle designed for transporting persons or property on a public street, highway, or road.

"(vi) A boat.

"(vii) Farm machinery or equipment.".

1 (2) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to taxable years begin-
3 ning after December 31, 2017.
4 (b) EXCEPTION FROM 100 PERCENT EXPENSING.—
5 (1) IN GENERAL.—Paragraph (6) of section
6 168(k), as added by section 13201(a)(4), is amend-
7 ed—
8 (A) by striking "shall not include any
9 property" and inserting "shall not include—
10 "(A) any property", and
11 (B) by adding at the end the following new
12 subparagraph:
13 "(B) any property used in a trade or busi-
14 ness that has had floor plan financing indebted-
15 ness (as defined in paragraph (9) of section
16 163(j)), if the floor plan financing interest re-
17 lated to such indebtedness was taken into ac-
18 count under paragraph (1)(C) of such section.".
19 (2) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to property placed in
21 service after September 27, 2017, in taxable years
22 ending after such date.

1 **SEC. 13313. ELIMINATION OF DEDUCTION FOR LIVING EX-**
2 **PENSES INCURRED BY MEMBERS OF CON-**
3 **GRESS.**

4 (a) IN GENERAL.—Subsection (a) of section 162 is
5 amended in the matter following paragraph (3) by striking
6 "in excess of $3,000".

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

10 **PART V—BUSINESS CREDITS**

11 **Subpart A—General Provisions**

12 **SEC. 13401. MODIFICATION OF ORPHAN DRUG CREDIT.**

13 (a) CREDIT RATE.—Subsection (a) of section 45C is
14 amended by striking "50 percent" and inserting "27.5
15 percent".

16 (b) ELECTION OF REDUCED CREDIT.—Subsection
17 (b) of section 280C is amended by redesignating para-
18 graph (3) as paragraph (4) and by inserting after para-
19 graph (2) the following new paragraph:

20 "(3) ELECTION OF REDUCED CREDIT.—

21 "(A) IN GENERAL.—In the case of any
22 taxable year for which an election is made
23 under this paragraph—

24 "(i) paragraphs (1) and (2) shall not
25 apply, and

"(ii) the amount of the credit under section 45C(a) shall be the amount determined under subparagraph (B).

"(B) AMOUNT OF REDUCED CREDIT.—The amount of credit determined under this subparagraph for any taxable year shall be the amount equal to the excess of—

"(i) the amount of credit determined under section 45C(a) without regard to this paragraph, over

"(ii) the product of—

"(I) the amount described in clause (i), and

"(II) the maximum rate of tax under section 11(b).

"(C) ELECTION.—An election under this paragraph for any taxable year shall be made not later than the time for filing the return of tax for such year (including extensions), shall be made on such return, and shall be made in such manner as the Secretary shall prescribe. Such an election, once made, shall be irrevocable.".

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

4 **SEC. 13402. REHABILITATION CREDIT LIMITED TO CER-**
5 **TIFIED HISTORIC STRUCTURES.**

6 (a) IN GENERAL.—Subsection (a) of section 47 is
7 amended to read as follows:

8 "(a) GENERAL RULE.—

9 "(1) IN GENERAL.—For purposes of section 46,
10 for any taxable year during the 5-year period begin-
11 ning in the taxable year in which a qualified reha-
12 bilitated building is placed in service, the rehabilita-
13 tion credit for such year is an amount equal to the
14 ratable share for such year.

15 "(2) RATABLE SHARE.—For purposes of para-
16 graph (1), the ratable share for any taxable year
17 during the period described in such paragraph is the
18 amount equal to 20 percent of the qualified rehabili-
19 tation expenditures with respect to the qualified re-
20 habilitated building, as allocated ratably to each year
21 during such period.".

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 47(c) is amended—

24 (A) in paragraph (1)—

(i) in subparagraph (A), by amending clause (iii) to read as follows:

"(iii) such building is a certified historic structure, and",

(ii) by striking subparagraph (B), and

(iii) by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively, and

(B) in paragraph (2)(B), by amending clause (iv) to read as follows:

"(iv) CERTIFIED HISTORIC STRUCTURE.—Any expenditure attributable to the rehabilitation of a qualified rehabilitated building unless the rehabilitation is a certified rehabilitation (within the meaning of subparagraph (C)).".

(2) Paragraph (4) of section 145(d) is amended—

(A) by striking "of section 47(c)(1)(C)" each place it appears and inserting "of section 47(c)(1)(B)", and

(B) by striking "section 47(c)(1)(C)(i)" and inserting "section 47(c)(1)(B)(i)".

(c) EFFECTIVE DATE.—

1 (1) IN GENERAL.—Except as provided in para-
2 graph (2), the amendments made by this section
3 shall apply to amounts paid or incurred after De-
4 cember 31, 2017.
5 (2) TRANSITION RULE.—In the case of quali-
6 fied rehabilitation expenditures with respect to any
7 building—
8 (A) owned or leased by the taxpayer dur-
9 ing the entirety of the period after December
10 31, 2017, and
11 (B) with respect to which the 24-month
12 period selected by the taxpayer under section
13 47(c)(1)(B) of the Internal Revenue Code of
14 1986 (as amended by subsection (b)) begins not
15 later than 180 days after the date of the enact-
16 ment of this Act,
17 the amendments made by this section shall apply to
18 such expenditures paid or incurred after the end of
19 the taxable year in which the 24-month period re-
20 ferred to in subparagraph (B) ends.
21 **SEC. 13403. EMPLOYER CREDIT FOR PAID FAMILY AND**
22 **MEDICAL LEAVE.**
23 (a) IN GENERAL.—

1 (1) ALLOWANCE OF CREDIT.—Subpart D of
2 part IV of subchapter A of chapter 1 is amended by
3 adding at the end the following new section:

4 **"SEC. 45S. EMPLOYER CREDIT FOR PAID FAMILY AND MED-**
5 **ICAL LEAVE.**

6 "(a) ESTABLISHMENT OF CREDIT.—
7 "(1) IN GENERAL.—For purposes of section 38,
8 in the case of an eligible employer, the paid family
9 and medical leave credit is an amount equal to the
10 applicable percentage of the amount of wages paid
11 to qualifying employees during any period in which
12 such employees are on family and medical leave.
13 "(2) APPLICABLE PERCENTAGE.—For purposes
14 of paragraph (1), the term 'applicable percentage'
15 means 12.5 percent increased (but not above 25 per-
16 cent) by 0.25 percentage points for each percentage
17 point by which the rate of payment (as described
18 under subsection (c)(1)(B)) exceeds 50 percent.
19 "(b) LIMITATION.—
20 "(1) IN GENERAL.—The credit allowed under
21 subsection (a) with respect to any employee for any
22 taxable year shall not exceed an amount equal to the
23 product of the normal hourly wage rate of such em-
24 ployee for each hour (or fraction thereof) of actual
25 services performed for the employer and the number

1 of hours (or fraction thereof) for which family and
2 medical leave is taken.
3 "(2) NON-HOURLY WAGE RATE.—For purposes
4 of paragraph (1), in the case of any employee who
5 is not paid on an hourly wage rate, the wages of
6 such employee shall be prorated to an hourly wage
7 rate under regulations established by the Secretary.
8 "(3) MAXIMUM AMOUNT OF LEAVE SUBJECT TO
9 CREDIT.—The amount of family and medical leave
10 that may be taken into account with respect to any
11 employee under subsection (a) for any taxable year
12 shall not exceed 12 weeks.
13 "(c) ELIGIBLE EMPLOYER.—For purposes of this
14 section—
15 "(1) IN GENERAL.—The term 'eligible em-
16 ployer' means any employer who has in place a pol-
17 icy that meets the following requirements:
18 "(A) The policy provides—
19 "(i) in the case of a qualifying em-
20 ployee who is not a part-time employee (as
21 defined in section 4980E(d)(4)(B)), not
22 less than 2 weeks of annual paid family
23 and medical leave, and
24 "(ii) in the case of a qualifying em-
25 ployee who is a part-time employee, an

1 amount of annual paid family and medical
2 leave that is not less than an amount
3 which bears the same ratio to the amount
4 of annual paid family and medical leave
5 that is provided to a qualifying employee
6 described in clause (i) as—
7 "(I) the number of hours the em-
8 ployee is expected to work during any
9 week, bears to
10 "(II) the number of hours an
11 equivalent qualifying employee de-
12 scribed in clause (i) is expected to
13 work during the week.
14 "(B) The policy requires that the rate of
15 payment under the program is not less than 50
16 percent of the wages normally paid to such em-
17 ployee for services performed for the employer.
18 "(2) SPECIAL RULE FOR CERTAIN EMPLOY-
19 ERS.—
20 "(A) IN GENERAL.—An added employer
21 shall not be treated as an eligible employer un-
22 less such employer provides paid family and
23 medical leave in compliance with a policy which
24 ensures that the employer—

"(i) will not interfere with, restrain, or deny the exercise of or the attempt to exercise, any right provided under the policy, and

"(ii) will not discharge or in any other manner discriminate against any individual for opposing any practice prohibited by the policy.

"(B) ADDED EMPLOYER; ADDED EMPLOYEE.—For purposes of this paragraph—

"(i) ADDED EMPLOYEE.—The term 'added employee' means a qualifying employee who is not covered by title I of the Family and Medical Leave Act of 1993, as amended.

"(ii) ADDED EMPLOYER.—The term 'added employer' means an eligible employer (determined without regard to this paragraph), whether or not covered by that title I, who offers paid family and medical leave to added employees.

"(3) AGGREGATION RULE.—All persons which are treated as a single employer under subsections (a) and (b) of section 52 shall be treated as a single taxpayer.

1 "(4) TREATMENT OF BENEFITS MANDATED OR
2 PAID FOR BY STATE OR LOCAL GOVERNMENTS.—For
3 purposes of this section, any leave which is paid by
4 a State or local government or required by State or
5 local law shall not be taken into account in deter-
6 mining the amount of paid family and medical leave
7 provided by the employer.
8 "(5) NO INFERENCE.—Nothing in this sub-
9 section shall be construed as subjecting an employer
10 to any penalty, liability, or other consequence (other
11 than ineligibility for the credit allowed by reason of
12 subsection (a) or recapturing the benefit of such
13 credit) for failure to comply with the requirements
14 of this subsection.
15 "(d) QUALIFYING EMPLOYEES.—For purposes of
16 this section, the term 'qualifying employee' means any em-
17 ployee (as defined in section 3(e) of the Fair Labor Stand-
18 ards Act of 1938, as amended) who—
19 "(1) has been employed by the employer for 1
20 year or more, and
21 "(2) for the preceding year, had compensation
22 not in excess of an amount equal to 60 percent of
23 the amount applicable for such year under clause (i)
24 of section 414(q)(1)(B).
25 "(e) FAMILY AND MEDICAL LEAVE.—

1 "(1) IN GENERAL.—Except as provided in para-
2 graph (2), for purposes of this section, the term
3 'family and medical leave' means leave for any 1 or
4 more of the purposes described under subparagraph
5 (A), (B), (C), (D), or (E) of paragraph (1), or para-
6 graph (3), of section 102(a) of the Family and Med-
7 ical Leave Act of 1993, as amended, whether the
8 leave is provided under that Act or by a policy of the
9 employer.
10 "(2) EXCLUSION.—If an employer provides paid
11 leave as vacation leave, personal leave, or medical or
12 sick leave (other than leave specifically for 1 or more
13 of the purposes referred to in paragraph (1)), that
14 paid leave shall not be considered to be family and
15 medical leave under paragraph (1).
16 "(3) DEFINITIONS.—In this subsection, the
17 terms 'vacation leave', 'personal leave', and 'medical
18 or sick leave' mean those 3 types of leave, within the
19 meaning of section 102(d)(2) of that Act.
20 "(f) DETERMINATIONS MADE BY SECRETARY OF
21 TREASURY.—For purposes of this section, any determina-
22 tion as to whether an employer or an employee satisfies
23 the applicable requirements for an eligible employer (as
24 described in subsection (c)) or qualifying employee (as de-
25 scribed in subsection (d)), respectively, shall be made by

1 the Secretary based on such information, to be provided
2 by the employer, as the Secretary determines to be nec-
3 essary or appropriate.

4 "(g) WAGES.—For purposes of this section, the term
5 'wages' has the meaning given such term by subsection
6 (b) of section 3306 (determined without regard to any dol-
7 lar limitation contained in such section). Such term shall
8 not include any amount taken into account for purposes
9 of determining any other credit allowed under this sub-
10 part.

11 "(h) ELECTION TO HAVE CREDIT NOT APPLY.—

12 "(1) IN GENERAL.—A taxpayer may elect to
13 have this section not apply for any taxable year.

14 "(2) OTHER RULES.—Rules similar to the rules
15 of paragraphs (2) and (3) of section 51(j) shall
16 apply for purposes of this subsection.

17 "(i) TERMINATION.—This section shall not apply to
18 wages paid in taxable years beginning after December 31,
19 2019.".

20 (b) CREDIT PART OF GENERAL BUSINESS CREDIT.—
21 Section 38(b) is amended by striking "plus" at the end
22 of paragraph (35), by striking the period at the end of
23 paragraph (36) and inserting ", plus", and by adding at
24 the end the following new paragraph:

"(37) in the case of an eligible employer (as defined in section 45S(c)), the paid family and medical leave credit determined under section 45S(a).".

(c) CREDIT ALLOWED AGAINST AMT.—Subparagraph (B) of section 38(c)(4) is amended by redesignating clauses (ix) through (xi) as clauses (x) through (xii), respectively, and by inserting after clause (viii) the following new clause:

"(ix) the credit determined under section 45S,".

(d) CONFORMING AMENDMENTS.—

(1) DENIAL OF DOUBLE BENEFIT.—Section 280C(a) is amended by inserting "45S(a)," after "45P(a),".

(2) ELECTION TO HAVE CREDIT NOT APPLY.—Section 6501(m) is amended by inserting "45S(h)," after "45H(g),".

(3) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

"Sec. 45S. Employer credit for paid family and medical leave.".

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

1 **Subpart B—Provisions Relating to Low-income**
2 **Housing Credit**

3 **SEC. 13411. TREATMENT OF VETERANS' PREFERENCE AS**
4 **NOT VIOLATING GENERAL PUBLIC USE RE-**
5 **QUIREMENTS.**

6 (a) IN GENERAL.—Subparagraph (C) of section
7 42(g)(9) is amended to read as follows:
8 "(C) who are veterans of the Armed
9 Forces.".

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to buildings placed in service be-
12 fore, on, or after the date of the enactment of this Act.

13 **SEC. 13412. INCREASE IN CREDIT FOR CERTAIN RURAL**
14 **HOUSING.**

15 (a) IN GENERAL.—Section 42(d)(5)(B) is amended
16 by adding at the end the following new clause:
17 "(vi) CERTAIN NEW BUILDINGS IN
18 RURAL AREAS.—For purposes of clause (i),
19 a building described in subsection
20 (b)(1)(B)(i) which is located in a rural
21 area (as defined in section 520 of the
22 Housing Act of 1949) shall be treated in
23 the same manner as a new building located
24 in a difficult development area which is
25 designated for purposes of this subpara-
26 graph.".

1 (b) OFFSET.—Section 42(d)(5)(B)(i) is amended by
2 striking "130 percent" both places it appears in sub-
3 clauses (I) and (II) and inserting "125 percent".
4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to buildings placed in service after
6 the date of the enactment of this Act.

7 PART VI—PROVISIONS RELATED TO SPECIFIC 8 ENTITIES AND INDUSTRIES

9 Subpart A—Partnership Provisions

10 SEC. 13501. TREATMENT OF GAIN OR LOSS OF FOREIGN 11 PERSONS FROM SALE OR EXCHANGE OF IN- 12 TERESTS IN PARTNERSHIPS ENGAGED IN 13 TRADE OR BUSINESS WITHIN THE UNITED 14 STATES.

15 (a) IN GENERAL.—Section 864(c) is amended by
16 adding at the end the following:
17 "(8) GAIN OR LOSS OF FOREIGN PERSONS
18 FROM SALE OR EXCHANGE OF CERTAIN PARTNER-
19 SHIP INTERESTS.—
20 "(A) IN GENERAL.—Notwithstanding any
21 other provision of this subtitle, if a nonresident
22 alien individual or foreign corporation owns, di-
23 rectly or indirectly, an interest in a partnership
24 which is engaged in any trade or business with-
25 in the United States, gain or loss on the sale

1 or exchange of all (or any portion of) such in-
2 terest shall be treated as effectively connected
3 with the conduct of such trade or business to
4 the extent such gain or loss does not exceed the
5 amount determined under subparagraph (B).
6 "(B) AMOUNT TREATED AS EFFECTIVELY
7 CONNECTED.—The amount determined under
8 this subparagraph with respect to any partner-
9 ship interest sold or exchanged—
10 "(i) in the case of any gain on the
11 sale or exchange of the partnership inter-
12 est, is—
13 "(I) the portion of the partner's
14 distributive share of the amount of
15 gain which would have been effectively
16 connected with the conduct of a trade
17 or business within the United States
18 if the partnership had sold all of its
19 assets at their fair market value as of
20 the date of the sale or exchange of
21 such interest, or
22 "(II) zero if no gain on such
23 deemed sale would have been so effec-
24 tively connected, and

"(ii) in the case of any loss on the sale or exchange of the partnership interest, is—

"(I) the portion of the partner's distributive share of the amount of loss on the deemed sale described in clause (i)(I) which would have been so effectively connected, or

"(II) zero if no loss on such deemed sale would be have been so effectively connected.

For purposes of this subparagraph, a partner's distributive share of gain or loss on the deemed sale shall be determined in the same manner as such partner's distributive share of the non-separately stated taxable income or loss of such partnership.

"(C) COORDINATION WITH UNITED STATES REAL PROPERTY INTERESTS.—If a partnership described in subparagraph (A) holds any United States real property interest (as defined in section 897(c)) at the time of the sale or exchange of the partnership interest, then the gain or loss treated as effectively connected income under subparagraph (A) shall be reduced by the

1 amount so treated with respect to such United
2 States real property interest under section 897.
3 "(D) SALE OR EXCHANGE.—For purposes
4 of this paragraph, an individual or corporation
5 shall be treated as having sold or exchanged
6 any interest in a partnership if, under any pro-
7 vision of this subtitle, gain or loss is realized
8 from the sale or exchange of such interest.
9 "(E) SECRETARIAL AUTHORITY.—The Sec-
10 retary shall prescribe such regulations as the
11 Secretary determines appropriate for the appli-
12 cation of this paragraph, including regulations
13 which provide that, notwithstanding subpara-
14 graph (D), this paragraph applies in a case
15 even if gain or loss from a sale or exchange
16 would not be realized under any other provision
17 of this subtitle.".
18 (b) WITHHOLDING REQUIREMENTS.—Section 1446
19 is amended by redesignating subsection (f) as subsection
20 (g) and by inserting after subsection (e) the following:
21 "(f) SPECIAL RULES FOR WITHHOLDING ON SALES
22 OF PARTNERSHIP INTERESTS.—
23 "(1) IN GENERAL.—Except as provided in this
24 subsection, if any portion of the gain (if any) on any
25 disposition of an interest in a partnership would be

1 treated under section 864(c)(8) as effectively con-
2 nected with the conduct of a trade or business with-
3 in the United States, the transferee shall be required
4 to deduct and withhold a tax equal to 10 percent of
5 the amount realized on the disposition.

6 "(2) EXCEPTION IF NONFOREIGN AFFIDAVIT
7 FURNISHED.—

8 "(A) IN GENERAL.—No person shall be re-
9 quired to deduct and withhold any amount
10 under paragraph (1) with respect to any dis-
11 position if the transferor furnishes to the trans-
12 feree an affidavit by the transferor stating,
13 under penalty of perjury, the transferor's
14 United States taxpayer identification number
15 and that the transferor is not a foreign person.

16 "(B) FALSE AFFIDAVIT.—Subparagraph
17 (A) shall not apply to any disposition if—

18 "(i) the transferee has actual knowl-
19 edge that the affidavit is false, or the
20 transferee receives a notice (as described in
21 section 1445(d)) from a transferor's agent
22 or transferee's agent that such affidavit or
23 statement is false, or

24 "(ii) the Secretary by regulations re-
25 quires the transferee to furnish a copy of

1 such affidavit or statement to the Sec-
2 retary and the transferee fails to furnish a
3 copy of such affidavit or statement to the
4 Secretary at such time and in such manner
5 as required by such regulations.
6 "(C) RULES FOR AGENTS.—The rules of
7 section 1445(d) shall apply to a transferor's
8 agent or transferee's agent with respect to any
9 affidavit described in subparagraph (A) in the
10 same manner as such rules apply with respect
11 to the disposition of a United States real prop-
12 erty interest under such section.
13 "(3) AUTHORITY OF SECRETARY TO PRESCRIBE
14 REDUCED AMOUNT.—At the request of the trans-
15 feror or transferee, the Secretary may prescribe a
16 reduced amount to be withheld under this section if
17 the Secretary determines that to substitute such re-
18 duced amount will not jeopardize the collection of
19 the tax imposed under this title with respect to gain
20 treated under section 864(c)(8) as effectively con-
21 nected with the conduct of a trade or business with
22 in the United States.
23 "(4) PARTNERSHIP TO WITHHOLD AMOUNTS
24 NOT WITHHELD BY THE TRANSFEREE.—If a trans-
25 feree fails to withhold any amount required to be

withheld under paragraph (1), the partnership shall be required to deduct and withhold from distributions to the transferee a tax in an amount equal to the amount the transferee failed to withhold (plus interest under this title on such amount).

"(5) DEFINITIONS.—Any term used in this subsection which is also used under section 1445 shall have the same meaning as when used in such section.

"(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations providing for exceptions from the provisions of this subsection.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and exchanges on or after November 27, 2017.

SEC. 13502. MODIFY DEFINITION OF SUBSTANTIAL BUILT-IN LOSS IN THE CASE OF TRANSFER OF PARTNERSHIP INTEREST.

(a) IN GENERAL.—Paragraph (1) of section 743(d) is to read as follows:

"(1) IN GENERAL.—For purposes of this section, a partnership has a substantial built-in loss

with respect to a transfer of an interest in the partnership if—

"(A) the partnership's adjusted basis in the partnership property exceeds by more than $250,000 the fair market value of such property, or

"(B) the transferee partner would be allocated a loss of more than $250,000 if the partnership assets were sold for cash equal to their fair market value immediately after such transfer.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers of partnership interests after December 31, 2017.

SEC. 13503. CHARITABLE CONTRIBUTIONS AND FOREIGN TAXES TAKEN INTO ACCOUNT IN DETERMINING LIMITATION ON ALLOWANCE OF PARTNER'S SHARE OF LOSS.

(a) IN GENERAL.—Subsection (d) of section 704 is amended—

(1) by striking "A partner's distributive share" and inserting the following:

"(1) IN GENERAL.—A partner's distributive share",

(2) by striking "Any excess of such loss" and inserting the following:

"(2) CARRYOVER.—Any excess of such loss", and

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

"(3) SPECIAL RULES.—

"(A) IN GENERAL.—In determining the amount of any loss under paragraph (1), there shall be taken into account the partner's distributive share of amounts described in paragraphs (4) and (6) of section 702(a).

"(B) EXCEPTION.—In the case of a charitable contribution of property whose fair market value exceeds its adjusted basis, subparagraph (A) shall not apply to the extent of the partner's distributive share of such excess.".

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

1 **Subpart B—Insurance Reforms**

2 **SEC. 13511. NET OPERATING LOSSES OF LIFE INSURANCE**
3 **COMPANIES.**

4 (a) IN GENERAL.—Section 805(b) is amended by
5 striking paragraph (4) and by redesignating paragraph
6 (5) as paragraph (4).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Part I of subchapter L of chapter 1 is
9 amended by striking section 810 (and by striking
10 the item relating to such section in the table of sec-
11 tions for such part).

12 (2)(A) Part III of subchapter L of chapter 1 is
13 amended by striking section 844 (and by striking
14 the item relating to such section in the table of sec-
15 tions for such part).

16 (B) Section 831(b)(3) is amended by striking
17 "except as provided in section 844,"

18 (3) Section 381 is amended by striking sub-
19 section (d).

20 (4) Section 805(a)(4)(B)(ii) is amended to read
21 as follows:

22 "(ii) the deduction allowed under sec-
23 tion 172,".

24 (5) Section 805(a) is amended by striking para-
25 graph (5).

(6) Section 805(b)(2)(A)(iv) is amended to read as follows:

"(iv) any net operating loss carryback to the taxable year under section 172, and".

(7) Section 953(b)(1)(B) is amended to read as follows:

"(B) So much of section 805(a)(8) as relates to the deduction allowed under section 172.".

(8) Section 1351(i)(3) is amended by striking "or the operations loss deduction under section 810,".

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

SEC. 13512. REPEAL OF SMALL LIFE INSURANCE COMPANY DEDUCTION.

(a) IN GENERAL.—Part I of subchapter L of chapter 1 is amended by striking section 806 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 453B(e) is amended—

(A) by striking "(as defined in section 806(b)(3))" in paragraph (2)(B), and

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

"(3) NONINSURANCE BUSINESS.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'noninsurance business' means any activity which is not an insurance business.

"(B) CERTAIN ACTIVITIES TREATED AS INSURANCE BUSINESSES.—For purposes of subparagraph (A), any activity which is not an insurance business shall be treated as an insurance business if—

"(i) it is of a type traditionally carried on by life insurance companies for investment purposes, but only if the carrying on of such activity (other than in the case of real estate) does not constitute the active conduct of a trade or business, or

"(ii) it involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.".

(2) Section 465(c)(7)(D)(v)(II) is amended by striking "section 806(b)(3)" and inserting "section 453B(e)(3)".

(3) Section 801(a)(2) is amended by striking subparagraph (C).

(4) Section 804 is amended by striking "means—" and all that follows and inserting "means the general deductions provided in section 805.".

(5) Section 805(a)(4)(B), as amended by this Act, is amended by striking clause (i) and by redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(6) Section 805(b)(2)(A), as amended by this Act, is amended by striking clause (iii) and by redesignating clauses (iv) and (v) as clauses (iii) and (iv), respectively.

(7) Section 842(c) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(8) Section 953(b)(1), as amended by section 13511, is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

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

4 **SEC. 13513. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**
5 **SERVES.**

6 (a) IN GENERAL.—Paragraph (1) of section 807(f)
7 is amended to read as follows:

8 "(1) TREATMENT AS CHANGE IN METHOD OF
9 ACCOUNTING.—If the basis for determining any item
10 referred to in subsection (c) as of the close of any
11 taxable year differs from the basis for such deter-
12 mination as of the close of the preceding taxable
13 year, then so much of the difference between—

14 "(A) the amount of the item at the close
15 of the taxable year, computed on the new basis,
16 and

17 "(B) the amount of the item at the close
18 of the taxable year, computed on the old basis,
19 as is attributable to contracts issued before the tax-
20 able year shall be taken into account under section
21 481 as adjustments attributable to a change in
22 method of accounting initiated by the taxpayer and
23 made with the consent of the Secretary.".

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

4 **SEC. 13514. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**
5 **TO SHAREHOLDERS FROM PRE-1984 POLICY-**
6 **HOLDERS SURPLUS ACCOUNT.**

7 (a) IN GENERAL.—Subpart D of part I of subchapter
8 L is amended by striking section 815 (and by striking the
9 item relating to such section in the table of sections for
10 such subpart).

11 (b) CONFORMING AMENDMENT.—Section 801 is
12 amended by striking subsection (c).

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

16 (d) PHASED INCLUSION OF REMAINING BALANCE OF
17 POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of
18 any stock life insurance company which has a balance (de-
19 termined as of the close of such company's last taxable
20 year beginning before January 1, 2018) in an existing pol-
21 icyholders surplus account (as defined in section 815 of
22 the Internal Revenue Code of 1986, as in effect before
23 its repeal), the tax imposed by section 801 of such Code
24 for the first 8 taxable years beginning after December 31,

2017, shall be the amount which would be imposed by such section for such year on the sum of—

(1) life insurance company taxable income for such year (within the meaning of such section 801 but not less than zero), plus

(2) ⅛ of such balance.

SEC. 13515. MODIFICATION OF PRORATION RULES FOR PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) IN GENERAL.—Section 832(b)(5)(B) is amended—

(1) by striking "15 percent" and inserting "the applicable percentage", and

(2) by inserting at the end the following new sentence: "For purposes of this subparagraph, the applicable percentage is 5.25 percent divided by the highest rate in effect under section 11(b).".

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

SEC. 13516. REPEAL OF SPECIAL ESTIMATED TAX PAYMENTS.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by striking section 847 (and by striking

1 the item relating to such section in the table of sections
2 for such part).
3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2017.

6 **SEC. 13517. COMPUTATION OF LIFE INSURANCE TAX RE-**
7 **SERVES.**

8 (a) IN GENERAL.—
9 (1) COMPUTATION OF RESERVES.—Section
10 807(c) is amended to read as follows:
11 "(c) ITEMS TAKEN INTO ACCOUNT.—The items re-
12 ferred to in subsections and (b) are as follows—
13 "(1) The life insurance reserves (as defined in
14 section 816(b)).
15 "(2) The unearned premiums and unpaid losses
16 included in total reserves under section 816(c)(2).
17 "(3) The amounts (discounted at the appro-
18 priate rate of interest) necessary to satisfy the obli-
19 gations under insurance and annuity contracts, but
20 only if such obligations do not involve (at the time
21 with respect to which the computation is made under
22 this paragraph) life, accident, or health contin-
23 gencies.

1 "(4) Dividend accumulations, and other
2 amounts, held at interest in connection with insur-
3 ance and annuity contracts.
4 "(5) Premiums received in advance, and liabil-
5 ities for premium deposit funds.
6 "(6) Reasonable special contingency reserves
7 under contracts of group term life insurance or
8 group accident and health insurance which are es-
9 tablished and maintained for the provision of insur-
10 ance on retired lives, for premium stabilization, or a
11 combination thereof.
12 For purposes of paragraph (3), the appropriate rate of
13 interest is the highest rate or rates permitted to be used
14 to discount the obligations by the National Association of
15 Insurance Commissioners as of the date the reserve is de-
16 termined. In no case shall the amount determined under
17 paragraph (3) for any contract be less than the net sur-
18 render value of such contract. For purposes of paragraph
19 (2) and section 805(a)(1), the amount of the unpaid losses
20 (other than losses on life insurance contracts) shall be the
21 amount of the discounted unpaid losses as defined in sec-
22 tion 846.".
23 (2) Section 807(d) is amended—
24 (A) by striking paragraphs (1), (2), (4),
25 and (5),

1 (B) by redesignating paragraph (6) as
2 paragraph (4),
3 (C) by inserting before paragraph (3) the
4 following new paragraphs:
5 "(1) DETERMINATION OF RESERVE.—
6 "(A) IN GENERAL.—For purposes of this
7 part (other than section 816), the amount of
8 the life insurance reserves for any contract
9 (other than a contract to which subparagraph
10 (B) applies) shall be the greater of—
11 "(i) the net surrender value of such
12 contract, or
13 "(ii) 92.87 percent of the reserve de-
14 termined under paragraph (2).
15 "(B) VARIABLE CONTRACTS.—For pur-
16 poses of this part (other than section 816), the
17 amount of the life insurance reserves for a vari-
18 able contract shall be equal to the sum of—
19 "(i) the greater of—
20 "(I) the net surrender value of
21 such contract, or
22 "(II) the portion of the reserve
23 that is separately accounted for under
24 section 817, plus

"(ii) 92.87 percent of the excess (if any) of the reserve determined under paragraph (2) over the amount in clause (i).

"(C) STATUTORY CAP.—In no event shall the reserves determined under subparagraphs (A) or (B) for any contract as of any time exceed the amount which would be taken into account with respect to such contract as of such time in determining statutory reserves (as defined in paragraph (4)).

"(2) AMOUNT OF RESERVE.—The amount of the reserve determined under this paragraph with respect to any contract shall be determined by using the tax reserve method applicable to such contract.",

(D) by striking "(as of the date of issuance)" in paragraph (3)(A)(iv)(I) and inserting "(as of the date the reserve is determined)",

(E) by striking "as of the date of the issuance of" in paragraph (3)(A)(iv)(II) and inserting "as of the date the reserve is determined for",

(F) by striking "in effect on the date of the issuance of the contract" in paragraph (3)(B)(i) and inserting "applicable to the con-

1 tract and in effect as of the date the reserve is
2 determined", and
3 (G) by striking "in effect on the date of
4 the issuance of the contract" in paragraph
5 (3)(B)(ii) and inserting "applicable to the con-
6 tract and in effect as of the date the reserve is
7 determined".
8 (3) Section 807(e) is amended—
9 (A) by striking paragraphs (2) and (5),
10 (B) by redesignating paragraphs (3), (4),
11 (6), and (7) as paragraphs (2), (3), (4), and
12 (5), respectively,
13 (C) by amending paragraph (2) (as so re-
14 designated) to read as follows:
15 "(2) QUALIFIED SUPPLEMENTAL BENEFITS.—
16 "(A) QUALIFIED SUPPLEMENTAL BENE-
17 FITS TREATED SEPARATELY.—For purposes of
18 this part, the amount of the life insurance re-
19 serve for any qualified supplemental benefit
20 shall be computed separately as though such
21 benefit were under a separate contract.
22 "(B) QUALIFIED SUPPLEMENTAL BEN-
23 EFIT.—For purposes of this paragraph, the
24 term 'qualified supplemental benefit' means any

1 supplemental benefit described in subparagraph
2 (C) if—
3 "(i) there is a separately identified
4 premium or charge for such benefit, and
5 "(ii) any net surrender value under
6 the contract attributable to any other ben-
7 efit is not available to fund such benefit.
8 "(C) SUPPLEMENTAL BENEFITS.—For
9 purposes of this paragraph, the supplemental
10 benefits described in this subparagraph are
11 any—
12 "(i) guaranteed insurability,
13 "(ii) accidental death or disability
14 benefit,
15 "(iii) convertibility,
16 "(iv) disability waiver benefit, or
17 "(v) other benefit prescribed by regu-
18 lations,
19 which is supplemental to a contract for which
20 there is a reserve described in subsection (c).",
21 and
22 (D) by adding at the end the following new
23 paragraph:
24 "(6) REPORTING RULES.—The Secretary shall
25 require reporting (at such time and in such manner

as the Secretary shall prescribe) with respect to the opening balance and closing balance of reserves and with respect to the method of computing reserves for purposes of determining income.".

(4) Section 7702 is amended—

(A) by striking clause (i) of subsection (c)(3)(B) and inserting the following:

"(i) reasonable mortality charges which meet the requirements prescribed in regulations to be promulgated by the Secretary or that do not exceed the mortality charges specified in the prevailing commissioners' standard tables as defined in subsection (f)(10)," and

(B) by adding at the end of subsection (f) the following new paragraph:

"(10) PREVAILING COMMISSIONERS' STANDARD TABLES.—For purposes of subsection (c)(3)(B)(i), the term 'prevailing commissioners' standard tables' means the most recent commissioners' standard tables prescribed by the National Association of Insurance Commissioners which are permitted to be used in computing reserves for that type of contract under the insurance laws of at least 26 States when the contract was issued. If the prevailing commis-

1 sioners' standard tables as of the beginning of any
2 calendar year (hereinafter in this paragraph referred
3 to as the 'year of change') are different from the
4 prevailing commissioners' standard tables as of the
5 beginning of the preceding calendar year, the issuer
6 may use the prevailing commissioners' standard ta-
7 bles as of the beginning of the preceding calendar
8 year with respect to any contract issued after the
9 change and before the close of the 3-year period be-
10 ginning on the first day of the year of change.".
11 (b) CONFORMING AMENDMENTS.—
12 (1) Section 808 is amended by adding at the
13 end the following new subsection:
14 "(g) PREVAILING STATE ASSUMED INTEREST
15 RATE.—For purposes of this subchapter—
16 "(1) IN GENERAL.—The term 'prevailing State
17 assumed interest rate' means, with respect to any
18 contract, the highest assumed interest rate per-
19 mitted to be used in computing life insurance re-
20 serves for insurance contracts or annuity contracts
21 (as the case may be) under the insurance laws of at
22 least 26 States. For purposes of the preceding sen-
23 tence, the effect of nonforfeiture laws of a State on
24 interest rates for reserves shall not be taken into ac-
25 count.

"(2) WHEN RATE DETERMINED.—The prevailing State assumed interest rate with respect to any contract shall be determined as of the beginning of the calendar year in which the contract was issued.".

(2) Paragraph (1) of section 811(d) is amended by striking "the greater of the prevailing State assumed interest rate or applicable Federal interest rate in effect under section 807" and inserting "the interest rate in effect under section 808(g)".

(3) Subparagraph (A) of section 846(f)(6) is amended by striking "except that" and all that follows and inserting "except that the limitation of subsection (a)(3) shall apply, and".

(4) Subparagraph (B) of section 954(i)(5) is amended by striking "shall apply, and".

(c) EFFECTIVE DATE.—

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

(2) TRANSITION RULE.—For the first taxable year beginning after December 31, 2017, the reserve with respect to any contract (as determined under section 807(d)(2) of the Internal Revenue Code of 1986) at the end of the preceding taxable year shall

be determined as if the amendments made by this section had applied to such reserve in such preceding taxable year.

(3) TRANSITION RELIEF.—

(A) IN GENERAL.—If—

(i) the reserve determined under section 807(d)(2) of the Internal Revenue Code of 1986 (determined without regard to the amendments made by this section) with respect to any contract as of the close of the year preceding the first taxable year beginning after December 31, 2017, differs from

(ii) the reserve which would have been determined with respect to such contract as of the close of such taxable year under such section determined without regard to paragraph (2),

then the difference between the amount of the reserve described in clause (i) and the amount of the reserve described in clause (ii) shall be taken into account under the method provided in subparagraph (B).

(B) METHOD.—The method provided in this subparagraph is as follows:

(i) If the amount determined under subparagraph (A)(i) exceeds the amount determined under subparagraph (A)(ii), 1/8 of such excess shall be taken into account, for each of the 8 succeeding taxable years, as a deduction under section 805(a)(2) or 832(c)(4) of such Code, as applicable.

(ii) If the amount determined under subparagraph (A)(ii) exceeds the amount determined under subparagraph (A)(i), 1/8 of such excess shall be included in gross income, for each of the 8 succeeding taxable years, under section 803(a)(2) or 832(b)(1)(C) of such Code, as applicable.

SEC. 13518. MODIFICATION OF RULES FOR LIFE INSURANCE PRORATION FOR PURPOSES OF DETERMINING THE DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Section 812 is amended to read as follows:

"SEC. 812. DEFINITION OF COMPANY'S SHARE AND POLICYHOLDER'S SHARE.

"(a) COMPANY'S SHARE.—For purposes of section 805(a)(4), the term 'company's share' means, with respect

1 to any taxable year beginning after December 31, 2017,
2 70 percent.
3 "(b) POLICYHOLDER'S SHARE.—For purposes of sec-
4 tion 807, the term 'policyholder's share' means, with re-
5 spect to any taxable year beginning after December 31,
6 2017, 30 percent.".
7 (b) CONFORMING AMENDMENT.—Section 817A(e)(2)
8 is amended by striking ", 807(d)(2)(B), and 812" and in-
9 serting "and 807(d)(2)(B)".
10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2017.

13 **SEC. 13519. CAPITALIZATION OF CERTAIN POLICY ACQUISI-**
14 **TION EXPENSES.**

15 (a) IN GENERAL.—
16 (1) Section 848(a)(2) is amended by striking
17 "120-month" and inserting "180-month".
18 (2) Section 848(c)(1) is amended by striking
19 "1.75 percent" and inserting "2.1 percent".
20 (3) Section 848(c)(2) is amended by striking
21 "2.05 percent" and inserting "2.46 percent".
22 (4) Section 848(c)(3) is amended by striking
23 "7.7 percent" and inserting "9.24 percent".

1 (b) CONFORMING AMENDMENTS.—Section 848(b)(1)
2 is amended by striking "120-month" and inserting "180-
3 month".
4 (c) EFFECTIVE DATE.—
5 (1) IN GENERAL.—The amendments made by
6 this section shall apply to net premiums for taxable
7 years beginning after December 31, 2017.
8 (2) TRANSITION RULE.—Specified policy acqui-
9 sition expenses first required to be capitalized in a
10 taxable year beginning before January 1, 2018, will
11 continue to be allowed as a deduction ratably over
12 the 120-month period beginning with the first month
13 in the second half of such taxable year.

14 **SEC. 13520. TAX REPORTING FOR LIFE SETTLEMENT**
15 **TRANSACTIONS.**

16 (a) IN GENERAL.—Subpart B of part III of sub-
17 chapter A of chapter 61, as amended by section 13306,
18 is amended by adding at the end the following new section:

19 **"SEC. 6050Y. RETURNS RELATING TO CERTAIN LIFE INSUR-**
20 **ANCE CONTRACT TRANSACTIONS.**

21 "(a) REQUIREMENT OF REPORTING OF CERTAIN
22 PAYMENTS.—
23 "(1) IN GENERAL.—Every person who acquires
24 a life insurance contract or any interest in a life in-
25 surance contract in a reportable policy sale during

1 any taxable year shall make a return for such tax-
2 able year (at such time and in such manner as the
3 Secretary shall prescribe) setting forth—
4 "(A) the name, address, and TIN of such
5 person,
6 "(B) the name, address, and TIN of each
7 recipient of payment in the reportable policy
8 sale,
9 "(C) the date of such sale,
10 "(D) the name of the issuer of the life in-
11 surance contract sold and the policy number of
12 such contract, and
13 "(E) the amount of each payment.
14 "(2) STATEMENT TO BE FURNISHED TO PER-
15 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
16 QUIRED.—Every person required to make a return
17 under this subsection shall furnish to each person
18 whose name is required to be set forth in such re-
19 turn a written statement showing—
20 "(A) the name, address, and phone num-
21 ber of the information contact of the person re-
22 quired to make such return, and
23 "(B) the information required to be shown
24 on such return with respect to such person, ex-
25 cept that in the case of an issuer of a life insur-

1 ance contract, such statement is not required to
2 include the information specified in paragraph
3 (1)(E).
4 "(b) REQUIREMENT OF REPORTING OF SELLER'S
5 BASIS IN LIFE INSURANCE CONTRACTS.—
6 "(1) IN GENERAL.—Upon receipt of the state-
7 ment required under subsection (a)(2) or upon no-
8 tice of a transfer of a life insurance contract to a
9 foreign person, each issuer of a life insurance con-
10 tract shall make a return (at such time and in such
11 manner as the Secretary shall prescribe) setting
12 forth—
13 "(A) the name, address, and TIN of the
14 seller who transfers any interest in such con-
15 tract in such sale,
16 "(B) the investment in the contract (as de-
17 fined in section 72(e)(6)) with respect to such
18 seller, and
19 "(C) the policy number of such contract.
20 "(2) STATEMENT TO BE FURNISHED TO PER-
21 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
22 QUIRED.—Every person required to make a return
23 under this subsection shall furnish to each person
24 whose name is required to be set forth in such re-
25 turn a written statement showing—

1 "(A) the name, address, and phone num-
2 ber of the information contact of the person re-
3 quired to make such return, and
4 "(B) the information required to be shown
5 on such return with respect to each seller whose
6 name is required to be set forth in such return.
7 "(c) REQUIREMENT OF REPORTING WITH RESPECT
8 TO REPORTABLE DEATH BENEFITS.—
9 "(1) IN GENERAL.—Every person who makes a
10 payment of reportable death benefits during any tax-
11 able year shall make a return for such taxable year
12 (at such time and in such manner as the Secretary
13 shall prescribe) setting forth—
14 "(A) the name, address, and TIN of the
15 person making such payment,
16 "(B) the name, address, and TIN of each
17 recipient of such payment,
18 "(C) the date of each such payment,
19 "(D) the gross amount of each such pay-
20 ment, and
21 "(E) such person's estimate of the invest-
22 ment in the contract (as defined in section
23 72(e)(6)) with respect to the buyer.
24 "(2) STATEMENT TO BE FURNISHED TO PER-
25 SONS WITH RESPECT TO WHOM INFORMATION IS RE-

1 QUIRED.—Every person required to make a return
2 under this subsection shall furnish to each person
3 whose name is required to be set forth in such re-
4 turn a written statement showing—
5 "(A) the name, address, and phone num-
6 ber of the information contact of the person re-
7 quired to make such return, and
8 "(B) the information required to be shown
9 on such return with respect to each recipient of
10 payment whose name is required to be set forth
11 in such return.
12 "(d) DEFINITIONS.—For purposes of this section:
13 "(1) PAYMENT.—The term 'payment' means,
14 with respect to any reportable policy sale, the
15 amount of cash and the fair market value of any
16 consideration transferred in the sale.
17 "(2) REPORTABLE POLICY SALE.—The term
18 'reportable policy sale' has the meaning given such
19 term in section 101(a)(3)(B).
20 "(3) ISSUER.—The term 'issuer' means any life
21 insurance company that bears the risk with respect
22 to a life insurance contract on the date any return
23 or statement is required to be made under this sec-
24 tion.

1 "(4) REPORTABLE DEATH BENEFITS.—The
2 term 'reportable death benefits' means amounts paid
3 by reason of the death of the insured under a life
4 insurance contract that has been transferred in a re-
5 portable policy sale.".
6 (b) CLERICAL AMENDMENT.—The table of sections
7 for subpart B of part III of subchapter A of chapter 61,
8 as amended by section 13306, is amended by inserting
9 after the item relating to section 6050X the following new
10 item:

"Sec. 6050Y. Returns relating to certain life insurance contract transactions.".

11 (c) CONFORMING AMENDMENTS.—
12 (1) Subsection (d) of section 6724 is amend-
13 ed—
14 (A) by striking "or" at the end of clause
15 (xxiv) of paragraph (1)(B), by striking "and"
16 at the end of clause (xxv) of such paragraph
17 and inserting "or", and by inserting after such
18 clause (xxv) the following new clause:
19 "(xxvi) section 6050Y (relating to re-
20 turns relating to certain life insurance con-
21 tract transactions), and", and
22 (B) by striking "or" at the end of subpara-
23 graph (HH) of paragraph (2), by striking the
24 period at the end of subparagraph (II) of such
25 paragraph and inserting ", or", and by insert-

1 ing after such subparagraph (II) the following
2 new subparagraph:
3 "(JJ) subsection (a)(2), (b)(2), or (c)(2) of
4 section 6050Y (relating to returns relating to
5 certain life insurance contract transactions).".
6 (2) Section 6047 is amended—
7 (A) by redesignating subsection (g) as sub-
8 section (h),
9 (B) by inserting after subsection (f) the
10 following new subsection:
11 "(g) INFORMATION RELATING TO LIFE INSURANCE
12 CONTRACT TRANSACTIONS.—This section shall not apply
13 to any information which is required to be reported under
14 section 6050Y.", and
15 (C) by adding at the end of subsection (h),
16 as so redesignated, the following new para-
17 graph:
18 "(4) For provisions requiring reporting of infor-
19 mation relating to certain life insurance contract
20 transactions, see section 6050Y.".
21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to—
23 (1) reportable policy sales (as defined in section
24 6050Y(d)(2) of the Internal Revenue Code of 1986

1 (as added by subsection (a)) after December 31,
2 2017, and
3 (2) reportable death benefits (as defined in sec-
4 tion 6050Y(d)(4) of such Code (as added by sub-
5 section (a)) paid after December 31, 2017.

6 **SEC. 13521. CLARIFICATION OF TAX BASIS OF LIFE INSUR-**
7 **ANCE CONTRACTS.**

8 (a) CLARIFICATION WITH RESPECT TO ADJUST-
9 MENTS.—Paragraph (1) of section 1016(a) is amended by
10 striking subparagraph (A) and all that follows and insert-
11 ing the following:
12 "(A) for—
13 "(i) taxes or other carrying charges
14 described in section 266; or
15 "(ii) expenditures described in section
16 173 (relating to circulation expenditures),
17 for which deductions have been taken by the
18 taxpayer in determining taxable income for the
19 taxable year or prior taxable years; or
20 "(B) for mortality, expense, or other rea-
21 sonable charges incurred under an annuity or
22 life insurance contract;".
23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to transactions entered into after
25 August 25, 2009.

1 **SEC. 13522. EXCEPTION TO TRANSFER FOR VALUABLE CON-**
2 **SIDERATION RULES.**

3 (a) IN GENERAL.—Subsection (a) of section 101 is
4 amended by inserting after paragraph (2) the following
5 new paragraph:

6 "(3) EXCEPTION TO VALUABLE CONSIDERATION
7 RULES FOR COMMERCIAL TRANSFERS.—

8 "(A) IN GENERAL.—The second sentence
9 of paragraph (2) shall not apply in the case of
10 a transfer of a life insurance contract, or any
11 interest therein, which is a reportable policy
12 sale.

13 "(B) REPORTABLE POLICY SALE.—For
14 purposes of this paragraph, the term 'reportable
15 policy sale' means the acquisition of an interest
16 in a life insurance contract, directly or indi-
17 rectly, if the acquirer has no substantial family,
18 business, or financial relationship with the in-
19 sured apart from the acquirer's interest in such
20 life insurance contract. For purposes of the pre-
21 ceding sentence, the term 'indirectly' applies to
22 the acquisition of an interest in a partnership,
23 trust, or other entity that holds an interest in
24 the life insurance contract.".

1 (b) CONFORMING AMENDMENT.—Paragraph (1) of
2 section 101(a) is amended by striking "paragraph (2)"
3 and inserting "paragraphs (2) and (3)".
4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to transfers after December 31,
6 2017.

7 **Subpart C—Banks and Financial Instruments**

8 **SEC. 13531. LIMITATION ON DEDUCTION FOR FDIC PRE-**
9 **MIUMS.**

10 (a) IN GENERAL.—Section 162, as amended by sec-
11 tions 13307 and 13308, is amended by redesignating sub-
12 section (s) as subsection (t) and by inserting after sub-
13 section (r) the following new subsection:
14 "(s) DISALLOWANCE OF FDIC PREMIUMS PAID BY
15 CERTAIN LARGE FINANCIAL INSTITUTIONS.—
16 "(1) IN GENERAL.—No deduction shall be al-
17 lowed for the applicable percentage of any FDIC
18 premium paid or incurred by the taxpayer.
19 "(2) EXCEPTION FOR SMALL INSTITUTIONS.—
20 Paragraph (1) shall not apply to any taxpayer for
21 any taxable year if the total consolidated assets of
22 such taxpayer (determined as of the close of such
23 taxable year) do not exceed $10,000,000,000.
24 "(3) APPLICABLE PERCENTAGE.—For purposes
25 of this subsection, the term 'applicable percentage'

means, with respect to any taxpayer for any taxable year, the ratio (expressed as a percentage but not greater than 100 percent) which—

"(A) the excess of—

"(i) the total consolidated assets of such taxpayer (determined as of the close of such taxable year), over

"(ii) $10,000,000,000, bears to

"(B) $40,000,000,000.

"(4) FDIC PREMIUMS.—For purposes of this subsection, the term 'FDIC premium' means any assessment imposed under section 7(b) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)).

"(5) TOTAL CONSOLIDATED ASSETS.—For purposes of this subsection, the term 'total consolidated assets' has the meaning given such term under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5365).

"(6) AGGREGATION RULE.—

"(A) IN GENERAL.—Members of an expanded affiliated group shall be treated as a single taxpayer for purposes of applying this subsection.

"(B) EXPANDED AFFILIATED GROUP.—

"(i) IN GENERAL.—For purposes of this paragraph, the term 'expanded affiliated group' means an affiliated group as defined in section 1504(a), determined—

"(I) by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears, and

"(II) without regard to paragraphs (2) and (3) of section 1504(b).

"(ii) CONTROL OF NON-CORPORATE ENTITIES.—A partnership or any other entity (other than a corporation) shall be treated as a member of an expanded affiliated group if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this clause).".

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

SEC. 13532. REPEAL OF ADVANCE REFUNDING BONDS.

(a) IN GENERAL.—Paragraph (1) of section 149(d) is amended by striking "as part of an issue described in

1 paragraph (2), (3), or (4)." and inserting "to advance re-
2 fund another bond.".
3 (b) CONFORMING AMENDMENTS.—
4 (1) Section 149(d) is amended by striking para-
5 graphs (2), (3), (4), and (6) and by redesignating
6 paragraphs (5) and (7) as paragraphs (2) and (3).
7 (2) Section 148(f)(4)(C) is amended by striking
8 clause (xiv) and by redesignating clauses (xv) to
9 (xvii) as clauses (xiv) to (xvi).
10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to advance refunding bonds issued
12 after December 31, 2017.

13 **SEC. 13533. COST BASIS OF SPECIFIED SECURITIES DETER-**
14 **MINED WITHOUT REGARD TO IDENTIFICA-**
15 **TION.**

16 (a) IN GENERAL.—Section 1012 is amended by add-
17 ing at the end the following new subsection:
18 "(e) COST BASIS OF SPECIFIED SECURITIES DETER-
19 MINED WITHOUT REGARD TO IDENTIFICATION.—
20 "(1) IN GENERAL.—Unless the Secretary per-
21 mits the use of an average basis method for deter-
22 mining cost, in the case of the sale, exchange, or
23 other disposition of a specified security (within the
24 meaning of section 6045(g)(3)(B)), the basis (and

1 holding period) of such security shall be determined
2 on a first-in first-out basis.
3 "(2) EXCEPTION.—In the case of a sale, ex-
4 change, or other disposition of a specified security
5 by a regulated investment company (as defined in
6 section 851(a)), paragraph (1) shall not apply.".
7 (b) CONFORMING AMENDMENTS.—
8 (1) Section 1012(c)(1) is amended by striking
9 "the conventions prescribed by regulations under
10 this section" and inserting "the method applicable
11 for determining the cost of such security".
12 (2) Section 1012(c)(2)(A) is amended by insert-
13 ing "(as in effect prior to the enactment of the Tax
14 Cuts and Jobs Act)" after "this section".
15 (3) Section 6045(g)(2)(B)(i)(I) is amended by
16 striking "unless the customer notifies the broker by
17 means of making an adequate identification of the
18 stock sold or transferred".
19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to sales, exchanges, and other dis-
21 positions after December 31, 2017.

Subpart D—S Corporations

SEC. 13541. EXPANSION OF QUALIFYING BENEFICIARIES OF AN ELECTING SMALL BUSINESS TRUST.

(a) NO LOOK-THROUGH FOR ELIGIBILITY PURPOSES.—Section 1361(c)(2)(B)(v) is amended by adding at the end the following new sentence: "This clause shall not apply for purposes of subsection (b)(1)(C).".

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 2018.

SEC. 13542. CHARITABLE CONTRIBUTION DEDUCTION FOR ELECTING SMALL BUSINESS TRUSTS.

(a) IN GENERAL.—Section 641(c)(2) is amended by inserting after subparagraph (D) the following new subparagraph:

"(E)(i) Section 642(c) shall not apply.

"(ii) For purposes of section 170(b)(1)(G), adjusted gross income shall be computed in the same manner as in the case of an individual, except that the deductions for costs which are paid or incurred in connection with the administration of the trust and which would not have been incurred if the property were not held in such trust shall be treated as allowable in arriving at adjusted gross income.".

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

4 **SEC. 13543. MODIFICATION OF TREATMENT OF S CORPORA-**
5 **TION CONVERSIONS TO C CORPORATIONS.**

6 (a) IN GENERAL.—Section 1371 is amended by add-
7 ing at the end the following new subsection:
8 "(f) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-
9 NATION TRANSITION PERIOD.—
10 "(1) IN GENERAL.—In the case of a distribu-
11 tion of money by an eligible terminated S corpora-
12 tion after the post-termination transition period, the
13 accumulated adjustments account shall be allocated
14 to such distribution, and the distribution shall be
15 chargeable to accumulated earnings and profits, in
16 the same ratio as the amount of such accumulated
17 adjustments account bears to the amount of such ac-
18 cumulated earnings and profits.
19 "(2) ELIGIBLE TERMINATED S CORPORA-
20 TION.—For purposes of this subsection, the term 'el-
21 igible terminated S corporation' means any C cor-
22 poration—
23 "(A) which—

"(i) was an S corporation on the day before the date of the enactment of the Tax Cuts and Jobs Act, and

"(ii) during the 2-year period beginning on the date of such enactment makes a revocation of its election under section 1362(a), and

"(B) the owners of the stock of which, determined on the date such revocation is made, are the same owners (and in identical proportions) as on the date of such enactment.".

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

PART VII—EMPLOYMENT

Subpart A—Compensation

SEC. 13601. MODIFICATION OF LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.

(a) REPEAL OF PERFORMANCE-BASED COMPENSATION AND COMMISSION EXCEPTIONS FOR LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.—

(1) IN GENERAL.—Paragraph (4) of section 162(m) is amended by striking subparagraphs (B) and (C) and by redesignating subparagraphs (D),

1 (E), (F), and (G) as subparagraphs (B), (C), (D),
2 and (E), respectively.
3 (2) CONFORMING AMENDMENTS.—
4 (A) Paragraphs (5)(E) and (6)(D) of sec-
5 tion 162(m) are each amended by striking
6 "subparagraphs (B), (C), and (D)" and insert-
7 ing "subparagraph (B)".
8 (B) Paragraphs (5)(G) and (6)(G) of sec-
9 tion 162(m) are each amended by striking "(F)
10 and (G)" and inserting "(D) and (E)".
11 (b) MODIFICATION OF DEFINITION OF COVERED EM-
12 PLOYEES.—Paragraph (3) of section 162(m) is amend-
13 ed—
14 (1) in subparagraph (A), by striking "as of the
15 close of the taxable year, such employee is the chief
16 executive officer of the taxpayer or is" and inserting
17 "such employee is the principal executive officer or
18 principal financial officer of the taxpayer at any
19 time during the taxable year, or was",
20 (2) in subparagraph (B)—
21 (A) by striking "4" and inserting "3", and
22 (B) by striking "(other than the chief exec-
23 utive officer)" and inserting "(other than any
24 individual described in subparagraph (A))", and

(3) by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by adding at the end the following:

"(C) was a covered employee of the taxpayer (or any predecessor) for any preceding taxable year beginning after December 31, 2016.".

(c) EXPANSION OF APPLICABLE EMPLOYER.—

(1) IN GENERAL.—Section 162(m)(2) is amended to read as follows:

"(2) PUBLICLY HELD CORPORATION.—For purposes of this subsection, the term 'publicly held corporation' means any corporation which is an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c))—

"(A) the securities of which are required to be registered under section 12 of such Act (15 U.S.C. 78l), or

"(B) that is required to file reports under section 15(d) of such Act (15 U.S.C. 78o(d)).".

(2) CONFORMING AMENDMENT.—Section 162(m)(3), as amended by subsection (b), is amended by adding at the end the following flush sentence:

1 "Such term shall include any employee who would be
2 described in subparagraph (B) if the reporting de-
3 scribed in such subparagraph were required as so
4 described.".

5 (d) SPECIAL RULE FOR REMUNERATION PAID TO
6 BENEFICIARIES, ETC.—Paragraph (4) of section 162(m),
7 as amended by subsection (a), is amended by adding at
8 the end the following new subparagraph:

9 "(F) SPECIAL RULE FOR REMUNERATION
10 PAID TO BENEFICIARIES, ETC.—Remuneration
11 shall not fail to be applicable employee remu-
12 neration merely because it is includible in the
13 income of, or paid to, a person other than the
14 covered employee, including after the death of
15 the covered employee.".

16 (e) EFFECTIVE DATE.—

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

21 (2) EXCEPTION FOR BINDING CONTRACTS.—
22 The amendments made by this section shall not
23 apply to remuneration which is pursuant to a writ-
24 ten binding contract which was in effect on Novem-

1 ber 2, 2017, and which was not modified in any ma-
2 terial respect on or after such date.

3 **SEC. 13602. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANI-**
4 **ZATION EXECUTIVE COMPENSATION.**

5 (a) IN GENERAL.—Subchapter D of chapter 42 is
6 amended by adding at the end the following new section:

7 **"SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**
8 **EXECUTIVE COMPENSATION.**

9 "(a) TAX IMPOSED.—There is hereby imposed a tax
10 equal to 20 percent of the sum of—

11 "(1) so much of the remuneration paid (other
12 than any excess parachute payment) by an applica-
13 ble tax-exempt organization for the taxable year with
14 respect to employment of any covered employee in
15 excess of $1,000,000, plus

16 "(2) any excess parachute payment paid by
17 such an organization to any covered employee.

18 For purposes of the preceding sentence, remuneration
19 shall be treated as paid when there is no substantial risk
20 of forfeiture of the rights to such remuneration.

21 "(b) LIABILITY FOR TAX.—The employer shall be lia-
22 ble for the tax imposed under subsection (a).

23 "(c) DEFINITIONS AND SPECIAL RULES.—For pur-
24 poses of this section—

1 "(1) APPLICABLE TAX-EXEMPT ORGANIZA-
2 TION.—The term 'applicable tax-exempt organiza-
3 tion' means any organization which for the taxable
4 year—
5 "(A) is exempt from taxation under section
6 501(a),
7 "(B) is a farmers' cooperative organization
8 described in section 521(b)(1),
9 "(C) has income excluded from taxation
10 under section 115(1), or
11 "(D) is a political organization described in
12 section 527(e)(1).
13 "(2) COVERED EMPLOYEE.—For purposes of
14 this section, the term 'covered employee' means any
15 employee (including any former employee) of an ap-
16 plicable tax-exempt organization if the employee—
17 "(A) is one of the 5 highest compensated
18 employees of the organization for the taxable
19 year, or
20 "(B) was a covered employee of the organi-
21 zation (or any predecessor) for any preceding
22 taxable year beginning after December 31,
23 2016.
24 "(3) REMUNERATION.—For purposes of this
25 section, the term 'remuneration' means wages (as

1 defined in section 3401(a)), except that such term
2 shall not include any designated Roth contribution
3 (as defined in section 402A(c)) and shall include
4 amounts required to be included in gross income
5 under section 457(f).
6 "(4) REMUNERATION FROM RELATED ORGANI-
7 ZATIONS.—
8 "(A) IN GENERAL.—Remuneration of a
9 covered employee by an applicable tax-exempt
10 organization shall include any remuneration
11 paid with respect to employment of such em-
12 ployee by any related person or governmental
13 entity.
14 "(B) RELATED ORGANIZATIONS.—A per-
15 son or governmental entity shall be treated as
16 related to an applicable tax-exempt organization
17 if such person or governmental entity—
18 "(i) controls, or is controlled by, the
19 organization,
20 "(ii) is controlled by one or more per-
21 sons which control the organization,
22 "(iii) is a supported organization (as
23 defined in section 509(f)(3)) during the
24 taxable year with respect to the organiza-
25 tion,

"(iv) is a supporting organization described in section 509(a)(3) during the taxable year with respect to the organization, or

"(v) in the case of an organization which is a voluntary employees' beneficiary association described in section 501(c)(9), establishes, maintains, or makes contributions to such voluntary employees' beneficiary association.

"(C) LIABILITY FOR TAX.—In any case in which remuneration from more than one employer is taken into account under this paragraph in determining the tax imposed by subsection (a), each such employer shall be liable for such tax in an amount which bears the same ratio to the total tax determined under subsection (a) with respect to such remuneration as—

"(i) the amount of remuneration paid by such employer with respect to such employee, bears to

"(ii) the amount of remuneration paid by all such employers to such employee.

1 "(5) EXCESS PARACHUTE PAYMENT.—For pur-
2 poses of determining the tax imposed by subsection
3 (a)(2)—
4 "(A) IN GENERAL.—The term 'excess
5 parachute payment' means an amount equal to
6 the excess of any parachute payment over the
7 portion of the base amount allocated to such
8 payment.
9 "(B) PARACHUTE PAYMENT.—The term
10 'parachute payment' means any payment in the
11 nature of compensation to (or for the benefit
12 of) a covered employee if—
13 "(i) such payment is contingent on
14 such employee's separation from employ-
15 ment with the employer, and
16 "(ii) the aggregate present value of
17 the payments in the nature of compensa-
18 tion to (or for the benefit of) such indi-
19 vidual which are contingent on such sepa-
20 ration equals or exceeds an amount equal
21 to 3 times the base amount.
22 Such term does not include any payment de-
23 scribed in section 280G(b)(6) (relating to ex-
24 emption for payments under qualified plans) or
25 any payment made under or to an annuity con-

1 tract described in section 403(b) or a plan de-
2 scribed in section 457(b).
3 "(C) BASE AMOUNT.—Rules similar to the
4 rules of 280G(b)(3) shall apply for purposes of
5 determining the base amount.
6 "(D) PROPERTY TRANSFERS; PRESENT
7 VALUE.—Rules similar to the rules of para-
8 graphs (3) and (4) of section 280G(d) shall
9 apply.
10 "(6) COORDINATION WITH DEDUCTION LIMITA-
11 TION.—Remuneration the deduction for which is not
12 allowed by reason of section 162(m) shall not be
13 taken into account for purposes of this section.
14 "(d) REGULATIONS.—The Secretary shall prescribe
15 such regulations as may be necessary to prevent avoidance
16 of the tax under this section, including regulations pre-
17 venting employees from being misclassified as contractors
18 or from being compensated through a pass-through or
19 other entity to avoid such tax.".
20 (b) CLERICAL AMENDMENT.—The table of sections
21 for subchapter D of chapter 42 is amended by adding at
22 the end the following new item:

"Sec. 4960. Tax on excess tax-exempt organization executive compensation.".

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

1 **SEC. 13603. TREATMENT OF QUALIFIED EQUITY GRANTS.**

2 (a) IN GENERAL.—Section 83 is amended by adding
3 at the end the following new subsection:

4 "(i) QUALIFIED EQUITY GRANTS.—

5 "(1) IN GENERAL.—For purposes of this sub-
6 title—

7 "(A) TIMING OF INCLUSION.—If qualified
8 stock is transferred to a qualified employee who
9 makes an election with respect to such stock
10 under this subsection, subsection (a) shall be
11 applied by including the amount determined
12 under such subsection with respect to such
13 stock in income of the employee in the taxable
14 year determined under subparagraph (B) in lieu
15 of the taxable year described in subsection (a).

16 "(B) TAXABLE YEAR DETERMINED.—The
17 taxable year determined under this subpara-
18 graph is the taxable year of the employee which
19 includes the earliest of—

20 "(i) the first date such qualified stock
21 becomes transferable (including, solely for
22 purposes of this clause, becoming transfer-
23 able to the employer),

24 "(ii) the date the employee first be-
25 comes an excluded employee,

"(iii) the first date on which any stock of the corporation which issued the qualified stock becomes readily tradable on an established securities market (as determined by the Secretary, but not including any market unless such market is recognized as an established securities market by the Secretary for purposes of a provision of this title other than this subsection),

"(iv) the date that is 5 years after the first date the rights of the employee in such stock are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, or

"(v) the date on which the employee revokes (at such time and in such manner as the Secretary provides) the election under this subsection with respect to such stock.

"(2) QUALIFIED STOCK.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'qualified stock' means, with respect to any qualified employee, any

1 stock in a corporation which is the employer of
2 such employee, if—
3 "(i) such stock is received—
4 "(I) in connection with the exer-
5 cise of an option, or
6 "(II) in settlement of a restricted
7 stock unit, and
8 "(ii) such option or restricted stock
9 unit was granted by the corporation—
10 "(I) in connection with the per-
11 formance of services as an employee,
12 and
13 "(II) during a calendar year in
14 which such corporation was an eligible
15 corporation.
16 "(B) LIMITATION.—The term 'qualified
17 stock' shall not include any stock if the em-
18 ployee may sell such stock to, or otherwise re-
19 ceive cash in lieu of stock from, the corporation
20 at the time that the rights of the employee in
21 such stock first become transferable or not sub-
22 ject to a substantial risk of forfeiture.
23 "(C) ELIGIBLE CORPORATION.—For pur-
24 poses of subparagraph (A)(ii)(II)—

"(i) IN GENERAL.—The term 'eligible corporation' means, with respect to any calendar year, any corporation if—

"(I) no stock of such corporation (or any predecessor of such corporation) is readily tradable on an established securities market (as determined under paragraph (1)(B)(iii)) during any preceding calendar year, and

"(II) such corporation has a written plan under which, in such calendar year, not less than 80 percent of all employees who provide services to such corporation in the United States (or any possession of the United States) are granted stock options, or restricted stock units, with the same rights and privileges to receive qualified stock.

"(ii) SAME RIGHTS AND PRIVILEGES.—For purposes of clause (i)(II)—

"(I) except as provided in subclauses (II) and (III), the determination of rights and privileges with re-

1 spect to stock shall be made in a simi-
2 lar manner as under section
3 423(b)(5),
4 "(II) employees shall not fail to
5 be treated as having the same rights
6 and privileges to receive qualified
7 stock solely because the number of
8 shares available to all employees is not
9 equal in amount, so long as the num-
10 ber of shares available to each em-
11 ployee is more than a de minimis
12 amount, and
13 "(III) rights and privileges with
14 respect to the exercise of an option
15 shall not be treated as the same as
16 rights and privileges with respect to
17 the settlement of a restricted stock
18 unit.
19 "(iii) EMPLOYEE.—For purposes of
20 clause (i)(II), the term 'employee' shall not
21 include any employee described in section
22 4980E(d)(4) or any excluded employee.
23 "(iv) SPECIAL RULE FOR CALENDAR
24 YEARS BEFORE 2018.—In the case of any
25 calendar year beginning before January 1,

2018, clause (i)(II) shall be applied without regard to whether the rights and privileges with respect to the qualified stock are the same.

"(3) QUALIFIED EMPLOYEE; EXCLUDED EMPLOYEE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'qualified employee' means any individual who—

"(i) is not an excluded employee, and

"(ii) agrees in the election made under this subsection to meet such requirements as are determined by the Secretary to be necessary to ensure that the withholding requirements of the corporation under chapter 24 with respect to the qualified stock are met.

"(B) EXCLUDED EMPLOYEE.—The term 'excluded employee' means, with respect to any corporation, any individual—

"(i) who was a 1-percent owner (within the meaning of section 416(i)(1)(B)(ii)) at any time during the 10 preceding calendar years,

"(ii) who is or has been at any prior time—

1 "(I) the chief executive officer of
2 such corporation or an individual act-
3 ing in such a capacity, or
4 "(II) the chief financial officer of
5 such corporation or an individual act-
6 ing in such a capacity,
7 "(iii) who bears a relationship de-
8 scribed in section 318(a)(1) to any indi-
9 vidual described in subclause (I) or (II) of
10 clause (ii), or
11 "(iv) who was for any of the 10 pre-
12 ceding taxable years one of the 4 highest
13 compensated officers of such corporation,
14 determined with respect to each such tax-
15 able year on the basis of the shareholder
16 disclosure rules for compensation under
17 the Securities Exchange Act of 1934 (as if
18 such rules applied to such corporation).
19 "(4) ELECTION.—
20 "(A) TIME FOR MAKING ELECTION.—An
21 election with respect to qualified stock shall be
22 made under this subsection no later than 30
23 days after the first date the rights of the em-
24 ployee in such stock are transferable or are not
25 subject to a substantial risk of forfeiture,

1 whichever occurs earlier, and shall be made in
2 a manner similar to the manner in which an
3 election is made under subsection (b).
4 "(B) LIMITATIONS.—No election may be
5 made under this section with respect to any
6 qualified stock if—
7 "(i) the qualified employee has made
8 an election under subsection (b) with re-
9 spect to such qualified stock,
10 "(ii) any stock of the corporation
11 which issued the qualified stock is readily
12 tradable on an established securities mar-
13 ket (as determined under paragraph
14 (1)(B)(iii)) at any time before the election
15 is made, or
16 "(iii) such corporation purchased any
17 of its outstanding stock in the calendar
18 year preceding the calendar year which in-
19 cludes the first date the rights of the em-
20 ployee in such stock are transferable or are
21 not subject to a substantial risk of for-
22 feiture, unless—
23 "(I) not less than 25 percent of
24 the total dollar amount of the stock so
25 purchased is deferral stock, and

"(II) the determination of which individuals from whom deferral stock is purchased is made on a reasonable basis.

"(C) DEFINITIONS AND SPECIAL RULES RELATED TO LIMITATION ON STOCK REDEMPTIONS.—

"(i) DEFERRAL STOCK.—For purposes of this paragraph, the term 'deferral stock' means stock with respect to which an election is in effect under this subsection.

"(ii) DEFERRAL STOCK WITH RESPECT TO ANY INDIVIDUAL NOT TAKEN INTO ACCOUNT IF INDIVIDUAL HOLDS DEFERRAL STOCK WITH LONGER DEFERRAL PERIOD.—Stock purchased by a corporation from any individual shall not be treated as deferral stock for purposes of subparagraph (B)(iii) if such individual (immediately after such purchase) holds any deferral stock with respect to which an election has been in effect under this subsection for a longer period than the elec-

1 tion with respect to the stock so pur-
2 chased.
3 "(iii) PURCHASE OF ALL OUT-
4 STANDING DEFERRAL STOCK.—The re-
5 quirements of subclauses (I) and (II) of
6 subparagraph (B)(iii) shall be treated as
7 met if the stock so purchased includes all
8 of the corporation's outstanding deferral
9 stock.
10 "(iv) REPORTING.—Any corporation
11 which has outstanding deferral stock as of
12 the beginning of any calendar year and
13 which purchases any of its outstanding
14 stock during such calendar year shall in-
15 clude on its return of tax for the taxable
16 year in which, or with which, such calendar
17 year ends the total dollar amount of its
18 outstanding stock so purchased during
19 such calendar year and such other infor-
20 mation as the Secretary requires for pur-
21 poses of administering this paragraph.
22 "(5) CONTROLLED GROUPS.—For purposes of
23 this subsection, all persons treated as a single em-
24 ployer under section 414(b) shall be treated as 1
25 corporation.

1 "(6) NOTICE REQUIREMENT.—Any corporation
2 which transfers qualified stock to a qualified em-
3 ployee shall, at the time that (or a reasonable period
4 before) an amount attributable to such stock would
5 (but for this subsection) first be includible in the
6 gross income of such employee—
7 "(A) certify to such employee that such
8 stock is qualified stock, and
9 "(B) notify such employee—
10 "(i) that the employee may be eligible
11 to elect to defer income on such stock
12 under this subsection, and
13 "(ii) that, if the employee makes such
14 an election—
15 "(I) the amount of income recog-
16 nized at the end of the deferral period
17 will be based on the value of the stock
18 at the time at which the rights of the
19 employee in such stock first become
20 transferable or not subject to substan-
21 tial risk of forfeiture, notwithstanding
22 whether the value of the stock has de-
23 clined during the deferral period,
24 "(II) the amount of such income
25 recognized at the end of the deferral

1 period will be subject to withholding
2 under section 3401(i) at the rate de-
3 termined under section 3402(t), and
4 "(III) the responsibilities of the
5 employee (as determined by the Sec-
6 retary under paragraph (3)(A)(ii))
7 with respect to such withholding.
8 "(7) RESTRICTED STOCK UNITS.—This section
9 (other than this subsection), including any election
10 under subsection (b), shall not apply to restricted
11 stock units.".
12 (b) WITHHOLDING.—
13 (1) TIME OF WITHHOLDING.—Section 3401 is
14 amended by adding at the end the following new
15 subsection:
16 "(i) QUALIFIED STOCK FOR WHICH AN ELECTION IS
17 IN EFFECT UNDER SECTION 83(i).—For purposes of sub-
18 section (a), qualified stock (as defined in section 83(i))
19 with respect to which an election is made under section
20 83(i) shall be treated as wages—
21 "(1) received on the earliest date described in
22 section 83(i)(1)(B), and
23 "(2) in an amount equal to the amount in-
24 cluded in income under section 83 for the taxable
25 year which includes such date.".

1 (2) AMOUNT OF WITHHOLDING.—Section 3402
2 is amended by adding at the end the following new
3 subsection:
4 "(t) RATE OF WITHHOLDING FOR CERTAIN
5 STOCK.—In the case of any qualified stock (as defined in
6 section 83(i)(2)) with respect to which an election is made
7 under section 83(i)—
8 "(1) the rate of tax under subsection (a) shall
9 not be less than the maximum rate of tax in effect
10 under section 1, and
11 "(2) such stock shall be treated for purposes of
12 section 3501(b) in the same manner as a non-cash
13 fringe benefit.".
14 (c) COORDINATION WITH OTHER DEFERRED COM-
15 PENSATION RULES.—
16 (1) ELECTION TO APPLY DEFERRAL TO STATU-
17 TORY OPTIONS.—
18 (A) INCENTIVE STOCK OPTIONS.—Section
19 422(b) is amended by adding at the end the fol-
20 lowing: "Such term shall not include any option
21 if an election is made under section 83(i) with
22 respect to the stock received in connection with
23 the exercise of such option.".
24 (B) EMPLOYEE STOCK PURCHASE
25 PLANS.—Section 423 is amended—

(i) by adding at the end of subsection (a) the following flush sentence: "The preceding sentence shall not apply to any share of stock with respect to which an election is made under section 83(i).", and

(ii) in subsection (b)(5), by striking "and" before "the plan" and by inserting ", and the rules of section 83(i) shall apply in determining which employees have a right to make an election under such section" before the semicolon at the end.

(2) EXCLUSION FROM DEFINITION OF NONQUALIFIED DEFERRED COMPENSATION PLAN.—Subsection (d) of section 409A is amended by adding at the end the following new paragraph:

"(7) TREATMENT OF QUALIFIED STOCK.—An arrangement under which an employee may receive qualified stock (as defined in section 83(i)(2)) shall not be treated as a nonqualified deferred compensation plan solely because of an employee's election, or ability to make an election, to defer recognition of income under section 83(i).".

(d) INFORMATION REPORTING.—Section 6051(a) is amended by striking "and" at the end of paragraph (14)(B), by striking the period at the end of paragraph

1 (15) and inserting a comma, and by inserting after para-
2 graph (15) the following new paragraphs:
3 "(16) the amount includible in gross income
4 under subparagraph (A) of section 83(i)(1) with re-
5 spect to an event described in subparagraph (B) of
6 such section which occurs in such calendar year, and
7 "(17) the aggregate amount of income which is
8 being deferred pursuant to elections under section
9 83(i), determined as of the close of the calendar
10 year.".
11 (e) PENALTY FOR FAILURE OF EMPLOYER TO PRO-
12 VIDE NOTICE OF TAX CONSEQUENCES.—Section 6652 is
13 amended by adding at the end the following new sub-
14 section:
15 "(p) FAILURE TO PROVIDE NOTICE UNDER SECTION
16 83(i).—In the case of each failure to provide a notice as
17 required by section 83(i)(6), at the time prescribed there-
18 for, unless it is shown that such failure is due to reason-
19 able cause and not to willful neglect, there shall be paid,
20 on notice and demand of the Secretary and in the same
21 manner as tax, by the person failing to provide such no-
22 tice, an amount equal to $100 for each such failure, but
23 the total amount imposed on such person for all such fail-
24 ures during any calendar year shall not exceed $50,000.".
25 (f) EFFECTIVE DATES.—

1 (1) IN GENERAL.—Except as provided in para-
2 graph (2), the amendments made by this section
3 shall apply to stock attributable to options exercised,
4 or restricted stock units settled, after December 31,
5 2017.
6 (2) REQUIREMENT TO PROVIDE NOTICE.—The
7 amendments made by subsection (e) shall apply to
8 failures after December 31, 2017.
9 (g) TRANSITION RULE.—Until such time as the Sec-
10 retary (or the Secretary's delegate) issues regulations or
11 other guidance for purposes of implementing the require-
12 ments of paragraph (2)(C)(i)(II) of section 83(i) of the
13 Internal Revenue Code of 1986 (as added by this section),
14 or the requirements of paragraph (6) of such section, a
15 corporation shall be treated as being in compliance with
16 such requirements (respectively) if such corporation com-
17 plies with a reasonable good faith interpretation of such
18 requirements.

19 **SEC. 13604. INCREASE IN EXCISE TAX RATE FOR STOCK**
20 **COMPENSATION OF INSIDERS IN EXPATRI-**
21 **ATED CORPORATIONS.**

22 (a) IN GENERAL.—Section 4985(a)(1) is amended by
23 striking "section 1(h)(1)(C)" and inserting "section
24 1(h)(1)(D)".

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to corporations first becoming ex-
3 patriated corporations (as defined in section 4985 of the
4 Internal Revenue Code of 1986) after the date of enact-
5 ment of this Act.

6 **Subpart B—Retirement Plans**

7 **SEC. 13611. REPEAL OF SPECIAL RULE PERMITTING RE-**
8 **CHARACTERIZATION OF ROTH IRA CON-**
9 **TRIBUTIONS AS TRADITIONAL IRA CON-**
10 **TRIBUTIONS.**

11 (a) IN GENERAL.—Section 408A(d) is amended by
12 striking paragraph (6) and by redesignating paragraph
13 (7) as paragraph (6).

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

17 **SEC. 13612. MODIFICATION OF RULES APPLICABLE TO**
18 **LENGTH OF SERVICE AWARD PLANS.**

19 (a) MAXIMUM DEFERRAL AMOUNT.—Clause (ii) of
20 section 457(e)(11)(B) is amended by striking "$3,000"
21 and inserting "$6,000".

22 (b) COST OF LIVING ADJUSTMENT.—Subparagraph
23 (B) of section 457(e)(11) is amended by adding at the
24 end the following:

1 "(iii) COST OF LIVING ADJUST-
2 MENT.—In the case of taxable years begin-
3 ning after December 31, 2017, the Sec-
4 retary shall adjust the $6,000 amount
5 under clause (ii) at the same time and in
6 the same manner as under section 415(d),
7 except that the base period shall be the
8 calendar quarter beginning July 1, 2016,
9 and any increase under this paragraph
10 that is not a multiple of $500 shall be
11 rounded to the next lowest multiple of
12 $500.".
13 (c) APPLICATION OF LIMITATION ON ACCRUALS.—
14 Subparagraph (B) of section 457(e)(11), as amended by
15 subsection (b), is amended by adding at the end the fol-
16 lowing:
17 "(iv) SPECIAL RULE FOR APPLICA-
18 TION OF LIMITATION ON ACCRUALS FOR
19 CERTAIN PLANS.—In the case of a plan de-
20 scribed in subparagraph (A)(ii) which is a
21 defined benefit plan (as defined in section
22 414(j)), the limitation under clause (ii)
23 shall apply to the actuarial present value
24 of the aggregate amount of length of serv-
25 ice awards accruing with respect to any

1 year of service. Such actuarial present
2 value with respect to any year shall be cal-
3 culated using reasonable actuarial assump-
4 tions and methods, assuming payment will
5 be made under the most valuable form of
6 payment under the plan with payment
7 commencing at the later of the earliest age
8 at which unreduced benefits are payable
9 under the plan or the participant's age at
10 the time of the calculation.''.

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

14 **SEC. 13613. EXTENDED ROLLOVER PERIOD FOR PLAN LOAN**
15 **OFFSET AMOUNTS.**

16 (a) IN GENERAL.—Paragraph (3) of section 402(c)
17 is amended by redesignating subparagraph (B) as sub-
18 paragraph (C) and by inserting after subparagraph (A)
19 the following new subparagraph:

20 ''(B) ROLLOVER OF CERTAIN PLAN LOAN
21 OFFSET AMOUNTS.—

22 ''(i) IN GENERAL.—In the case of an
23 eligible rollover distribution of a qualified
24 plan loan offset amount, the requirements
25 of subparagraph (A) shall be treated as

1 met if such transfer occurs on or before
2 the due date (including extensions) for fil-
3 ing the return of tax for the taxable year
4 in which such amount is treated as distrib-
5 uted from a qualified employer plan.
6 "(ii) QUALIFIED PLAN LOAN OFFSET
7 AMOUNT.—For purposes of this subpara-
8 graph, the term 'qualified plan loan offset
9 amount' means a plan loan offset amount
10 which is treated as distributed from a
11 qualified employer plan to a participant or
12 beneficiary solely by reason of—
13 "(I) the termination of the quali-
14 fied employer plan, or
15 "(II) the failure to meet the re-
16 payment terms of the loan from such
17 plan because of the severance from
18 employment of the participant.
19 "(iii) PLAN LOAN OFFSET AMOUNT.—
20 For purposes of clause (ii), the term 'plan
21 loan offset amount' means the amount by
22 which the participant's accrued benefit
23 under the plan is reduced in order to repay
24 a loan from the plan.

"(iv) LIMITATION.—This subparagraph shall not apply to any plan loan offset amount unless such plan loan offset amount relates to a loan to which section 72(p)(1) does not apply by reason of section 72(p)(2).

"(v) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term 'qualified employer plan' has the meaning given such term by section 72(p)(4).".

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 402(c)(3) is amended by striking "subparagraph (B)" and inserting "subparagraphs (B) and (C)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan loan offset amounts which are treated as distributed in taxable years beginning after December 31, 2017.

PART VIII—EXEMPT ORGANIZATIONS

SEC. 13701. EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES.

(a) IN GENERAL.—Chapter 42 is amended by adding at the end the following new subchapter:

1 **"Subchapter H—Excise Tax Based on Invest-**
2 **ment Income of Private Colleges and Uni-**
3 **versities**

"Sec. 4968. Excise tax based on investment income of private colleges and universities.

4 **"SEC. 4968. EXCISE TAX BASED ON INVESTMENT INCOME**
5 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

6 "(a) TAX IMPOSED.—There is hereby imposed on
7 each applicable educational institution for the taxable year
8 a tax equal to 1.4 percent of the net investment income
9 of such institution for the taxable year.

10 "(b) APPLICABLE EDUCATIONAL INSTITUTION.—For
11 purposes of this subchapter—

12 "(1) IN GENERAL.—The term 'applicable edu-
13 cational institution' means an eligible educational in-
14 stitution (as defined in section 25A(f)(2))—

15 "(A) which had at least 500 tuition-paying
16 students during the preceding taxable year,

17 "(B) which participated in and received
18 funds through a program described in section
19 25A(f)(2)(B) during the preceding taxable year,

20 "(C) which is not described in the first
21 sentence of section 511(a)(2)(B) (relating to
22 State colleges and universities), and

23 "(D) the aggregate fair market value of
24 the assets of which at the end of the preceding

1 taxable year (other than those assets which are
2 used directly in carrying out the institution's
3 exempt purpose) is at least $500,000 per stu-
4 dent of the institution.
5 "(2) STUDENTS.—For purposes of paragraph
6 (1), the number of students of an institution shall
7 be based on the daily average number of full-time
8 students attending such institution (with part-time
9 students taken into account on a full-time student
10 equivalent basis).
11 "(c) NET INVESTMENT INCOME.—For purposes of
12 this section, net investment income shall be determined
13 under rules similar to the rules of section 4940(c).
14 "(d) ASSETS AND NET INVESTMENT INCOME OF RE-
15 LATED ORGANIZATIONS.—
16 "(1) IN GENERAL.—For purposes of sub-
17 sections (b)(1)(C) and (c), assets and net investment
18 income of any related organization with respect to
19 an educational institution shall be treated as assets
20 and net investment income, respectively, of the edu-
21 cational institution, except that—
22 "(A) no such amount shall be taken into
23 account with respect to more than 1 educational
24 institution, and

"(B) unless such organization is controlled by such institution or is described in section 509(a)(3) with respect to such institution for the taxable year, assets and net investment income which are not intended or available for the use or benefit of the educational institution shall not be taken into account.

"(2) RELATED ORGANIZATION.—For purposes of this subsection, the term 'related organization' means, with respect to an educational institution, any organization which—

"(A) controls, or is controlled by, such institution,

"(B) is controlled by 1 or more persons which also control such institution, or

"(C) is a supported organization (as defined in section 509(f)(3)), or an organization described in section 509(a)(3), during the taxable year with respect to such institution.".

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 42 is amended by adding at the end the following new item:

"SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES".

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

SEC. 13702. UNRELATED BUSINESS TAXABLE INCOME SEPARATELY COMPUTED FOR EACH TRADE OR BUSINESS ACTIVITY.

(a) IN GENERAL.—Subsection (a) of section 512 is amended by adding at the end the following new paragraph:

"(6) SPECIAL RULE FOR ORGANIZATION WITH MORE THAN 1 UNRELATED TRADE OR BUSINESS.—In the case of any organization with more than 1 unrelated trade or business—

"(A) unrelated business taxable income, including for purposes of determining any net operating loss deduction, shall be computed separately with respect to each such trade or business and without regard to subsection (b)(12),

"(B) the unrelated business taxable income of such organization shall be the sum of the unrelated business taxable income so computed with respect to each such trade or business, less a specific deduction under subsection (b)(12), and

"(C) for purposes of subparagraph (B), unrelated business taxable income with respect to any such trade or business shall not be less than zero.".

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except to the extent provided in paragraph (2), the amendment made by this section shall apply to taxable years beginning after December 31, 2017.

(2) CARRYOVERS OF NET OPERATING LOSSES.—If any net operating loss arising in a taxable year beginning before January 1, 2018, is carried over to a taxable year beginning on or after such date—

(A) subparagraph (A) of section 512(a)(6) of the Internal Revenue Code of 1986, as added by this Act, shall not apply to such net operating loss, and

(B) the unrelated business taxable income of the organization, after the application of subparagraph (B) of such section, shall be reduced by the amount of such net operating loss.

1 **SEC. 13703. REPEAL OF DEDUCTION FOR AMOUNTS PAID IN**
2 **EXCHANGE FOR COLLEGE ATHLETIC EVENT**
3 **SEATING RIGHTS.**

4 (a) IN GENERAL.—Section 170(l) is amended—
5 (1) by striking paragraph (1) and inserting the
6 following:
7 "(1) IN GENERAL.—No deduction shall be al-
8 lowed under this section for any amount described in
9 paragraph (2).", and
10 (2) in paragraph (2)(B), by striking "such
11 amount would be allowable as a deduction under this
12 section but for the fact that".

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

16 **SEC. 13704. REPEAL OF SUBSTANTIATION EXCEPTION IN**
17 **CASE OF CONTRIBUTIONS REPORTED BY**
18 **DONEE.**

19 (a) IN GENERAL.—Section 170(f)(8) is amended by
20 striking subparagraph (D) and by redesignating subpara-
21 graph (E) as subparagraph (D).

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

1 **PART IX—OTHER PROVISIONS**

2 **Subpart A—Craft Beverage Modernization and Tax**
3 **Reform**

4 **SEC. 13801. PRODUCTION PERIOD FOR BEER, WINE, AND**
5 **DISTILLED SPIRITS.**

6 (a) IN GENERAL.—Section 263A(f) is amended—
7 (1) by redesignating paragraph (4) as para-
8 graph (5), and
9 (2) by inserting after paragraph (3) the fol-
10 lowing new paragraph:
11 "(4) EXEMPTION FOR AGING PROCESS OF
12 BEER, WINE, AND DISTILLED SPIRITS.—
13 "(A) IN GENERAL.—For purposes of this
14 subsection, the production period shall not in-
15 clude the aging period for—
16 "(i) beer (as defined in section
17 5052(a)),
18 "(ii) wine (as described in section
19 5041(a)), or
20 "(iii) distilled spirits (as defined in
21 section 5002(a)(8)), except such spirits
22 that are unfit for use for beverage pur-
23 poses.
24 "(B) TERMINATION.—This paragraph
25 shall not apply to interest costs paid or accrued
26 after December 31, 2019.".

1 (b) CONFORMING AMENDMENT.—Paragraph
2 (5)(B)(ii) of section 263A(f), as redesignated by this sec-
3 tion, is amended by inserting "except as provided in para-
4 graph (4)," before "ending on the date".
5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to interest costs paid or accrued
7 in calendar years beginning after December 31, 2017.
8 **SEC. 13802. REDUCED RATE OF EXCISE TAX ON BEER.**
9 (a) IN GENERAL.—Paragraph (1) of section 5051(a)
10 is amended to read as follows:
11 "(1) IN GENERAL.—
12 "(A) IMPOSITION OF TAX.—A tax is here-
13 by imposed on all beer brewed or produced, and
14 removed for consumption or sale, within the
15 United States, or imported into the United
16 States. Except as provided in paragraph (2),
17 the rate of such tax shall be the amount deter-
18 mined under this paragraph.
19 "(B) RATE.—Except as provided in sub-
20 paragraph (C), the rate of tax shall be $18 for
21 per barrel.
22 "(C) SPECIAL RULE.—In the case of beer
23 removed after December 31, 2017, and before
24 January 1, 2020, the rate of tax shall be—

"(i) $16 on the first 6,000,000 barrels of beer—

"(I) brewed by the brewer and removed during the calendar year for consumption or sale, or

"(II) imported by the importer into the United States during the calendar year, and

"(ii) $18 on any barrels of beer to which clause (i) does not apply.

"(D) BARREL.—For purposes of this section, a barrel shall contain not more than 31 gallons of beer, and any tax imposed under this section shall be applied at a like rate for any other quantity or for fractional parts of a barrel.".

(b) REDUCED RATE FOR CERTAIN DOMESTIC PRODUCTION.—Subparagraph (A) of section 5051(a)(2) is amended—

(1) in the heading, by striking "$7 A BARREL", and

(2) by inserting "($3.50 in the case of beer removed after December 31, 2017, and before January 1, 2020)" after "$7".

(c) APPLICATION OF REDUCED TAX RATE FOR FOREIGN MANUFACTURERS AND IMPORTERS.—Subsection (a) of section 5051 is amended—

(1) in subparagraph (C)(i)(II) of paragraph (1), as amended by subsection (a), by inserting "but only if the importer is an electing importer under paragraph (4) and the barrels have been assigned to the importer pursuant to such paragraph" after "during the calendar year", and

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

"(4) REDUCED TAX RATE FOR FOREIGN MANUFACTURERS AND IMPORTERS.—

"(A) IN GENERAL.—In the case of any barrels of beer which have been brewed or produced outside of the United States and imported into the United States, the rate of tax applicable under clause (i) of paragraph (1)(C) (referred to in this paragraph as the 'reduced tax rate') may be assigned by the brewer (provided that the brewer makes an election described in subparagraph (B)(ii)) to any electing importer of such barrels pursuant to the requirements established by the Secretary under subparagraph (B).

1 "(B) ASSIGNMENT.—The Secretary shall,
2 through such rules, regulations, and procedures
3 as are determined appropriate, establish proce-
4 dures for assignment of the reduced tax rate
5 provided under this paragraph, which shall in-
6 clude—
7 "(i) a limitation to ensure that the
8 number of barrels of beer for which the re-
9 duced tax rate has been assigned by a
10 brewer—
11 "(I) to any importer does not ex-
12 ceed the number of barrels of beer
13 brewed or produced by such brewer
14 during the calendar year which were
15 imported into the United States by
16 such importer, and
17 "(II) to all importers does not
18 exceed the 6,000,000 barrels to which
19 the reduced tax rate applies,
20 "(ii) procedures that allow the election
21 of a brewer to assign and an importer to
22 receive the reduced tax rate provided under
23 this paragraph,
24 "(iii) requirements that the brewer
25 provide any information as the Secretary

determines necessary and appropriate for purposes of carrying out this paragraph, and

"(iv) procedures that allow for revocation of eligibility of the brewer and the importer for the reduced tax rate provided under this paragraph in the case of any erroneous or fraudulent information provided under clause (iii) which the Secretary deems to be material to qualifying for such reduced rate.

"(C) CONTROLLED GROUP.—For purposes of this section, any importer making an election described in subparagraph (B)(ii) shall be deemed to be a member of the controlled group of the brewer, as described under paragraph (5).".

(d) CONTROLLED GROUP AND SINGLE TAXPAYER RULES.—Subsection (a) of section 5051, as amended by this section, is amended—

(1) in paragraph (2)—

(A) by striking subparagraph (B), and

(B) by redesignating subparagraph (C) as subparagraph (B), and

1 (2) by adding at the end the following new
2 paragraph:
3 "(5) CONTROLLED GROUP AND SINGLE TAX-
4 PAYER RULES.—
5 "(A) IN GENERAL.—Except as provided in
6 subparagraph (B), in the case of a controlled
7 group, the 6,000,000 barrel quantity specified
8 in paragraph (1)(C)(i) and the 2,000,000 barrel
9 quantity specified in paragraph (2)(A) shall be
10 applied to the controlled group, and the
11 6,000,000 barrel quantity specified in para-
12 graph (1)(C)(i) and the 60,000 barrel quantity
13 specified in paragraph (2)(A) shall be appor-
14 tioned among the brewers who are members of
15 such group in such manner as the Secretary or
16 their delegate shall by regulations prescribe.
17 For purposes of the preceding sentence, the
18 term 'controlled group' has the meaning as-
19 signed to it by subsection (a) of section 1563,
20 except that for such purposes the phrase 'more
21 than 50 percent' shall be substituted for the
22 phrase 'at least 80 percent' in each place it ap-
23 pears in such subsection. Under regulations
24 prescribed by the Secretary, principles similar
25 to the principles of the preceding two sentences

shall be applied to a group of brewers under common control where one or more of the brewers is not a corporation.

"(B) FOREIGN MANUFACTURERS AND IMPORTERS.—For purposes of paragraph (4), in the case of a controlled group, the 6,000,000 barrel quantity specified in paragraph (1)(C)(i) shall be applied to the controlled group and apportioned among the members of such group in such manner as the Secretary shall by regulations prescribe. For purposes of the preceding sentence, the term 'controlled group' has the meaning given such term under subparagraph (A). Under regulations prescribed by the Secretary, principles similar to the principles of the preceding two sentences shall be applied to a group of brewers under common control where one or more of the brewers is not a corporation.

"(C) SINGLE TAXPAYER.—Pursuant to rules issued by the Secretary, two or more entities (whether or not under common control) that produce beer marketed under a similar brand, license, franchise, or other arrangement shall be treated as a single taxpayer for purposes of the application of this subsection.".

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to beer removed after December
3 31, 2017.

4 **SEC. 13803. TRANSFER OF BEER BETWEEN BONDED FACILI-**
5 **TIES.**

6 (a) IN GENERAL.—Section 5414 is amended—
7 (1) by striking "Beer may be removed" and in-
8 serting "(a) IN GENERAL.—Beer may be removed",
9 and
10 (2) by adding at the end the following:
11 "(b) TRANSFER OF BEER BETWEEN BONDED FA-
12 CILITIES.—
13 "(1) IN GENERAL.—Beer may be removed from
14 one bonded brewery to another bonded brewery,
15 without payment of tax, and may be mingled with
16 beer at the receiving brewery, subject to such condi-
17 tions, including payment of the tax, and in such con-
18 tainers, as the Secretary by regulations shall pre-
19 scribe, which shall include—
20 "(A) any removal from one brewery to an-
21 other brewery belonging to the same brewer,
22 "(B) any removal from a brewery owned
23 by one corporation to a brewery owned by an-
24 other corporation when—

"(i) one such corporation owns the controlling interest in the other such corporation, or

"(ii) the controlling interest in each such corporation is owned by the same person or persons, and

"(C) any removal from one brewery to another brewery when—

"(i) the proprietors of transferring and receiving premises are independent of each other and neither has a proprietary interest, directly or indirectly, in the business of the other, and

"(ii) the transferor has divested itself of all interest in the beer so transferred and the transferee has accepted responsibility for payment of the tax.

"(2) TRANSFER OF LIABILITY FOR TAX.—For purposes of paragraph (1)(C), such relief from liability shall be effective from the time of removal from the transferor's bonded premises, or from the time of divestment of interest, whichever is later.

"(3) TERMINATION.—This subsection shall not apply to any calendar quarter beginning after December 31, 2019.".

1 (b) REMOVAL FROM BREWERY BY PIPELINE.—Sec-
2 tion 5412 is amended by inserting "pursuant to section
3 5414 or" before "by pipeline".
4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to any calendar quarters beginning
6 after December 31, 2017.

7 **SEC. 13804. REDUCED RATE OF EXCISE TAX ON CERTAIN**
8 **WINE.**

9 (a) IN GENERAL.—Section 5041(c) is amended by
10 adding at the end the following new paragraph:
11 "(8) SPECIAL RULE FOR 2018 AND 2019.—
12 "(A) IN GENERAL.—In the case of wine re-
13 moved after December 31, 2017, and before
14 January 1, 2020, paragraphs (1) and (2) shall
15 not apply and there shall be allowed as a credit
16 against any tax imposed by this title (other
17 than chapters 2, 21, and 22) an amount equal
18 to the sum of—
19 "(i) $1 per wine gallon on the first
20 30,000 wine gallons of wine, plus
21 "(ii) 90 cents per wine gallon on the
22 first 100,000 wine gallons of wine to which
23 clause (i) does not apply, plus

"(iii) 53.5 cents per wine gallon on the first 620,000 wine gallons of wine to which clauses (i) and (ii) do not apply,

which are produced by the producer and removed during the calendar year for consumption or sale, or which are imported by the importer into the United States during the calendar year.

"(B) ADJUSTMENT OF CREDIT FOR HARD CIDER.—In the case of wine described in subsection (b)(6), subparagraph (A) of this paragraph shall be applied—

"(i) in clause (i) of such subparagraph, by substituting '6.2 cents' for '$1',

"(ii) in clause (ii) of such subparagraph, by substituting '5.6 cents' for '90 cents', and

"(iii) in clause (iii) of such subparagraph, by substituting '3.3 cents' for '53.5 cents'.",

(b) CONTROLLED GROUP AND SINGLE TAXPAYER RULES.—Paragraph (4) of section 5041(c) is amended by striking "section 5051(a)(2)(B)" and inserting "section 5051(a)(5)".

1 (c) ALLOWANCE OF CREDIT FOR FOREIGN MANU-
2 FACTURERS AND IMPORTERS.—Subsection (c) of section
3 5041, as amended by subsection (a), is amended—
4 (1) in subparagraph (A) of paragraph (8), by
5 inserting "but only if the importer is an electing im-
6 porter under paragraph (9) and the wine gallons of
7 wine have been assigned to the importer pursuant to
8 such paragraph" after "into the United States dur-
9 ing the calendar year", and
10 (2) by adding at the end the following new
11 paragraph:
12 "(9) ALLOWANCE OF CREDIT FOR FOREIGN
13 MANUFACTURERS AND IMPORTERS.—
14 "(A) IN GENERAL.—In the case of any
15 wine gallons of wine which have been produced
16 outside of the United States and imported into
17 the United States, the credit allowable under
18 paragraph (8) (referred to in this paragraph as
19 the 'tax credit') may be assigned by the person
20 who produced such wine (referred to in this
21 paragraph as the 'foreign producer'), provided
22 that such person makes an election described in
23 subparagraph (B)(ii), to any electing importer
24 of such wine gallons pursuant to the require-

1 ments established by the Secretary under sub-
2 paragraph (B).
3 "(B) ASSIGNMENT.—The Secretary shall,
4 through such rules, regulations, and procedures
5 as are determined appropriate, establish proce-
6 dures for assignment of the tax credit provided
7 under this paragraph, which shall include—
8 "(i) a limitation to ensure that the
9 number of wine gallons of wine for which
10 the tax credit has been assigned by a for-
11 eign producer—
12 "(I) to any importer does not ex-
13 ceed the number of wine gallons of
14 wine produced by such foreign pro-
15 ducer during the calendar year which
16 were imported into the United States
17 by such importer, and
18 "(II) to all importers does not
19 exceed the 750,000 wine gallons of
20 wine to which the tax credit applies,
21 "(ii) procedures that allow the election
22 of a foreign producer to assign and an im-
23 porter to receive the tax credit provided
24 under this paragraph,

"(iii) requirements that the foreign producer provide any information as the Secretary determines necessary and appropriate for purposes of carrying out this paragraph, and

"(iv) procedures that allow for revocation of eligibility of the foreign producer and the importer for the tax credit provided under this paragraph in the case of any erroneous or fraudulent information provided under clause (iii) which the Secretary deems to be material to qualifying for such credit.

"(C) CONTROLLED GROUP.—For purposes of this section, any importer making an election described in subparagraph (B)(ii) shall be deemed to be a member of the controlled group of the foreign producer, as described under paragraph (4).".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to wine removed after December 31, 2017.

SEC. 13805. ADJUSTMENT OF ALCOHOL CONTENT LEVEL FOR APPLICATION OF EXCISE TAX RATES.

(a) IN GENERAL.—Paragraphs (1) and (2) of section 5041(b) are each amended by inserting "(16 percent in the case of wine removed after December 31, 2017, and before January 1, 2020" after "14 percent".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to wine removed after December 31, 2017.

SEC. 13806. DEFINITION OF MEAD AND LOW ALCOHOL BY VOLUME WINE.

(a) IN GENERAL.—Section 5041 is amended—

(1) in subsection (a), by striking "Still wines" and inserting "Subject to subsection (h), still wines", and

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

"(h) MEAD AND LOW ALCOHOL BY VOLUME WINE.—

"(1) IN GENERAL.—For purposes of subsections (a) and (b)(1), mead and low alcohol by volume wine shall be deemed to be still wines containing not more than 16 percent of alcohol by volume.

"(2) DEFINITIONS.—

"(A) MEAD.—For purposes of this section, the term 'mead' means a wine—

"(i) containing not more than 0.64 gram of carbon dioxide per hundred milliliters of wine, except that the Secretary shall by regulations prescribe such tolerances to this limitation as may be reasonably necessary in good commercial practice,

"(ii) which is derived solely from honey and water,

"(iii) which contains no fruit product or fruit flavoring, and

"(iv) which contains less than 8.5 percent alcohol by volume.

"(B) LOW ALCOHOL BY VOLUME WINE.—For purposes of this section, the term 'low alcohol by volume wine' means a wine—

"(i) containing not more than 0.64 gram of carbon dioxide per hundred milliliters of wine, except that the Secretary shall by regulations prescribe such tolerances to this limitation as may be reasonably necessary in good commercial practice,

"(ii) which is derived—

"(I) primarily from grapes, or

"(II) from grape juice concentrate and water,

"(iii) which contains no fruit product or fruit flavoring other than grape, and

"(iv) which contains less than 8.5 percent alcohol by volume.

"(3) TERMINATION.—This subsection shall not apply to wine removed after December 31, 2019.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to wine removed after December 31, 2017.

SEC. 13807. REDUCED RATE OF EXCISE TAX ON CERTAIN DISTILLED SPIRITS.

(a) IN GENERAL.—Section 5001 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) REDUCED RATE FOR 2018 AND 2019.—

"(1) IN GENERAL.—In the case of a distilled spirits operation, the otherwise applicable tax rate under subsection (a)(1) shall be—

"(A) $2.70 per proof gallon on the first 100,000 proof gallons of distilled spirits, and

1 "(B) $13.34 per proof gallon on the first
2 22,130,000 of proof gallons of distilled spirits
3 to which subparagraph (A) does not apply,
4 which have been distilled or processed by such oper-
5 ation and removed during the calendar year for con-
6 sumption or sale, or which have been imported by
7 the importer into the United States during the cal-
8 endar year.
9 "(2) CONTROLLED GROUPS.—
10 "(A) IN GENERAL.—In the case of a con-
11 trolled group, the proof gallon quantities speci-
12 fied under subparagraphs (A) and (B) of para-
13 graph (1) shall be applied to such group and
14 apportioned among the members of such group
15 in such manner as the Secretary or their dele-
16 gate shall by regulations prescribe.
17 "(B) DEFINITION.—For purposes of sub-
18 paragraph (A), the term 'controlled group' shall
19 have the meaning given such term by subsection
20 (a) of section 1563, except that 'more than 50
21 percent' shall be substituted for 'at least 80
22 percent' each place it appears in such sub-
23 section.
24 "(C) RULES FOR NON-CORPORATIONS.—
25 Under regulations prescribed by the Secretary,

1 principles similar to the principles of subpara-
2 graphs (A) and (B) shall be applied to a group
3 under common control where one or more of the
4 persons is not a corporation.

5 "(D) SINGLE TAXPAYER.—Pursuant to
6 rules issued by the Secretary, two or more enti-
7 ties (whether or not under common control)
8 that produce distilled spirits marketed under a
9 similar brand, license, franchise, or other ar-
10 rangement shall be treated as a single taxpayer
11 for purposes of the application of this sub-
12 section.

13 "(3) TERMINATION.—This subsection shall not
14 apply to distilled spirits removed after December 31,
15 2019.".

16 (b) CONFORMING AMENDMENT.—Section 7652(f)(2)
17 is amended by striking "section 5001(a)(1)" and inserting
18 "subsection (a)(1) of section 5001, determined as if sub-
19 section (c)(1) of such section did not apply".

20 (c) APPLICATION OF REDUCED TAX RATE FOR FOR-
21 EIGN MANUFACTURERS AND IMPORTERS.—Subsection (c)
22 of section 5001, as added by subsection (a), is amended—

23 (1) in paragraph (1), by inserting "but only if
24 the importer is an electing importer under para-
25 graph (3) and the proof gallons of distilled spirits

1 have been assigned to the importer pursuant to such
2 paragraph" after "into the United States during the
3 calendar year", and
4 (2) by redesignating paragraph (3) as para-
5 graph (4) and by inserting after paragraph (2) the
6 following new paragraph:
7 "(3) REDUCED TAX RATE FOR FOREIGN MANU-
8 FACTURERS AND IMPORTERS.—
9 "(A) IN GENERAL.—In the case of any
10 proof gallons of distilled spirits which have been
11 produced outside of the United States and im-
12 ported into the United States, the rate of tax
13 applicable under paragraph (1) (referred to in
14 this paragraph as the 'reduced tax rate') may
15 be assigned by the distilled sprits operation
16 (provided that such operation makes an election
17 described in subparagraph (B)(ii)) to any elect-
18 ing importer of such proof gallons pursuant to
19 the requirements established by the Secretary
20 under subparagraph (B).
21 "(B) ASSIGNMENT.—The Secretary shall,
22 through such rules, regulations, and procedures
23 as are determined appropriate, establish proce-
24 dures for assignment of the reduced tax rate

1 provided under this paragraph, which shall in-
2 clude—
3 "(i) a limitation to ensure that the
4 number of proof gallons of distilled spirits
5 for which the reduced tax rate has been as-
6 signed by a distilled spirits operation—
7 "(I) to any importer does not ex-
8 ceed the number of proof gallons pro-
9 duced by such operation during the
10 calendar year which were imported
11 into the United States by such im-
12 porter, and
13 "(II) to all importers does not
14 exceed the 22,230,000 proof gallons of
15 distilled spirits to which the reduced
16 tax rate applies,
17 "(ii) procedures that allow the election
18 of a distilled spirits operation to assign
19 and an importer to receive the reduced tax
20 rate provided under this paragraph,
21 "(iii) requirements that the distilled
22 spirits operation provide any information
23 as the Secretary determines necessary and
24 appropriate for purposes of carrying out
25 this paragraph, and

"(iv) procedures that allow for revocation of eligibility of the distilled spirits operation and the importer for the reduced tax rate provided under this paragraph in the case of any erroneous or fraudulent information provided under clause (iii) which the Secretary deems to be material to qualifying for such reduced rate.

"(C) CONTROLLED GROUP.—

"(i) IN GENERAL.—For purposes of this section, any importer making an election described in subparagraph (B)(ii) shall be deemed to be a member of the controlled group of the distilled spirits operation, as described under paragraph (2).

"(ii) APPORTIONMENT.—For purposes of this paragraph, in the case of a controlled group, rules similar to section 5051(a)(5)(B) shall apply.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distilled spirits removed after December 31, 2017.

SEC. 13808. BULK DISTILLED SPIRITS.

(a) IN GENERAL.—Section 5212 is amended by adding at the end the following sentence: "In the case of dis-

1 tilled spirits transferred in bond after December 31, 2017,
2 and before January 1, 2020, this section shall be applied
3 without regard to whether distilled spirits are bulk dis-
4 tilled spirits.".

5 (b) EFFECTIVE DATE.—The amendments made by
6 this section shall apply distilled spirits transferred in bond
7 after December 31, 2017.

8 **Subpart B—Miscellaneous Provisions**

9 **SEC. 13821. MODIFICATION OF TAX TREATMENT OF ALASKA**
10 **NATIVE CORPORATIONS AND SETTLEMENT**
11 **TRUSTS.**

12 (a) EXCLUSION FOR ANCSA PAYMENTS ASSIGNED
13 TO ALASKA NATIVE SETTLEMENT TRUSTS.—

14 (1) IN GENERAL.—Part III of subchapter B of
15 chapter 1 is amended by inserting before section 140
16 the following new section:

17 **"SEC. 139G. ASSIGNMENTS TO ALASKA NATIVE SETTLE-**
18 **MENT TRUSTS.**

19 "(a) IN GENERAL.—In the case of a Native Corpora-
20 tion, gross income shall not include the value of any pay-
21 ments that would otherwise be made, or treated as being
22 made, to such Native Corporation pursuant to, or as re-
23 quired by, any provision of the Alaska Native Claims Set-
24 tlement Act (43 U.S.C. 1601 et seq.), including any pay-
25 ment that would otherwise be made to a Village Corpora-

1 tion pursuant to section 7(j) of the Alaska Native Claims
2 Settlement Act (43 U.S.C. 1606(j)), provided that any
3 such payments—
4 "(1) are assigned in writing to a Settlement
5 Trust, and
6 "(2) were not received by such Native Corpora-
7 tion prior to the assignment described in paragraph
8 (1).
9 "(b) INCLUSION IN GROSS INCOME.—In the case of
10 a Settlement Trust which has been assigned payments de-
11 scribed in subsection (a), gross income shall include such
12 payments when received by such Settlement Trust pursu-
13 ant to the assignment and shall have the same character
14 as if such payments were received by the Native Corpora-
15 tion.
16 "(c) AMOUNT AND SCOPE OF ASSIGNMENT.—The
17 amount and scope of any assignment under subsection (a)
18 shall be described with reasonable particularity and may
19 either be in a percentage of one or more such payments
20 or in a fixed dollar amount.
21 "(d) DURATION OF ASSIGNMENT; REVOCABILITY.—
22 Any assignment under subsection (a) shall specify—
23 "(1) a duration either in perpetuity or for a pe-
24 riod of time, and
25 "(2) whether such assignment is revocable.

1 "(e) PROHIBITION ON DEDUCTION.—Notwith-
2 standing section 247, no deduction shall be allowed to a
3 Native Corporation for purposes of any amounts described
4 in subsection (a).
5 "(f) DEFINITIONS.—For purposes of this section, the
6 terms 'Native Corporation' and 'Settlement Trust' have
7 the same meaning given such terms under section
8 646(h).".
9 (2) CONFORMING AMENDMENT.—The table of
10 sections for part III of subchapter B of chapter 1
11 is amended by inserting before the item relating to
12 section 140 the following new item:

"Sec. 139G. Assignments to Alaska Native Settlement Trusts.".

13 (3) EFFECTIVE DATE.—The amendments made
14 by this subsection shall apply to taxable years begin-
15 ning after December 31, 2016.
16 (b) DEDUCTION OF CONTRIBUTIONS TO ALASKA NA-
17 TIVE SETTLEMENT TRUSTS.—
18 (1) IN GENERAL.—Part VIII of subchapter B
19 of chapter 1 is amended by inserting before section
20 248 the following new section:

21 **"SEC. 247. CONTRIBUTIONS TO ALASKA NATIVE SETTLE-**
22 **MENT TRUSTS.**

23 "(a) IN GENERAL.—In the case of a Native Corpora-
24 tion, there shall be allowed a deduction for any contribu-
25 tions made by such Native Corporation to a Settlement

1 Trust (regardless of whether an election under section 646
2 is in effect for such Settlement Trust) for which the Na-
3 tive Corporation has made an annual election under sub-
4 section (e).

5 "(b) AMOUNT OF DEDUCTION.—The amount of the
6 deduction under subsection (a) shall be equal to—

7 "(1) in the case of a cash contribution (regard-
8 less of the method of payment, including currency,
9 coins, money order, or check), the amount of such
10 contribution, or

11 "(2) in the case of a contribution not described
12 in paragraph (1), the lesser of—

13 "(A) the Native Corporation's adjusted
14 basis in the property contributed, or

15 "(B) the fair market value of the property
16 contributed.

17 "(c) LIMITATION AND CARRYOVER.—

18 "(1) IN GENERAL.—Subject to paragraph (2),
19 the deduction allowed under subsection (a) for any
20 taxable year shall not exceed the taxable income (as
21 determined without regard to such deduction) of the
22 Native Corporation for the taxable year in which the
23 contribution was made.

24 "(2) CARRYOVER.—If the aggregate amount of
25 contributions described in subsection (a) for any tax-

able year exceeds the limitation under paragraph (1), such excess shall be treated as a contribution described in subsection (a) in each of the 15 succeeding years in order of time.

"(d) DEFINITIONS.—For purposes of this section, the terms 'Native Corporation' and 'Settlement Trust' have the same meaning given such terms under section 646(h).

"(e) MANNER OF MAKING ELECTION.—

"(1) IN GENERAL.—For each taxable year, a Native Corporation may elect to have this section apply for such taxable year on the income tax return or an amendment or supplement to the return of the Native Corporation, with such election to have effect solely for such taxable year.

"(2) REVOCATION.—Any election made by a Native Corporation pursuant to this subsection may be revoked pursuant to a timely filed amendment or supplement to the income tax return of such Native Corporation.

"(f) ADDITIONAL RULES.—

"(1) EARNINGS AND PROFITS.—Notwithstanding section 646(d)(2), in the case of a Native Corporation which claims a deduction under this section for any taxable year, the earnings and profits

of such Native Corporation for such taxable year shall be reduced by the amount of such deduction.

"(2) GAIN OR LOSS.—No gain or loss shall be recognized by the Native Corporation with respect to a contribution of property for which a deduction is allowed under this section.

"(3) INCOME.—Subject to subsection (g), a Settlement Trust shall include in income the amount of any deduction allowed under this section in the taxable year in which the Settlement Trust actually receives such contribution.

"(4) PERIOD.—The holding period under section 1223 of the Settlement Trust shall include the period the property was held by the Native Corporation.

"(5) BASIS.—The basis that a Settlement Trust has for which a deduction is allowed under this section shall be equal to the lesser of—

"(A) the adjusted basis of the Native Corporation in such property immediately before such contribution, or

"(B) the fair market value of the property immediately before such contribution.

"(6) PROHIBITION.—No deduction shall be allowed under this section with respect to any con-

1 tributions made to a Settlement Trust which are in
2 violation of subsection (a)(2) or (c)(2) of section 39
3 of the Alaska Native Claims Settlement Act (43
4 U.S.C. 1629e).

5 "(g) ELECTION BY SETTLEMENT TRUST TO DEFER
6 INCOME RECOGNITION.—

7 "(1) IN GENERAL.—In the case of a contribu-
8 tion which consists of property other than cash, a
9 Settlement Trust may elect to defer recognition of
10 any income related to such property until the sale or
11 exchange of such property, in whole or in part, by
12 the Settlement Trust.

13 "(2) TREATMENT.—In the case of property de-
14 scribed in paragraph (1), any income or gain real-
15 ized on the sale or exchange of such property shall
16 be treated as—

17 "(A) for such amount of the income or
18 gain as is equal to or less than the amount of
19 income which would be included in income at
20 the time of contribution under subsection (f)(3)
21 but for the taxpayer's election under this sub-
22 section, ordinary income, and

23 "(B) for any amounts of the income or
24 gain which are in excess of the amount of in-
25 come which would be included in income at the

1 time of contribution under subsection (f)(3) but
2 for the taxpayer's election under this sub-
3 section, having the same character as if this
4 subsection did not apply.
5 "(3) ELECTION.—
6 "(A) IN GENERAL.—For each taxable year,
7 a Settlement Trust may elect to apply this sub-
8 section for any property described in paragraph
9 (1) which was contributed during such year.
10 Any property to which the election applies shall
11 be identified and described with reasonable par-
12 ticularity on the income tax return or an
13 amendment or supplement to the return of the
14 Settlement Trust, with such election to have ef-
15 fect solely for such taxable year.
16 "(B) REVOCATION.—Any election made by
17 a Settlement Trust pursuant to this subsection
18 may be revoked pursuant to a timely filed
19 amendment or supplement to the income tax re-
20 turn of such Settlement Trust.
21 "(C) CERTAIN DISPOSITIONS.—
22 "(i) IN GENERAL.—In the case of any
23 property for which an election is in effect
24 under this subsection and which is dis-
25 posed of within the first taxable year sub-

1 sequent to the taxable year in which such
2 property was contributed to the Settlement
3 Trust—
4 "(I) this section shall be applied
5 as if the election under this subsection
6 had not been made,
7 "(II) any income or gain which
8 would have been included in the year
9 of contribution under subsection (f)(3)
10 but for the taxpayer's election under
11 this subsection shall be included in in-
12 come for the taxable year of such con-
13 tribution, and
14 "(III) the Settlement Trust shall
15 pay any increase in tax resulting from
16 such inclusion, including any applica-
17 ble interest, and increased by 10 per-
18 cent of the amount of such increase
19 with interest.
20 "(ii) ASSESSMENT.—Notwithstanding
21 section 6501(a), any amount described in
22 subclause (III) of clause (i) may be as-
23 sessed, or a proceeding in court with re-
24 spect to such amount may be initiated
25 without assessment, within 4 years after

the date on which the return making the election under this subsection for such property was filed.".

(2) CONFORMING AMENDMENT.—The table of sections for part VIII of subchapter B of chapter 1 is amended by inserting before the item relating to section 248 the following new item:

"Sec. 247. Contributions to Alaska Native Settlement Trusts.".

(3) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendments made by this subsection shall apply to taxable years for which the period of limitation on refund or credit under section 6511 of the Internal Revenue Code of 1986 has not expired.

(B) ONE-YEAR WAIVER OF STATUTE OF LIMITATIONS.—If the period of limitation on a credit or refund resulting from the amendments made by paragraph (1) expires before the end of the 1-year period beginning on the date of the enactment of this Act, refund or credit of such overpayment (to the extent attributable to such amendments) may, nevertheless, be made or allowed if claim therefor is filed before the close of such 1-year period.

1 (c) INFORMATION REPORTING FOR DEDUCTIBLE
2 CONTRIBUTIONS TO ALASKA NATIVE SETTLEMENT
3 TRUSTS.—
4 (1) IN GENERAL.—Section 6039H is amend-
5 ed—
6 (A) in the heading, by striking "**SPON-**
7 **SORING**", and
8 (B) by adding at the end the following new
9 subsection:
10 "(e) DEDUCTIBLE CONTRIBUTIONS BY NATIVE COR-
11 PORATIONS TO ALASKA NATIVE SETTLEMENT TRUSTS.—
12 "(1) IN GENERAL.—Any Native Corporation (as
13 defined in subsection (m) of section 3 of the Alaska
14 Native Claims Settlement Act (43 U.S.C. 1602(m)))
15 which has made a contribution to a Settlement
16 Trust (as defined in subsection (t) of such section)
17 to which an election under subsection (e) of section
18 247 applies shall provide such Settlement Trust with
19 a statement regarding such election not later than
20 January 31 of the calendar year subsequent to the
21 calendar year in which the contribution was made.
22 "(2) CONTENT OF STATEMENT.—The state-
23 ment described in paragraph (1) shall include—

"(A) the total amount of contributions to which the election under subsection (e) of section 247 applies,

"(B) for each contribution, whether such contribution was in cash,

"(C) for each contribution which consists of property other than cash, the date that such property was acquired by the Native Corporation and the adjusted basis and fair market value of such property on the date such property was contributed to the Settlement Trust,

"(D) the date on which each contribution was made to the Settlement Trust, and

"(E) such information as the Secretary determines to be necessary or appropriate for the identification of each contribution and the accurate inclusion of income relating to such contributions by the Settlement Trust.".

(2) CONFORMING AMENDMENT.—The item relating to section 6039H in the table of sections for subpart A of part III of subchapter A of chapter 61 is amended to read as follows:

"Sec. 6039H. Information With Respect to Alaska Native Settlement Trusts and Native Corporations.".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2016.

SEC. 13822. AMOUNTS PAID FOR AIRCRAFT MANAGEMENT SERVICES.

(a) IN GENERAL.—Subsection (e) of section 4261 is amended by adding at the end the following new paragraph:

"(5) AMOUNTS PAID FOR AIRCRAFT MANAGEMENT SERVICES.—

"(A) IN GENERAL.—No tax shall be imposed by this section or section 4271 on any amounts paid by an aircraft owner for aircraft management services related to—

"(i) maintenance and support of the aircraft owner's aircraft, or

"(ii) flights on the aircraft owner's aircraft.

"(B) AIRCRAFT MANAGEMENT SERVICES.—For purposes of subparagraph (A), the term 'aircraft management services' includes—

"(i) assisting an aircraft owner with administrative and support services, such as scheduling, flight planning, and weather forecasting,

"(ii) obtaining insurance,

"(iii) maintenance, storage and fueling of aircraft,

"(iv) hiring, training, and provision of pilots and crew,

"(v) establishing and complying with safety standards, and

"(vi) such other services as are necessary to support flights operated by an aircraft owner.

"(C) LESSEE TREATED AS AIRCRAFT OWNER.—

"(i) IN GENERAL.—For purposes of this paragraph, the term 'aircraft owner' includes a person who leases the aircraft other than under a disqualified lease.

"(ii) DISQUALIFIED LEASE.—For purposes of clause (i), the term 'disqualified lease' means a lease from a person providing aircraft management services with respect to such aircraft (or a related person (within the meaning of section 465(b)(3)(C)) to the person providing such services), if such lease is for a term of 31 days or less.

"(D) PRO RATA ALLOCATION.—In the case of amounts paid to any person which (but for this subsection) are subject to the tax imposed by subsection (a), a portion of which consists of amounts described in subparagraph (A), this paragraph shall apply on a pro rata basis only to the portion which consists of amounts described in such subparagraph.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid after the date of the enactment of this Act.

SEC. 13823. OPPORTUNITY ZONES.

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

"Subchapter Z—Opportunity Zones

"Sec. 1400Z–1. Designation.
"Sec. 1400Z–2. Special rules for capital gains invested in opportunity zones.

"SEC. 1400Z–1. DESIGNATION.

"(a) QUALIFIED OPPORTUNITY ZONE DEFINED.—For the purposes of this subchapter, the term 'qualified opportunity zone' means a population census tract that is a low-income community that is designated as a qualified opportunity zone.

"(b) DESIGNATION.—

"(1) IN GENERAL.—For purposes of subsection (a), a population census tract that is a low-income

1 community is designated as a qualified opportunity
2 zone if—
3 "(A) not later than the end of the deter-
4 mination period, the governor of the State in
5 which the tract is located—
6 "(i) nominates the tract for designa-
7 tion as a qualified opportunity zone, and
8 "(ii) notifies the Secretary in writing
9 of such nomination, and
10 "(B) the Secretary certifies such nomina-
11 tion and designates such tract as a qualified op-
12 portunity zone before the end of the consider-
13 ation period.
14 "(2) EXTENSION OF PERIODS.—A governor
15 may request that the Secretary extend either the de-
16 termination or consideration period, or both (deter-
17 mined without regard to this subparagraph), for an
18 additional 30 days.
19 "(c) OTHER DEFINITIONS.—For purposes of this
20 subsection—
21 "(1) LOW-INCOME COMMUNITIES.—The term
22 'low-income community' has the same meaning as
23 when used in section 45D(e).
24 "(2) DEFINITION OF PERIODS.—

"(A) CONSIDERATION PERIOD.—The term 'consideration period' means the 30-day period beginning on the date on which the Secretary receives notice under subsection (b)(1)(A)(ii), as extended under subsection (b)(2).

"(B) DETERMINATION PERIOD.—The term 'determination period' means the 90-day period beginning on the date of the enactment of the Tax Cuts and Jobs Act, as extended under subsection (b)(2).

"(3) STATE.—For purposes of this section, the term 'State' includes any possession of the United States.

"(d) NUMBER OF DESIGNATIONS.—

"(1) IN GENERAL.—Except as provided by paragraph (2), the number of population census tracts in a State that may be designated as qualified opportunity zones under this section may not exceed 25 percent of the number of low-income communities in the State.

"(2) EXCEPTION.—If the number of low-income communities in a State is less than 100, then a total of 25 of such tracts may be designated as qualified opportunity zones.

1 "(e) DESIGNATION OF TRACTS CONTIGUOUS WITH
2 LOW-INCOME COMMUNITIES.—
3 "(1) IN GENERAL.—A population census tract
4 that is not a low-income community may be des-
5 ignated as a qualified opportunity zone under this
6 section if—
7 "(A) the tract is contiguous with the low-
8 income community that is designated as a
9 qualified opportunity zone, and
10 "(B) the median family income of the tract
11 does not exceed 125 percent of the median fam-
12 ily income of the low-income community with
13 which the tract is contiguous.
14 "(2) LIMITATION.—Not more than 5 percent of
15 the population census tracts designated in a State as
16 a qualified opportunity zone may be designated
17 under paragraph (1).
18 "(f) PERIOD FOR WHICH DESIGNATION IS IN EF-
19 FECT.—A designation as a qualified opportunity zone
20 shall remain in effect for the period beginning on the date
21 of the designation and ending at the close of the 10th cal-
22 endar year beginning on or after such date of designation.

1 **"SEC. 1400Z–2. SPECIAL RULES FOR CAPITAL GAINS IN-**
2 **VESTED IN OPPORTUNITY ZONES.**
3 "(a) IN GENERAL.—In the case of gain from the sale
4 to, or exchange with, an unrelated person of any property
5 held by the taxpayer, at the election of the taxpayer—
6 "(1) gross income for the taxable year shall not
7 include so much of such gain as does not exceed the
8 aggregate amount invested by the taxpayer in a
9 qualified opportunity fund during the 180-day period
10 beginning on the date of such sale or exchange,
11 "(2) the amount of gain excluded by paragraph
12 (1) shall be included in gross income as provided by
13 subsection (b), and
14 "(3) subsection (c) shall apply.
15 No election may be made under the preceding sentence
16 with respect to a sale or exchange if an election previously
17 made with respect to such sale or exchange is in effect.
18 "(b) DEFERRAL OF GAIN INVESTED IN OPPOR-
19 TUNITY ZONE PROPERTY.—
20 "(1) YEAR OF INCLUSION.—Gain to which sub-
21 section (a)(2) applies shall be included in income in
22 the taxable year which includes the earlier of—
23 "(A) the date on which such investment is
24 sold or exchanged, or
25 "(B) December 31, 2026.
26 "(2) AMOUNT INCLUDIBLE.—

"(A) IN GENERAL.—The amount of gain included in gross income under subsection (a)(1) shall be the excess of—

"(i) the lesser of the amount of gain excluded under paragraph (1) or the fair market value of the property as determined as of the date described in paragraph (1), over

"(ii) the taxpayer's basis in the investment.

"(B) DETERMINATION OF BASIS.—

"(i) IN GENERAL.—Except as otherwise provided in this clause or subsection (c), the taxpayer's basis in the investment shall be zero.

"(ii) INCREASE FOR GAIN RECOGNIZED UNDER SUBSECTION (a)(2).—The basis in the investment shall be increased by the amount of gain recognized by reason of subsection (a)(2) with respect to such property.

"(iii) INVESTMENTS HELD FOR 5 YEARS.—In the case of any investment held for at least 5 years, the basis of such investment shall be increased by an

1 amount equal to 10 percent of the amount
2 of gain deferred by reason of subsection
3 (a)(1).
4 "(iv) INVESTMENTS HELD FOR 7
5 YEARS.—In the case of any investment
6 held by the taxpayer for at least 7 years,
7 in addition to any adjustment made under
8 clause (iii), the basis of such property shall
9 be increased by an amount equal to 5 per-
10 cent of the amount of gain deferred by rea-
11 son of subsection (a)(1).
12 "(c) SPECIAL RULE FOR INVESTMENTS HELD FOR
13 AT LEAST 10 YEARS.—In the case of any investment held
14 by the taxpayer for at least 10 years and with respect to
15 which the taxpayer makes an election under this clause,
16 the basis of such property shall be equal to the fair market
17 value of such investment on the date that the investment
18 is sold or exchanged.
19 "(d) QUALIFIED OPPORTUNITY FUND.—For pur-
20 poses of this section—
21 "(1) QUALIFIED OPPORTUNITY FUND.—The
22 term 'qualified opportunity fund' means any invest-
23 ment vehicle which is organized as a corporation or
24 a partnership for the purpose of investing in quali-
25 fied opportunity zone property (other than another

1 qualified opportunity fund) that holds at least 90
2 percent of its assets in qualified opportunity zone
3 property, determined—
4 "(A) on the last day of the first 6-month
5 period of the taxable year of the fund, and
6 "(B) on the last day of the taxable year of
7 the fund.
8 "(2) QUALIFIED OPPORTUNITY ZONE PROP-
9 ERTY.—
10 "(A) IN GENERAL.—The term 'qualified
11 opportunity zone property' means property
12 which is—
13 "(i) qualified opportunity zone stock,
14 "(ii) qualified opportunity zone part-
15 nership interest, or
16 "(iii) qualified opportunity zone busi-
17 ness property.
18 "(B) QUALIFIED OPPORTUNITY ZONE
19 STOCK.—
20 "(i) IN GENERAL.—Except as pro-
21 vided in clause (ii), the term 'qualified op-
22 portunity zone stock' means any stock in a
23 domestic corporation if—
24 "(I) such stock is acquired by the
25 taxpayer after December 31, 2017, at

its original issue (directly or through an underwriter) from the corporation solely in exchange for cash,

"(II) as of the time such stock was issued, such corporation was a qualified opportunity zone business (or, in the case of a new corporation, such corporation was being organized for purposes of being a qualified opportunity zone business), and

"(III) during substantially all of the taxpayer's holding period for such stock, such corporation qualified as a qualified opportunity zone business.

"(ii) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

"(C) QUALIFIED OPPORTUNITY ZONE PARTNERSHIP INTEREST.—The term 'qualified opportunity zone partnership interest' means any capital or profits interest in a domestic partnership if—

"(i) such interest is acquired by the taxpayer after December 31, 2017, from the partnership solely in exchange for cash,

"(ii) as of the time such interest was acquired, such partnership was a qualified opportunity zone business (or, in the case of a new partnership, such partnership was being organized for purposes of being a qualified opportunity zone business), and

"(iii) during substantially all of the taxpayer's holding period for such interest, such partnership qualified as a qualified opportunity zone business.

"(D) QUALIFIED OPPORTUNITY ZONE BUSINESS PROPERTY.—

"(i) IN GENERAL.—The term 'qualified opportunity zone business property' means tangible property used in a trade or business of the taxpayer if—

"(I) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2017,

"(II) the original use of such property in the qualified opportunity zone commences with the taxpayer or the taxpayer substantially improves the property, and

"(III) during substantially all of the taxpayer's holding period for such property, substantially all of the use of such property was in a qualified opportunity zone.

"(ii) SUBSTANTIAL IMPROVEMENT.—For purposes of subparagraph (A)(ii), property shall be treated as substantially improved by the taxpayer only if, during any 30-month period beginning after the date of acquisition of such property, additions to basis with respect to such property in the hands of the taxpayer exceed an amount equal to the adjusted basis of such property at the beginning of such 30-month period in the hands of the taxpayer.

"(iii) RELATED PARTY.—For purposes of subparagraph (A)(i), the related person rule of section 179(d)(2) shall be applied pursuant to paragraph (8) of this subsection in lieu of the application of such rule in section 179(d)(2)(A).

"(3) QUALIFIED OPPORTUNITY ZONE BUSINESS.—

"(A) IN GENERAL.—The term 'qualified opportunity zone business' means a trade or business—

"(i) in which substantially all of the tangible property owned or leased by the taxpayer is qualified opportunity zone business property,

"(ii) which satisfies the requirements of paragraphs (2), (4), and (8) of section 1397C(b), and

"(iii) which is not described in section 144(c)(6)(B).

"(B) SPECIAL RULE.—For purposes of subparagraph (A), tangible property that ceases to be a qualified opportunity zone business property shall continue to be treated as a qualified opportunity zone business property for the lesser of—

"(i) 5 years after the date on which such tangible property ceases to be so qualified, or

"(ii) the date on which such tangible property is no longer held by the qualified opportunity zone business.

"(e) APPLICABLE RULES.—

"(1) TREATMENT OF INVESTMENTS WITH MIXED FUNDS.—In the case of any investment in a qualified opportunity fund only a portion of which consists of investments of gain to which an election under subsection (a)(1) is in effect—

"(A) such investment shall be treated as 2 separate investments, consisting of—

"(i) one investment that only includes amounts to which the election under subsection (a)(1) applies, and

"(ii) a separate investment consisting of other amounts, and

"(B) subsections (a), (b), and (c) shall only apply to the investment described in subparagraph (A)(i).

"(2) RELATED PERSONS.—For purposes of this section, persons are related to each other if such persons are described in section 267(b) or 707(b)(1), determined by substituting '20 percent' for '50 percent' each place it occurs in such sections.

"(3) DECEDENTS.—In the case of a decedent, amounts recognized under this section shall, if not properly includible in the gross income of the decedent, be includible in gross income as provided by section 691.

"(4) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including—

"(A) rules for the certification of qualified opportunity funds for the purposes of this section, and

"(B) rules to prevent abuse.

"(f) FAILURE OF QUALIFIED OPPORTUNITY FUND TO MAINTAIN INVESTMENT STANDARD.—

"(1) IN GENERAL.—If a qualified opportunity fund fails to meet the 90-percent requirement of subsection (c)(1), the qualified opportunity fund shall pay a penalty for each month it fails to meet the requirement in an amount equal to the product of—

"(A) the excess of—

"(i) the amount equal to 90 percent of its aggregate assets, over

"(ii) the aggregate amount of qualified opportunity zone property held by the fund, multiplied by

"(B) the underpayment rate established under section 6621(a)(2) for such month.

1 "(2) SPECIAL RULE FOR PARTNERSHIPS.—In
2 the case that the qualified opportunity fund is a
3 partnership, the penalty imposed by paragraph (1)
4 shall be taken into account proportionately as part
5 of the distributive share of each partner of the part-
6 nership.
7 "(3) REASONABLE CAUSE EXCEPTION.—No
8 penalty shall be imposed under this subsection with
9 respect to any failure if it is shown that such failure
10 is due to reasonable cause.".
11 (b) BASIS ADJUSTMENTS.—Section 1016(a) is
12 amended by striking "and" at the end of paragraph (36),
13 by striking the period at the end of paragraph (37) and
14 inserting ", and", and by inserting after paragraph (37)
15 the following:
16 "(38) to the extent provided in subsections
17 (b)(2) and (c) of section 1400Z–2.".
18 (c) CLERICAL AMENDMENT.—The table of sub-
19 chapters for chapter 1 is amended by adding at the end
20 the following new item:

"SUBCHAPTER Z. OPPORTUNITY ZONES".

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall take effect on the date of the enactment
23 of this Act.

Subtitle D—International Tax Provisions

PART I—OUTBOUND TRANSACTIONS

Subpart A—Establishment of Participation Exemption System for Taxation of Foreign Income

SEC. 14101. DEDUCTION FOR FOREIGN-SOURCE PORTION OF DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

(a) IN GENERAL.—Part VIII of subchapter B of chapter 1 is amended by inserting after section 245 the following new section:

"SEC. 245A. DEDUCTION FOR FOREIGN SOURCE-PORTION OF DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

"(a) IN GENERAL.—In the case of any dividend received from a specified 10-percent owned foreign corporation by a domestic corporation which is a United States shareholder with respect to such foreign corporation, there shall be allowed as a deduction an amount equal to the foreign-source portion of such dividend.

"(b) SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION.—For purposes of this section—

"(1) IN GENERAL.—The term 'specified 10-percent owned foreign corporation' means any foreign corporation with respect to which any domestic corporation is a United States shareholder with respect to such corporation.

"(2) EXCLUSION OF PASSIVE FOREIGN INVESTMENT COMPANIES.—Such term shall not include any corporation which is a passive foreign investment company (as defined in section 1297) with respect to the shareholder and which is not a controlled foreign corporation.

"(c) FOREIGN-SOURCE PORTION.—For purposes of this section—

"(1) IN GENERAL.—The foreign-source portion of any dividend from a specified 10-percent owned foreign corporation is an amount which bears the same ratio to such dividend as—

"(A) the undistributed foreign earnings of the specified 10-percent owned foreign corporation, bears to

"(B) the total undistributed earnings of such foreign corporation.

"(2) UNDISTRIBUTED EARNINGS.—The term 'undistributed earnings' means the amount of the earnings and profits of the specified 10-percent

1 owned foreign corporation (computed in accordance
2 with sections 964(a) and 986)—
3 "(A) as of the close of the taxable year of
4 the specified 10-percent owned foreign corpora-
5 tion in which the dividend is distributed, and
6 "(B) without diminution by reason of divi-
7 dends distributed during such taxable year.
8 "(3) UNDISTRIBUTED FOREIGN EARNINGS.—
9 The term 'undistributed foreign earnings' means the
10 portion of the undistributed earnings which is attrib-
11 utable to neither—
12 "(A) income described in subparagraph (A)
13 of section 245(a)(5), nor
14 "(B) dividends described in subparagraph
15 (B) of such section (determined without regard
16 to section 245(a)(12)).
17 "(d) DISALLOWANCE OF FOREIGN TAX CREDIT,
18 ETC.—
19 "(1) IN GENERAL.—No credit shall be allowed
20 under section 901 for any taxes paid or accrued (or
21 treated as paid or accrued) with respect to any dis-
22 tribution any portion of which constitutes a dividend
23 for which a deduction is allowed under this section.
24 "(2) DENIAL OF DEDUCTION.—No deduction
25 shall be allowed under this chapter for any tax for

1 which credit is not allowable under section 901 by
2 reason of paragraph (1) (determined by treating the
3 taxpayer as having elected the benefits of subpart A
4 of part III of subchapter N).
5 "(e) SPECIAL RULES FOR HYBRID DIVIDENDS.—
6 "(1) IN GENERAL.—Subsection (a) shall not
7 apply to any dividend received by a United States
8 shareholder from a controlled foreign corporation if
9 the dividend is a hybrid dividend.
10 "(2) HYBRID DIVIDENDS OF TIERED CORPORA-
11 TIONS.—If a controlled foreign corporation with re-
12 spect to which a domestic corporation is a United
13 States shareholder receives a hybrid dividend from
14 any other controlled foreign corporation with respect
15 to which such domestic corporation is also a United
16 States shareholder, then, notwithstanding any other
17 provision of this title—
18 "(A) the hybrid dividend shall be treated
19 for purposes of section 951(a)(1)(A) as subpart
20 F income of the receiving controlled foreign cor-
21 poration for the taxable year of the controlled
22 foreign corporation in which the dividend was
23 received, and
24 "(B) the United States shareholder shall
25 include in gross income an amount equal to the

1 shareholder's pro rata share (determined in the
2 same manner as under section 951(a)(2)) of the
3 subpart F income described in subparagraph
4 (A).
5 "(3) DENIAL OF FOREIGN TAX CREDIT, ETC.—
6 The rules of subsection (d) shall apply to any hybrid
7 dividend received by, or any amount included under
8 paragraph (2) in the gross income of, a United
9 States shareholder.
10 "(4) HYBRID DIVIDEND.—The term 'hybrid
11 dividend' means an amount received from a con-
12 trolled foreign corporation—
13 "(A) for which a deduction would be al-
14 lowed under subsection (a) but for this sub-
15 section, and
16 "(B) for which the controlled foreign cor-
17 poration received a deduction (or other tax ben-
18 efit) from taxes imposed by any foreign coun-
19 try.
20 "(f) SPECIAL RULE FOR PURGING DISTRIBUTIONS
21 OF PASSIVE FOREIGN INVESTMENT COMPANIES.—Any
22 amount which is treated as a dividend under section
23 1291(d)(2)(B) shall not be treated as a dividend for pur-
24 poses of this section.

"(g) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section, including regulations for the treatment of United States shareholders owning stock of a specified 10 percent owned foreign corporation through a partnership.".

(b) APPLICATION OF HOLDING PERIOD REQUIREMENT.—Subsection (c) of section 246 is amended—

(1) by striking "or 245" in paragraph (1) and inserting "245, or 245A", and

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

"(5) SPECIAL RULES FOR FOREIGN SOURCE PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

"(A) 1-YEAR HOLDING PERIOD REQUIREMENT.—For purposes of section 245A—

"(i) paragraph (1)(A) shall be applied—

"(I) by substituting '365 days' for '45 days' each place it appears, and

"(II) by substituting '731-day period' for '91-day period', and

"(ii) paragraph (2) shall not apply.

"(B) STATUS MUST BE MAINTAINED DURING HOLDING PERIOD.—For purposes of applying paragraph (1) with respect to section 245A, the taxpayer shall be treated as holding the stock referred to in paragraph (1) for any period only if—

"(i) the specified 10-percent owned foreign corporation referred to in section 245A(a) is a specified 10-percent owned foreign corporation at all times during such period, and

"(ii) the taxpayer is a United States shareholder with respect to such specified 10-percent owned foreign corporation at all times during such period.".

(c) APPLICATION OF RULES GENERALLY APPLICABLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

(1) TREATMENT OF DIVIDENDS FROM CERTAIN CORPORATIONS.—Paragraph (1) of section 246(a) is amended by striking "and 245" and inserting "245, and 245A".

(2) ASSETS GENERATING TAX-EXEMPT PORTION OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLOCATING AND APPORTIONING DEDUCTIBLE EXPENSES.—Paragraph (3) of section 864(e) is amend-

ed by striking "or 245(a)" and inserting ", 245(a), or 245A".

(3) COORDINATION WITH SECTION 1059.—Subparagraph (B) of section 1059(b)(2) is amended by striking "or 245" and inserting "245, or 245A".

(d) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Subsection (b) of section 904 is amended by adding at the end the following new paragraph:

"(5) TREATMENT OF DIVIDENDS FOR WHICH DEDUCTION IS ALLOWED UNDER SECTION 245A.—For purposes of subsection (a), in the case of a domestic corporation which is a United States shareholder with respect to a specified 10-percent owned foreign corporation, such domestic corporation's taxable income from sources without the United States shall be determined without regard to—

"(A) the foreign-source portion of any dividend received from such foreign corporation, and

"(B) any deductions properly allocable to such portion.

Any term which is used in section 245A and in this paragraph shall have the same meaning for purposes of this paragraph as when used in such section.".

(e) CONFORMING AMENDMENTS.—

1 (1) Subsection (b) of section 951 is amended by
2 striking "subpart" and inserting "title".
3 (2) Subsection (a) of section 957 is amended by
4 striking "subpart" in the matter preceding para-
5 graph (1) and inserting "title".
6 (3) The table of sections for part VIII of sub-
7 chapter B of chapter 1 is amended by inserting after
8 the item relating to section 245 the following new
9 item:

"Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.".

10 (f) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years of foreign corpora-
12 tions beginning after December 31, 2017, and to taxable
13 years of United States shareholders in which or with which
14 such taxable years of foreign corporations end.

15 **SEC. 14102. SPECIAL RULES RELATING TO SALES OR**
16 **TRANSFERS INVOLVING SPECIFIED 10-PER-**
17 **CENT OWNED FOREIGN CORPORATIONS.**

18 (a) SALES BY UNITED STATES PERSONS OF
19 STOCK.—Section 1248 is amended by redesignating sub-
20 section (j) as subsection (k) and by inserting after sub-
21 section (i) the following new subsection:
22 "(j) COORDINATION WITH DIVIDENDS RECEIVED
23 DEDUCTION.—In the case of the sale or exchange by a
24 domestic corporation of stock in a foreign corporation held

1 for 1 year or more, any amount received by the domestic
2 corporation which is treated as a dividend by reason of
3 this section shall be treated as a dividend for purposes
4 of applying section 245A.".

5 (b) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
6 EIGN CORPORATION REDUCED BY NONTAXED PORTION
7 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

8 (1) IN GENERAL.—Section 961 is amended by
9 adding at the end the following new subsection:

10 "(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
11 EIGN CORPORATION REDUCED BY NONTAXED PORTION
12 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—
13 If a domestic corporation receives a dividend from a speci-
14 fied 10-percent owned foreign corporation (as defined in
15 section 245A) in any taxable year, solely for purposes of
16 determining loss on any disposition of stock of such for-
17 eign corporation in such taxable year or any subsequent
18 taxable year, the basis of such domestic corporation in
19 such stock shall be reduced (but not below zero) by the
20 amount of any deduction allowable to such domestic cor-
21 poration under section 245A with respect to such stock.".

22 (2) EFFECTIVE DATE.—The amendments made
23 by this subsection shall apply to dividends received
24 in taxable years beginning after December 31, 2017.

1 (c) SALE BY A CFC OF A LOWER TIER CFC.—Sec-
2 tion 964(e) is amended by adding at the end the following
3 new paragraph:
4 "(4) COORDINATION WITH DIVIDENDS RE-
5 CEIVED DEDUCTION.—
6 "(A) IN GENERAL.—If, for any taxable
7 year of a controlled foreign corporation begin-
8 ning after December 31, 2017, any amount is
9 treated as a dividend under paragraph (1) by
10 reason of a sale or exchange by the controlled
11 foreign corporation of stock in another foreign
12 corporation held for 1 year or more, then, not-
13 withstanding any other provision of this title—
14 "(i) the foreign-source portion of such
15 dividend shall be treated for purposes of
16 section 951(a)(1)(A) as subpart F income
17 of the selling controlled foreign corporation
18 for such taxable year,
19 "(ii) a United States shareholder with
20 respect to the selling controlled foreign cor-
21 poration shall include in gross income for
22 the taxable year of the shareholder with or
23 within which such taxable year of the con-
24 trolled foreign corporation ends an amount
25 equal to the shareholder's pro rata share

(determined in the same manner as under section 951(a)(2)) of the amount treated as subpart F income under clause (i), and

"(iii) the deduction under section 245A(a) shall be allowable to the United States shareholder with respect to the subpart F income included in gross income under clause (ii) in the same manner as if such subpart F income were a dividend received by the shareholder from the selling controlled foreign corporation.

"(B) EFFECT OF LOSS ON EARNINGS AND PROFITS.—For purposes of this title, in the case of a sale or exchange by a controlled foreign corporation of stock in another foreign corporation in a taxable year of the selling controlled foreign corporation beginning after December 31, 2017, to which this paragraph would apply if gain were recognized, the earnings and profits of the selling controlled foreign corporation shall not be reduced by reason of any loss from such sale or exchange.

"(C) FOREIGN-SOURCE PORTION.—For purposes of this paragraph, the foreign-source portion of any amount treated as a dividend

under paragraph (1) shall be determined in the same manner as under section 245A(c).".

(d) TREATMENT OF FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

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

"SEC. 91. CERTAIN FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

"(a) IN GENERAL.—If a domestic corporation transfers substantially all of the assets of a foreign branch (within the meaning of section 367(a)(3)(C), as in effect before the date of the enactment of the Tax Cuts and Jobs Act) to a specified 10-percent owned foreign corporation (as defined in section 245A) with respect to which it is a United States shareholder after such transfer, such domestic corporation shall include in gross income for the taxable year which includes such transfer an amount equal to the transferred loss amount with respect to such transfer.

"(b) LIMITATION AND CARRYFORWARD BASED ON FOREIGN-SOURCE DIVIDENDS RECEIVED.—

"(1) IN GENERAL.—The amount included in the gross income of the taxpayer under subsection (a) for any taxable year shall not exceed the amount allowed as a deduction under section 245A for such taxable year (taking into account dividends received from all specified 10-percent owned foreign corporations with respect to which the taxpayer is a United States shareholder).

"(2) AMOUNTS NOT INCLUDED CARRIED FORWARD.—Any amount not included in gross income for any taxable year by reason of paragraph (1) shall, subject to the application of paragraph (1) to the succeeding taxable year, be included in gross income for the succeeding taxable year.

"(c) TRANSFERRED LOSS AMOUNT.—For purposes of this section, the term 'transferred loss amount' means, with respect to any transfer of substantially all of the assets of a foreign branch, the excess (if any) of—

"(1) the sum of losses—

"(A) which were incurred by the foreign branch after December 31, 2017, and before the transfer, and

"(B) with respect to which a deduction was allowed to the taxpayer, over

"(2) the sum of—

"(A) any taxable income of such branch for a taxable year after the taxable year in which the loss was incurred and through the close of the taxable year of the transfer, and

"(B) any amount which is recognized under section 904(f)(3) on account of the transfer.

"(d) REDUCTION FOR RECOGNIZED GAINS.—The transferred loss amount shall be reduced (but not below zero) by the amount of gain recognized by the taxpayer on account of the transfer (other than amounts taken into account under subsection (c)(2)(B)).

"(e) SOURCE OF INCOME.—Amounts included in gross income under this section shall be treated as derived from sources within the United States.

"(f) BASIS ADJUSTMENTS.—Consistent with such regulations or other guidance as the Secretary shall prescribe, proper adjustments shall be made in the adjusted basis of the taxpayer's stock in the specified 10-percent owned foreign corporation to which the transfer is made, and in the transferee's adjusted basis in the property transferred, to reflect amounts included in gross income under this section.".

(2) CLERICAL AMENDMENT.—The table of sections for part II of subchapter B of chapter 1 is

1 amended by adding at the end the following new
2 item:

"Sec. 91. Certain foreign branch losses transferred to specified 10-percent owned foreign corporations.".

3 (3) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to transfers after De-
5 cember 31, 2017.
6 (e) REPEAL OF ACTIVE TRADE OR BUSINESS EXCEP-
7 TION UNDER SECTION 367.—
8 (1) IN GENERAL.—Section 367(a) is amended
9 by striking paragraph (3) and redesignating para-
10 graphs (4), (5), and (6) as paragraphs (3), (4), and
11 (5), respectively
12 (2) CONFORMING AMENDMENTS.—Section
13 367(a)(4), as redesignated by paragraph (1), is
14 amended—
15 (A) by striking "Paragraphs (2) and (3)"
16 and inserting "Paragraph (2)", and
17 (B) by striking "PARAGRAPHS (2) AND (3)"
18 in the heading and inserting "PARAGRAPH (2)".
19 (3) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to transfers after De-
21 cember 31, 2017.

1 **SEC. 14103. TREATMENT OF DEFERRED FOREIGN INCOME**
2 **UPON TRANSITION TO PARTICIPATION EX-**
3 **EMPTION SYSTEM OF TAXATION.**

4 (a) IN GENERAL.—Section 965 is amended to read
5 as follows:

6 **"SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**
7 **UPON TRANSITION TO PARTICIPATION EX-**
8 **EMPTION SYSTEM OF TAXATION.**

9 "(a) TREATMENT OF DEFERRED FOREIGN INCOME
10 AS SUBPART F INCOME.—In the case of the last taxable
11 year of a deferred income corporation which begins before
12 January 1, 2018, the subpart F income of such foreign
13 corporation (as otherwise determined for such taxable year
14 under section 952) shall be increased by the greater of—

15 "(1) the accumulated post-1986 deferred for-
16 eign income of such corporation determined as of
17 November 9, 2017, or

18 "(2) the accumulated post-1986 deferred for-
19 eign income of such corporation determined as of
20 December 31, 2017.

21 "(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS
22 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-
23 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-
24 INGS AND PROFITS.—

25 "(1) IN GENERAL.—In the case of a taxpayer
26 which is a United States shareholder with respect to

at least one deferred foreign income corporation and at least one E&P deficit foreign corporation, the amount which would (but for this subsection) be taken into account under section 951(a)(1) by reason of subsection (a) as such United States shareholder's pro rata share of the subpart F income of each deferred foreign income corporation shall be reduced by the amount of such United States shareholder's aggregate foreign E&P deficit which is allocated under paragraph (2) to such deferred foreign income corporation.

"(2) ALLOCATION OF AGGREGATE FOREIGN E&P DEFICIT.—The aggregate foreign E&P deficit of any United States shareholder shall be allocated among the deferred foreign income corporations of such United States shareholder in an amount which bears the same proportion to such aggregate as—

"(A) such United States shareholder's pro rata share of the accumulated post-1986 deferred foreign income of each such deferred foreign income corporation, bears to

"(B) the aggregate of such United States shareholder's pro rata share of the accumulated post-1986 deferred foreign income of all de-

1 ferred foreign income corporations of such
2 United States shareholder.
3 "(3) DEFINITIONS RELATED TO E&P DEFI-
4 CITS.—For purposes of this subsection—
5 "(A) AGGREGATE FOREIGN E&P DEF-
6 ICIT.—
7 "(i) IN GENERAL.—The term 'aggre-
8 gate foreign E&P deficit' means, with re-
9 spect to any United States shareholder, the
10 lesser of—
11 "(I) the aggregate of such share-
12 holder's pro rata shares of the speci-
13 fied E&P deficits of the E&P deficit
14 foreign corporations of such share-
15 holder, or
16 "(II) the amount determined
17 under paragraph (2)(B).
18 "(ii) ALLOCATION OF DEFICIT.—If
19 the amount described in clause (i)(II) is
20 less than the amount described in clause
21 (i)(I), then the shareholder shall designate,
22 in such form and manner as the Secretary
23 determines—
24 "(I) the amount of the specified
25 E&P deficit which is to be taken into

1 account for each E&P deficit corpora-
2 tion with respect to the taxpayer, and
3 "(II) in the case of an E&P def-
4 icit corporation which has a qualified
5 deficit (as defined in section 952), the
6 portion (if any) of the deficit taken
7 into account under subclause (I)
8 which is attributable to a qualified
9 deficit, including the qualified activi-
10 ties to which such portion is attrib-
11 utable.
12 "(B) E&P DEFICIT FOREIGN CORPORA-
13 TION.—The term 'E&P deficit foreign corpora-
14 tion' means, with respect to any taxpayer, any
15 specified foreign corporation with respect to
16 which such taxpayer is a United States share-
17 holder, if—
18 "(i) such specified foreign corporation
19 has a deficit in post-1986 earnings and
20 profits, and
21 "(ii) as of November 9, 2017—
22 "(I) such corporation was a spec-
23 ified foreign corporation, and

"(II) such taxpayer was a United States shareholder of such corporation.

"(C) SPECIFIED E&P DEFICIT.—The term 'specified E&P deficit' means, with respect to any E&P deficit foreign corporation, the amount of the deficit referred to in subparagraph (B).

"(4) TREATMENT OF EARNINGS AND PROFITS IN FUTURE YEARS.—

"(A) REDUCED EARNINGS AND PROFITS TREATED AS PREVIOUSLY TAXED INCOME WHEN DISTRIBUTED.—For purposes of applying section 959 in any taxable year beginning after December 31, 2017, with respect to any United States shareholder of a deferred foreign income corporation, an amount equal to such shareholder's reduction under paragraph (1) which is allocated to such deferred foreign income corporation under this subsection shall be treated as an amount which was included in the gross income of such United States shareholder under section 951(a).

"(B) E&P DEFICITS.—For purposes of this title, a United States shareholder's pro rata

share of the earnings and profits of any specified E&P deficit foreign corporation under this subsection shall be increased by the amount of the specified E&P deficit of such corporation taken into account by such shareholder under paragraph (1), and, for purposes of section 952, such increase shall be attributable to the same activity to which the deficit so taken into account was attributable.

"(c) APPLICATION OF PARTICIPATION EXEMPTION TO INCLUDED INCOME.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, there shall be allowed as a deduction for the taxable year in which an amount is included in the gross income of such United States shareholder under section 951(a)(1) by reason of this section an amount equal to the sum of—

"(A) 78.6 percent of the excess (if any) of—

"(i) the amount so included as gross income, over

"(ii) the amount of such United States shareholder's aggregate foreign cash position, plus

"(B) 58.6 percent of so much of the amount described in subparagraph (A)(ii) as does not exceed the amount described in subparagraph (A)(i).

"(2) AGGREGATE FOREIGN CASH POSITION.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'aggregate foreign cash position' means, with respect to any United States shareholder, the greater of—

"(i) the aggregate of such United States shareholder's pro rata share of the cash position of each specified foreign corporation of such United States shareholder determined as of the close of the last taxable year of such specified foreign corporation which begins before January 1, 2018, or

"(ii) one half of the sum of—

"(I) the aggregate described in clause (i) determined as of the close of the last taxable year of each such specified foreign corporation which ends before November 9, 2017, plus

"(II) the aggregate described in clause (i) determined as of the close of

1 the taxable year of each such specified
2 foreign corporation which precedes the
3 taxable year referred to in subclause
4 (I).
5 "(B) CASH POSITION.—For purposes of
6 this paragraph, the cash position of any speci-
7 fied foreign corporation is the sum of—
8 "(i) cash and foreign currency held by
9 such foreign corporation,
10 "(ii) the net accounts receivable of
11 such foreign corporation, plus
12 "(iii) the fair market value of the fol-
13 lowing assets held by such corporation:
14 "(I) Personal property which is
15 of a type that is actively traded and
16 for which there is an established fi-
17 nancial market (other than stock in
18 the specified foreign corporation).
19 "(II) Commercial paper, certifi-
20 cates of deposit, the securities of the
21 Federal government and of any State
22 or foreign government.
23 "(III) Any obligation with a term
24 of less than one year.

"(IV) Any asset which the Secretary identifies as being economically equivalent to any asset described in this subparagraph.

"(C) NET ACCOUNTS RECEIVABLE.—For purposes of this paragraph, the term 'net accounts receivable' means, with respect to any specified foreign corporation, the excess (if any) of—

"(i) such corporation's accounts receivable, over

"(ii) such corporation's accounts payable (determined consistent with the rules of section 461).

"(D) PREVENTION OF DOUBLE COUNTING.—Cash positions of a specified foreign corporation described in clause (ii) or (iii)(III) of subparagraph (B) shall not be taken into account by a United States shareholder under subparagraph (A) to the extent that such United States shareholder demonstrates to the satisfaction of the Secretary that such amount is so taken into account by such United States shareholder with respect to another specified foreign corporation.

1 "(E) CASH POSITIONS OF CERTAIN NON-
2 CORPORATE ENTITIES TAKEN INTO ACCOUNT.—
3 An entity shall be treated as a specified foreign
4 corporation of a United States shareholder for
5 purposes of determining such United States
6 shareholder's aggregate foreign cash position
7 if—
8 "(i) such entity is a foreign entity
9 which would be a specified foreign corpora-
10 tion of such United States shareholder if
11 such entity were a corporation, or
12 "(ii) any interest in such entity is held
13 by a specified foreign corporation of such
14 United States shareholder (determined
15 after application of clause (i)) and such en-
16 tity would be a specified foreign corpora-
17 tion of such United States shareholder if
18 such entity were a foreign corporation.
19 "(F) ANTI-ABUSE.—If the Secretary deter-
20 mines that a principal purpose of any trans-
21 action was to reduce the aggregate foreign cash
22 position taken into account under this sub-
23 section, such transaction shall be disregarded
24 for purposes of this subsection.

1 "(d) DEFERRED FOREIGN INCOME CORPORATION;
2 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-
3 COME.—For purposes of this section—
4 "(1) DEFERRED FOREIGN INCOME CORPORA-
5 TION.—The term 'deferred foreign income corpora-
6 tion' means, with respect to any United States
7 shareholder, any specified foreign corporation of
8 such United States shareholder which has accumu-
9 lated post-1986 deferred foreign income (as of the
10 close of the taxable year referred to in subsection
11 (a)) greater than zero.
12 "(2) ACCUMULATED POST-1986 DEFERRED FOR-
13 EIGN INCOME.—The term 'accumulated post-1986
14 deferred foreign income' means the post-1986 earn-
15 ings and profits except to the extent such earnings—
16 "(A) are attributable to income of the
17 specified foreign corporation which is effectively
18 connected with the conduct of a trade or busi-
19 ness within the United States and subject to
20 tax under this chapter, or
21 "(B) in the case of a controlled foreign
22 corporation, if distributed, would be excluded
23 from the gross income of a United States share-
24 holder under section 959.

1 To the extent provided in regulations or other guid-
2 ance prescribed by the Secretary, in the case of any
3 controlled foreign corporation which has share-
4 holders which are not United States shareholders,
5 accumulated post-1986 deferred foreign income shall
6 be appropriately reduced by amounts which would be
7 described in subparagraph (B) if such shareholders
8 were United States shareholders.

9 "(3) POST-1986 EARNINGS AND PROFITS.—The
10 term 'post-1986 earnings and profits' means the
11 earnings and profits of the foreign corporation (com-
12 puted in accordance with sections 964(a) and 986,
13 and by only taking into account periods when the
14 foreign corporation was a specified foreign corpora-
15 tion) accumulated in taxable years beginning after
16 December 31, 1986, and determined—

17 "(A) as of the date of the taxable year re-
18 ferred to in paragraph (1) or (2) of subsection
19 (a), whichever is applicable with respect to such
20 foreign corporation, and

21 "(B) without diminution by reason of divi-
22 dends distributed during the taxable year end-
23 ing with or including such date.

24 "(e) SPECIFIED FOREIGN CORPORATION.—

"(1) IN GENERAL.—For purposes of this section, the term 'specified foreign corporation' means—

"(A) any controlled foreign corporation, and

"(B) any section 902 corporation (as defined in section 909(d)(5) as in effect before the date of the enactment of the Tax Cuts and Jobs Act).

"(2) APPLICATION TO SECTION 902 CORPORATIONS.—For purposes of sections 951 and 961, a section 902 corporation (as so defined) shall be treated as a controlled foreign corporation solely for purposes of taking into account the subpart F income of such corporation under subsection (a) (and for purposes of applying subsection (e)).

"(3) EXCLUSION OF PASSIVE FOREIGN INVESTMENT COMPANIES.—Such term shall not include any corporation which is a passive foreign investment company (as defined in section 1297) with respect to the shareholder and which is not a controlled foreign corporation.

"(f) DETERMINATIONS OF PRO RATA SHARE.—For purposes of this section, the determination of any United States shareholder's pro rata share of any amount with

respect to any specified foreign corporation shall be determined under rules similar to the rules of section 951(a)(2) by treating such amount in the same manner as subpart F income (and by treating such specified foreign corporation as a controlled foreign corporation).

"(g) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

"(1) IN GENERAL.—No credit shall be allowed under section 901 for the applicable percentage of any taxes paid or accrued (or treated as paid or accrued) with respect to any amount for which a deduction is allowed under this section.

"(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means the amount (expressed as a percentage) equal to the sum of—

"(A) 0.786 multiplied by the ratio of—

"(i) the excess to which subsection (c)(1)(A) applies, divided by

"(ii) the sum of such excess plus the amount to which subsection (c)(1)(B) applies, plus

"(B) 0.586 multiplied by the ratio of—

"(i) the amount to which subsection (c)(1)(B) applies, divided by

"(ii) the sum described in subparagraph (A)(ii).

"(3) DENIAL OF DEDUCTION.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1) (determined by treating the taxpayer as having elected the benefits of subpart A of part III of subchapter N).

"(4) COORDINATION WITH SECTION 78.—Section 78 shall not apply to any tax for which credit is not allowable under section 901 by reason of paragraph (1).

"(h) ELECTION TO PAY LIABILITY IN INSTALLMENTS.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, such United States shareholder may elect to pay the net tax liability under this section in 8 installments of the following amounts:

"(A) 8 percent of the net tax liability in the case of each of the first 5 of such installments,

"(B) 15 percent of the net tax liability in the case of the 6th such installment,

"(C) 20 percent of the net tax liability in the case of the 7th such installment, and

"(D) 25 percent of the net tax liability in the case of the 8th such installment.

"(2) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under paragraph (1), the first installment shall be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described in subsection (a) and each succeeding installment shall be paid on the due date (as so determined) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.

"(3) ACCELERATION OF PAYMENT.—If there is an addition to tax for failure to timely pay any installment required under this subsection, a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case), a cessation of business by the taxpayer, or any similar circumstance, then the unpaid portion of all remaining installments shall be due on the date of such event (or in the case of a title 11 or similar case, the day before the petition is filed). The preceding sentence shall not apply to the sale of substantially

all the assets of a taxpayer to a buyer if such buyer enters into an agreement with the Secretary under which such buyer is liable for the remaining installments due under this subsection in the same manner as if such buyer were the taxpayer.

"(4) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under paragraph (1) to pay the net tax liability under this section in installments and a deficiency has been assessed with respect to such net tax liability, the deficiency shall be prorated to the installments payable under paragraph (1). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(5) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in sub-

1 section (a) and shall be made in such manner as the
2 Secretary shall provide.
3 "(6) NET TAX LIABILITY UNDER THIS SEC-
4 TION.—For purposes of this subsection—
5 "(A) IN GENERAL.—The net tax liability
6 under this section with respect to any United
7 States shareholder is the excess (if any) of—
8 "(i) such taxpayer's net income tax
9 for the taxable year in which an amount is
10 included in the gross income of such
11 United States shareholder under section
12 951(a)(1) by reason of this section, over
13 "(ii) such taxpayer's net income tax
14 for such taxable year determined—
15 "(I) without regard to this sec-
16 tion, and
17 "(II) without regard to any in-
18 come or deduction properly attrib-
19 utable to a dividend received by such
20 United States shareholder from any
21 deferred foreign income corporation.
22 "(B) NET INCOME TAX.—The term 'net
23 income tax' means the regular tax liability re-
24 duced by the credits allowed under subparts A,
25 B, and D of part IV of subchapter A.

1 "(i) SPECIAL RULES FOR S CORPORATION SHARE-
2 HOLDERS.—
3 "(1) IN GENERAL.—In the case of any S cor-
4 poration which is a United States shareholder of a
5 deferred foreign income corporation, each share-
6 holder of such S corporation may elect to defer pay-
7 ment of such shareholder's net tax liability under
8 this section with respect to such S corporation until
9 the shareholder's taxable year which includes the
10 triggering event with respect to such liability. Any
11 net tax liability payment of which is deferred under
12 the preceding sentence shall be assessed on the re-
13 turn of tax as an addition to tax in the shareholder's
14 taxable year which includes such triggering event.
15 "(2) TRIGGERING EVENT.—
16 "(A) IN GENERAL.—In the case of any
17 shareholder's net tax liability under this section
18 with respect to any S corporation, the trig-
19 gering event with respect to such liability is
20 whichever of the following occurs first:
21 "(i) Such corporation ceases to be an
22 S corporation (determined as of the first
23 day of the first taxable year that such cor-
24 poration is not an S corporation).

"(ii) A liquidation or sale of substantially all the assets of such S corporation (including in a title 11 or similar case), a cessation of business by such S corporation, such S corporation ceases to exist, or any similar circumstance.

"(iii) A transfer of any share of stock in such S corporation by the taxpayer (including by reason of death, or otherwise).

"(B) PARTIAL TRANSFERS OF STOCK.—In the case of a transfer of less than all of the taxpayer's shares of stock in the S corporation, such transfer shall only be a triggering event with respect to so much of the taxpayer's net tax liability under this section with respect to such S corporation as is properly allocable to such stock.

"(C) TRANSFER OF LIABILITY.—A transfer described in clause (iii) of subparagraph (A) shall not be treated as a triggering event if the transferee enters into an agreement with the Secretary under which such transferee is liable for net tax liability with respect to such stock in the same manner as if such transferee were the taxpayer.

1 "(3) NET TAX LIABILITY.—A shareholder's net
2 tax liability under this section with respect to any S
3 corporation is the net tax liability under this section
4 which would be determined under subsection (h)(6)
5 if the only subpart F income taken into account by
6 such shareholder by reason of this section were allo-
7 cations from such S corporation.
8 "(4) ELECTION TO PAY DEFERRED LIABILITY
9 IN INSTALLMENTS.—In the case of a taxpayer which
10 elects to defer payment under paragraph (1)—
11 "(A) subsection (h) shall be applied sepa-
12 rately with respect to the liability to which such
13 election applies,
14 "(B) an election under subsection (h) with
15 respect to such liability shall be treated as time-
16 ly made if made not later than the due date for
17 the return of tax for the taxable year in which
18 the triggering event with respect to such liabil-
19 ity occurs,
20 "(C) the first installment under subsection
21 (h) with respect to such liability shall be paid
22 not later than such due date (but determined
23 without regard to any extension of time for fil-
24 ing the return), and

"(D) if the triggering event with respect to any net tax liability is described in paragraph (2)(A)(ii), an election under subsection (h) with respect to such liability may be made only with the consent of the Secretary.

"(5) JOINT AND SEVERAL LIABILITY OF S CORPORATION.—If any shareholder of an S corporation elects to defer payment under paragraph (1), such S corporation shall be jointly and severally liable for such payment and any penalty, addition to tax, or additional amount attributable thereto.

"(6) EXTENSION OF LIMITATION ON COLLECTION.—Any limitation on the time period for the collection of a liability deferred under this subsection shall not be treated as beginning before the date of the triggering event with respect to such liability.

"(7) ANNUAL REPORTING OF NET TAX LIABILITY.—

"(A) IN GENERAL.—Any shareholder of an S corporation which makes an election under paragraph (1) shall report the amount of such shareholder's deferred net tax liability on such shareholder's return of tax for the taxable year for which such election is made and on the return of tax for each taxable year thereafter

until such amount has been fully assessed on such returns.

"(B) DEFERRED NET TAX LIABILITY.—For purposes of this paragraph, the term 'deferred net tax liability' means, with respect to any taxable year, the amount of net tax liability payment of which has been deferred under paragraph (1) and which has not been assessed on a return of tax for any prior taxable year.

"(C) FAILURE TO REPORT.—In the case of any failure to report any amount required to be reported under subparagraph (A) with respect to any taxable year before the due date for the return of tax for such taxable year, there shall be assessed on such return as an addition to tax 5 percent of such amount.

"(8) ELECTION.—Any election under paragraph (1)—

"(A) shall be made by the shareholder of the S corporation not later than the due date for such shareholder's return of tax for the taxable year which includes the close of the taxable year of such S corporation in which the amount described in subsection (a) is taken into account, and

1 "(B) shall be made in such manner as the
2 Secretary shall provide.
3 "(j) REPORTING BY S CORPORATION.—Each S cor-
4 poration which is a United States shareholder of a speci-
5 fied foreign corporation shall report in its return of tax
6 under section 6037(a) the amount includible in its gross
7 income for such taxable year by reason of this section and
8 the amount of the deduction allowable by subsection (b).
9 Any copy provided to a shareholder under section 6037(b)
10 shall include a statement of such shareholder's pro rata
11 share of such amounts.
12 "(k) EXTENSION OF LIMITATION ON ASSESSMENT.—
13 Notwithstanding section 6501, the limitation on the time
14 period for the assessment of the net tax liability under
15 this section (as defined in subsection (h)(6)) shall not ex-
16 pire before the date that is 6 years after the return for
17 the taxable year described in such subsection was filed.
18 "(l) RECAPTURE FOR EXPATRIATED ENTITIES.—
19 "(1) IN GENERAL.—If a deduction is allowed
20 under subsection (c) to a United States shareholder
21 and such shareholder first becomes an expatriated
22 entity at any time during the 10-year period begin-
23 ning on the date of the enactment of the Tax Cuts
24 and Jobs Act, then—

"(A) the tax imposed by this chapter shall be increased for the first taxable year in which such taxpayer becomes an expatriated entity by an amount equal to 35 percent of the amount of the deduction allowed to the specified foreign corporation under subsection (c), and

"(B) no credits shall be allowed against the increase in tax under subparagraph (A).

"(2) EXPATRIATED ENTITY.—For purposes of this subsection, the term 'expatriated entity' has the same meaning given such term under section 7874(a)(2), except that such term shall not include an entity if the surrogate foreign corporation with respect to the entity is treated as a domestic corporation under section 7874(b).

"(m) SPECIAL RULES FOR UNITED STATES SHAREHOLDERS WHICH ARE REAL ESTATE INVESTMENT TRUSTS.—

"(1) IN GENERAL.—If a real estate investment trust is a United States shareholder in 1 or more deferred foreign income corporations—

"(A) any amount required to be taken into account under section 951(a)(1) by reason of this section shall not be taken into account as gross income of the real estate investment trust

for purposes of applying paragraphs (2) and (3) of section 856(c) to any taxable year for which such amount is taken into account under section 951(a)(1), and

"(B) if the real estate investment trust elects the application of this subparagraph, notwithstanding subsection (a), any amount required to be taken into account under section 951(a)(1) by reason of this section shall, in lieu of the taxable year in which it would otherwise be included in gross income ((for purposes of the computation of real estate investment trust taxable income under section 857(b)), be included in gross income as follows:

"(i) 8 percent of such amount in the case of each of the taxable years in the 5-taxable year period beginning with the taxable year in which such amount would otherwise be included.

"(ii) 15 percent of such amount in the case of the 1st taxable year following such period.

"(iii) 20 percent of such amount in the case of the 2nd taxable year following such period.

"(iv) 25 percent of such amount in the case of the 3rd taxable year following such period.

"(2) RULES FOR TRUSTS ELECTING DEFERRED INCLUSION.—

"(A) ELECTION.—Any election under paragraph (1)(B) shall be made not later than the due date for the first taxable year in the 5-taxable year period described in clause (i) of paragraph (1)(B) and shall be made in such manner as the Secretary shall provide.

"(B) SPECIAL RULES.—If an election under paragraph (1)(B) is in effect with respect to any real estate investment trust, the following rules shall apply:

"(i) APPLICATION OF PARTICIPATION EXEMPTION.—For purposes of subsection (c)(1)—

"(I) the aggregate amount to which subparagraph (A) or (B) of subsection (c)(1) applies shall be determined without regard to the election,

"(II) each such aggregate amount shall be allocated to each tax-

able year described in paragraph (1)(B) in the same proportion as the amount included in the gross income of such United States shareholder under section 951(a)(1) by reason of this section is allocated to each such taxable year.

"(III) NO INSTALLMENT PAYMENTS.—The real estate investment trust may not make an election under subsection (g) for any taxable year described in paragraph (1)(B).

"(ii) ACCELERATION OF INCLUSION.—If there is a liquidation or sale of substantially all the assets of the real estate investment trust (including in a title 11 or similar case), a cessation of business by such trust, or any similar circumstance, then any amount not yet included in gross income under paragraph (1)(B) shall be included in gross income as of the day before the date of the event and the unpaid portion of any tax liability with respect to such inclusion shall be due on the date of such event (or in the case of a title 11 or

similar case, the day before the petition is filed).

"(n) ELECTION NOT TO APPLY NET OPERATING LOSS DEDUCTION.—

"(1) IN GENERAL.—If a United States shareholder of a deferred foreign income corporation elects the application of this subsection for the taxable year described in subsection (a), then the amount described in paragraph (2) shall not be taken into account—

"(A) in determining the amount of the net operating loss deduction under section 172 of such shareholder for such taxable year, or

"(B) in determining the amount of taxable income for such taxable year which may be reduced by net operating loss carryovers or carrybacks to such taxable year under section 172.

"(2) AMOUNT DESCRIBED.—The amount described in this paragraph is the sum of—

"(A) the amount required to be taken into account under section 951(a)(1) by reason of this section (determined after the application of subsection (c)), plus

"(B) in the case of a domestic corporation which chooses to have the benefits of subpart A of part III of subchapter N for the taxable year, the taxes deemed to be paid by such corporation under subsections (a) and (b) of section 960 for such taxable year with respect to the amount described in subparagraph (A) which are treated as a dividends under section 78.

"(3) ELECTION.—Any election under this subsection shall be made not later than the due date (including extensions) for filing the return of tax for the taxable year and shall be made in such manner as the Secretary shall prescribe.

"(o) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section or to prevent the avoidance of the purposes of this section, including through a reduction in earnings and profits through changes in entity classification, changes in accounting methods, or otherwise.".

(b) CLERICAL AMENDMENT.—The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 965 and inserting the following:

"Sec. 965. Treatment of deferred foreign income upon transition to participation exemption system of taxation.".

Subpart B—Rules Related to Passive and Mobile Income

CHAPTER 1—TAXATION OF FOREIGN-DERIVED INTANGIBLE INCOME AND GLOBAL INTANGIBLE LOW-TAXED INCOME

SEC. 14201. CURRENT YEAR INCLUSION OF GLOBAL INTANGIBLE LOW-TAXED INCOME BY UNITED STATES SHAREHOLDERS.

(a) IN GENERAL.—Subpart F of part III of subchapter N of chapter 1 is amended by inserting after section 951 the following new section:

"SEC. 951A. GLOBAL INTANGIBLE LOW-TAXED INCOME INCLUDED IN GROSS INCOME OF UNITED STATES SHAREHOLDERS.

"(a) IN GENERAL.—Each person who is a United States shareholder of any controlled foreign corporation for any taxable year of such United States shareholder shall include in gross income such shareholder's global intangible low-taxed income for such taxable year.

"(b) GLOBAL INTANGIBLE LOW-TAXED INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'global intangible low-taxed income' means, with respect to any United

1 States shareholder for any taxable year of such
2 United States shareholder, the excess (if any) of—
3 "(A) such shareholder's net CFC tested in-
4 come for such taxable year, over
5 "(B) such shareholder's net deemed tan-
6 gible income return for such taxable year.
7 "(2) NET DEEMED TANGIBLE INCOME RE-
8 TURN.—The term 'net deemed tangible income re-
9 turn' means, with respect to any United States
10 shareholder for any taxable year, an amount equal
11 to 10 percent of the aggregate of such shareholder's
12 pro rata share of the qualified business asset invest-
13 ment of each controlled foreign corporation with re-
14 spect to which such shareholder is a United States
15 shareholder for such taxable year (determined for
16 each taxable year of each such controlled foreign
17 corporation which ends in or with such taxable year
18 of such United States shareholder).
19 "(c) NET CFC TESTED INCOME.—For purposes of
20 this section—
21 "(1) IN GENERAL.—The term 'net CFC tested
22 income' means, with respect to any United States
23 shareholder for any taxable year of such United
24 States shareholder, the excess (if any) of—

"(A) the aggregate of such shareholder's pro rata share of the tested income of each controlled foreign corporation with respect to which such shareholder is a United States shareholder for such taxable year of such United States shareholder (determined for each taxable year of such controlled foreign corporation which ends in or with such taxable year of such United States shareholder), over

"(B) the aggregate of such shareholder's pro rata share of the tested loss of each controlled foreign corporation with respect to which such shareholder is a United States shareholder for such taxable year of such United States shareholder (determined for each taxable year of such controlled foreign corporation which ends in or with such taxable year of such United States shareholder).

"(2) TESTED INCOME; TESTED LOSS.—For purposes of this section—

"(A) TESTED INCOME.—The term 'tested income' means, with respect to any controlled foreign corporation for any taxable year of such controlled foreign corporation, the excess (if any) of—

"(i) the gross income of such corporation determined without regard to—

"(I) any item of income described in section 952(b),

"(II) any gross income taken into account in determining the subpart F income of such corporation,

"(III) any gross income excluded from the foreign base company income (as defined in section 954) and the insurance income (as defined in section 953) of such corporation by reason of section 954(b)(4),

"(IV) any dividend received from a related person (as defined in section 954(d)(3)), and

"(V) any foreign oil and gas extraction income (as defined in section 907(c)(1)) of such corporation, over

"(ii) the deductions (including taxes) properly allocable to such gross income under rules similar to the rules of section 954(b)(5).

"(B) TESTED LOSS.—

"(i) IN GENERAL.—The term 'tested loss' means, with respect to any controlled foreign corporation for any taxable year of such controlled foreign corporation, the excess (if any) of the amount described in subparagraph (A)(ii) over the amount described in subparagraph (A)(i).

"(ii) COORDINATION WITH SUBPART F TO DENY DOUBLE BENEFIT OF LOSSES.—Section 952(c)(1)(A) shall be applied by increasing the earnings and profits of the controlled foreign corporation by the tested loss of such corporation.

"(d) QUALIFIED BUSINESS ASSET INVESTMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified business asset investment' means, with respect to any corporation for any taxable year of such controlled foreign corporation, the average of the aggregate of the corporation's adjusted bases as of the close of each quarter of such taxable year in specified tangible property —

"(A) used in a trade or business of the corporation, and

"(B) of a type with respect to which a deduction is allowable under section 167.

"(2) SPECIFIED TANGIBLE PROPERTY.—

"(A) IN GENERAL.—The term 'specified tangible property' means, except as provided in subparagraph (B), any tangible property used in the production of tested income.

"(B) DUAL USE PROPERTY.—In the case of property used both in the production of tested income and income which is not tested income, such property shall be treated as specified tangible property in the same proportion that the gross income described in subsection (c)(1)(A) produced with respect to such property bears to the total gross income produced with respect to such property.

"(3) DETERMINATION OF ADJUSTED BASIS.—For purposes of this subsection, notwithstanding any provision of this title (or any other provision of law) which is enacted after the date of the enactment of this section, the adjusted basis in any property shall be determined using the alternative depreciation system under section 168(g).

"(4) REGULATIONS.—The Secretary shall issue such regulations or other guidance as the Secretary

1 determines appropriate to prevent the avoidance of
2 the purposes of this subsection, including regulations
3 or other guidance which provide for the treatment of
4 property if—
5 "(A) such property is transferred, or held,
6 temporarily, or
7 "(B) the avoidance of the purposes of this
8 paragraph is a factor in the transfer or holding
9 of such property.
10 "(e) DETERMINATION OF PRO RATA SHARE, ETC.—
11 For purposes of this section—
12 "(1) IN GENERAL.—The pro rata shares re-
13 ferred to in subsections (b), (c)(1)(A), and (c)(1)(B),
14 respectively, shall be determined under the rules of
15 section 951(a)(2) in the same manner as such sec-
16 tion applies to subpart F income and shall be taken
17 into account in the taxable year of the United States
18 shareholder in which or with which the taxable year
19 of the controlled foreign corporation ends.
20 "(2) TREATMENT AS UNITED STATES SHARE-
21 HOLDER.—For purposes of paragraph (1), a person
22 shall be treated as a United States shareholder of a
23 controlled foreign corporation for any taxable year
24 only if such person owns (within the meaning of sec-
25 tion 958(a)) stock in such foreign corporation on the

last day, in such year, on which such foreign corporation is a controlled foreign corporation.

"(3) TREATMENT AS CONTROLLED FOREIGN CORPORATION.—A foreign corporation shall be treated as a controlled foreign corporation for any taxable year if such foreign corporation is a controlled foreign corporation at any time during such taxable year.

"(f) TREATMENT AS SUBPART F INCOME FOR CERTAIN PURPOSES.—

"(1) IN GENERAL.—

"(A) APPLICATION.—Except as provided in subparagraph (B), any global intangible low-taxed income included in gross income under subsection (a) shall be treated in the same manner as an amount included under section 951(a)(1)(A) for purposes of applying sections 168(h)(2)(B), 535(b)(10), 851(b), 904(h)(1), 959, 961, 962(c), 962(d), 993(a)(1)(E), 996(f)(1), 1248(b)(1), 1248(d)(1), 6501(e)(1)(C), 6654(d)(2)(D), and 6655(e)(4).

"(B) EXCEPTION.—The Secretary shall provide rules for the application of subparagraph (A) to other provisions of this title in any case in which the determination of subpart F

1 income is required to be made at the level of
2 the controlled foreign corporation.
3 "(2) ALLOCATION OF GLOBAL INTANGIBLE
4 LOW-TAXED INCOME TO CONTROLLED FOREIGN COR-
5 PORATIONS.—For purposes of the sections referred
6 to in paragraph (1), with respect to any controlled
7 foreign corporation any pro rata amount from which
8 is taken into account in determining the global in-
9 tangible low-taxed income included in gross income
10 of a United States shareholder under subsection (a),
11 the portion of such global intangible low-taxed in-
12 come which is treated as being with respect to such
13 controlled foreign corporation is—
14 "(A) in the case of a controlled foreign
15 corporation with no tested income, zero, and
16 "(B) in the case of a controlled foreign
17 corporation with tested income, the portion of
18 such global intangible low-taxed income which
19 bears the same ratio to such global intangible
20 low-taxed income as—
21 "(i) such United States shareholder's
22 pro rata amount of the tested income of
23 such controlled foreign corporation, bears
24 to

"(ii) the aggregate amount described in subsection (c)(1)(A) with respect to such United States shareholder.".

(b) FOREIGN TAX CREDIT.—

(1) APPLICATION OF DEEMED PAID FOREIGN TAX CREDIT.—Section 960 is amended adding at the end the following new subsection:

"(d) DEEMED PAID CREDIT FOR TAXES PROPERLY ATTRIBUTABLE TO TESTED INCOME.—

"(1) IN GENERAL.—For purposes of this subpart, if any amount is includible in the gross income of a domestic corporation under section 951A, such domestic corporation shall be deemed to have paid foreign income taxes equal to 80 percent of the product of—

"(A) such domestic corporation's inclusion percentage, multiplied by

"(B) the aggregate tested foreign income taxes paid or accrued by controlled foreign corporations.

"(2) INCLUSION PERCENTAGE.—For purposes of paragraph (1), the term 'inclusion percentage' means, with respect to any domestic corporation, the ratio (expressed as a percentage) of—

"(A) such corporation's global intangible low-taxed income (as defined in section 951A(b)), divided by

"(B) the aggregate amount described in section 951A(c)(1)(A) with respect to such corporation.

"(3) TESTED FOREIGN INCOME TAXES.—For purposes of paragraph (1), the term 'tested foreign income taxes' means, with respect to any domestic corporation which is a United States shareholder of a controlled foreign corporation, the foreign income taxes paid or accrued by such foreign corporation which are properly attributable to the tested income of such foreign corporation taken into account by such domestic corporation under section 951A.".

(2) APPLICATION OF FOREIGN TAX CREDIT LIMITATION.—

(A) SEPARATE BASKET FOR GLOBAL INTANGIBLE LOW-TAXED INCOME.—Section 904(d)(1) is amended by redesignating subparagraphs (A) and (B) as subparagraphs (B) and (C), respectively, and by inserting before subparagraph (B) (as so redesignated) the following new subparagraph:

"(A) any amount includible in gross income under section 951A (other than passive category income),".

(B) EXCLUSION FROM GENERAL CATEGORY INCOME.—Section 904(d)(2)(A)(ii) is amended by inserting "income described in paragraph (1)(A) and" before "passive category income".

(C) NO CARRYOVER OR CARRYBACK OF EXCESS TAXES.—Section 904(c) is amended by adding at the end the following: "This subsection shall not apply to taxes paid or accrued with respect to amounts described in subsection (d)(1)(A).".

(c) CLERICAL AMENDMENT .—The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by inserting after the item relating to section 951 the following new item:

"Sec. 951A. Global intangible low-taxed income included in gross income of United States shareholders.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

1 **SEC. 14202. DEDUCTION FOR FOREIGN-DERIVED INTAN-**
2 **GIBLE INCOME AND GLOBAL INTANGIBLE**
3 **LOW-TAXED INCOME.**

4 (a) IN GENERAL.—Part VIII of subchapter B of
5 chapter 1 is amended by adding at the end the following
6 new section:

7 **"SEC. 250. FOREIGN-DERIVED INTANGIBLE INCOME AND**
8 **GLOBAL INTANGIBLE LOW-TAXED INCOME.**

9 "(a) ALLOWANCE OF DEDUCTION.—

10 "(1) IN GENERAL.—In the case of a domestic
11 corporation for any taxable year, there shall be al-
12 lowed as a deduction an amount equal to the sum
13 of—

14 "(A) 37.5 percent of the foreign-derived in-
15 tangible income of such domestic corporation
16 for such taxable year, plus

17 "(B) 50 percent of the global intangible
18 low-taxed income amount (if any) which is in-
19 cluded in the gross income of such domestic
20 corporation under section 951A for such taxable
21 year.

22 "(2) LIMITATION BASED ON TAXABLE IN-
23 COME.—

24 "(A) IN GENERAL.—If, for any taxable
25 year—

"(i) the sum of the foreign-derived intangible income and the global intangible low-taxed income amount otherwise taken into account by the domestic corporation under paragraph (1), exceeds

"(ii) the taxable income of the domestic corporation (determined without regard to this section),

then the amount of the foreign-derived intangible income and the global intangible low-taxed income amount so taken into account shall be reduced as provided in subparagraph (B).

"(B) REDUCTION.—For purposes of subparagraph (A)—

"(i) foreign-derived intangible income shall be reduced by an amount which bears the same ratio to the excess described in subparagraph (A) as such foreign-derived intangible income bears to the sum described in subparagraph (A)(i), and

"(ii) the global intangible low-taxed income amount shall be reduced by the remainder of such excess.

"(3) REDUCTION IN DEDUCTION FOR TAXABLE YEARS AFTER 2025.—In the case of any taxable year

1 beginning after December 31, 2025, paragraph (1)
2 shall be applied by substituting—
3 "(A) '21.875 percent' for '37.5 percent' in
4 subparagraph (A), and
5 "(B) '37.5 percent' for '50 percent' in sub-
6 paragraph (B).
7 "(b) FOREIGN-DERIVED INTANGIBLE INCOME.—For
8 purposes of this section—
9 "(1) IN GENERAL.—The foreign-derived intan-
10 gible income of any domestic corporation is the
11 amount which bears the same ratio to the deemed
12 intangible income of such corporation as—
13 "(A) the foreign-derived deduction eligible
14 income of such corporation, bears to
15 "(B) the deduction eligible income of such
16 corporation.
17 "(2) DEEMED INTANGIBLE INCOME.—For pur-
18 poses of this subsection—
19 "(A) IN GENERAL.—The term 'deemed in-
20 tangible income' means the excess (if any) of—
21 "(i) the deduction eligible income of
22 the domestic corporation, over
23 "(ii) the deemed tangible income re-
24 turn of the corporation.

"(B) DEEMED TANGIBLE INCOME RETURN.—The term 'deemed tangible income return' means, with respect to any corporation, an amount equal to 10 percent of the corporation's qualified business asset investment (as defined in section 951A(d), determined by substituting 'deduction eligible income' for 'tested income' in paragraph (2) thereof).

"(3) DEDUCTION ELIGIBLE INCOME.—

"(A) IN GENERAL.—The term 'deduction eligible income' means, with respect to any domestic corporation, the excess (if any) of—

"(i) gross income of such corporation determined without regard to—

"(I) the subpart F income of such corporation determined under section 951,

"(II) the global intangible low-taxed income determined under section 951A,

"(III) any financial services income (as defined in section 904(d)(2)(D)) of such corporation which is not described in clause (ii),

"(IV) any dividend received from a corporation which is a controlled foreign corporation of such domestic corporation,

"(V) any domestic oil and gas extraction income of such corporation, and

"(VI) any foreign branch income (as defined in section 904(d)(2)(J)), over

"(ii) the deductions (including taxes) properly allocable to such gross income under rules similar to the rules of section 954(b)(5).

"(B) DOMESTIC OIL AND GAS EXTRACTION INCOME.—For purposes of subparagraph (A), the term 'domestic oil and gas extraction income' means income described in section 907(c)(1), determined by substituting 'within the United States' for 'without the United States'.

"(4) FOREIGN-DERIVED DEDUCTION ELIGIBLE INCOME.—The term 'foreign-derived deduction eligible income' means, with respect to any taxpayer for

1 any taxable year, any deduction eligible income of
2 such taxpayer which is derived in connection with—
3 "(A) property—
4 "(i) which is sold by the taxpayer to
5 any person who is not a United States per-
6 son, and
7 "(ii) which the taxpayer establishes to
8 the satisfaction of the Secretary is for a
9 foreign use, or
10 "(B) services provided by the taxpayer
11 which the taxpayer establishes to the satisfac-
12 tion of the Secretary are provided to any per-
13 son, or with respect to property, not located
14 within the United States.
15 "(5) RULES RELATING TO FOREIGN USE PROP-
16 ERTY OR SERVICES.—For purposes of this sub-
17 section—
18 "(A) FOREIGN USE.—The term 'foreign
19 use' means any use, consumption, or disposition
20 which is not within the United States.
21 "(B) PROPERTY OR SERVICES PROVIDED
22 TO DOMESTIC INTERMEDIARIES.—
23 "(i) PROPERTY.—If a taxpayer sells
24 property to another person (other than a
25 related party) for further manufacture or

other modification within the United States, such property shall not be treated as sold for a foreign use even if such other person subsequently uses such property for a foreign use.

"(ii) SERVICES.—If a taxpayer provides services to another person (other than a related party) located within the United States, such services shall not be treated as described in paragraph (4)(B) even if such other person uses such services in providing services which are so described.

"(C) SPECIAL RULES WITH RESPECT TO RELATED PARTY TRANSACTIONS.—

"(i) SALES TO RELATED PARTIES.—If property is sold to a related party who is not a United States person, such sale shall not be treated as for a foreign use unless—

"(I) such property is ultimately sold by a related party, or used by a related party in connection with property which is sold or the provision of services, to another person who is an

1 unrelated party who is not a United
2 States person, and
3 "(II) the taxpayer establishes to
4 the satisfaction of the Secretary that
5 such property is for a foreign use.
6 For purposes of this clause, a sale of prop-
7 erty shall be treated as a sale of each of
8 the components thereof.
9 "(ii) SERVICE PROVIDED TO RELATED
10 PARTIES.—If a service is provided to a re-
11 lated party who is not located in the
12 United States, such service shall not be
13 treated described in subparagraph (A)(ii)
14 unless the taxpayer established to the sat-
15 isfaction of the Secretary that such service
16 is not substantially similar to services pro-
17 vided by such related party to persons lo-
18 cated within the United States.
19 "(D) RELATED PARTY.—For purposes of
20 this paragraph, the term 'related party' means
21 any member of an affiliated group as defined in
22 section 1504(a), determined—
23 "(i) by substituting 'more than 50
24 percent' for 'at least 80 percent' each place
25 it appears, and

"(ii) without regard to paragraphs (2) and (3) of section 1504(b).

Any person (other than a corporation) shall be treated as a member of such group if such person is controlled by members of such group (including any entity treated as a member of such group by reason of this sentence) or controls any such member. For purposes of the preceding sentence, control shall be determined under the rules of section 954(d)(3).

"(E) SOLD.—For purposes of this subsection, the terms 'sold', 'sells', and 'sale' shall include any lease, license, exchange, or other disposition.

"(c) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(b) CONFORMING AMENDMENTS.—

(1) Section 172(d), as amended by section 13011, is amended by adding at the end the following new paragraph:

"(10) DEDUCTION FOR FOREIGN-DERIVED INTANGIBLE INCOME.—The deduction under section 250 shall not be allowed.".

(2) Section 246(b)(1) is amended—

(A) by striking "and subsection (a) and (b) of section 245" the first place it appears and inserting ", subsection (a) and (b) of section 245, and section 250",

(B) by striking "and subsection (a) and (b) of section 245" the second place it appears and inserting "subsection (a) and (b) of section 245, and 250".

(3) Section 469(i)(3)(F)(iii) is amended by striking "and 222" and inserting "222, and 250".

(4) The table of sections for part VIII of subchapter B of chapter 1 is amended by adding at the end the following new item:

"Sec. 250. Foreign-derived intangible income and global intangible low-taxed income.".

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

SEC. 14203. SPECIAL RULES FOR TRANSFERS OF INTANGIBLE PROPERTY FROM CONTROLLED FOREIGN CORPORATIONS TO UNITED STATES SHAREHOLDERS.

(a) IN GENERAL.—Subpart F of part III of subchapter N of chapter 1 is amended by adding at the end the following new section:

"SEC. 966. TRANSFERS OF INTANGIBLE PROPERTY TO UNITED STATES SHAREHOLDERS.

"(a) IN GENERAL.—In the case of any distribution of intangible property which is held by a controlled foreign corporation on the date of enactment of this section and which is described in subsection (b)—

"(1) for purposes of part I of subchapter C and any other provision of this title specified by the Secretary, the fair market value of such property on the date of such distribution shall be treated as not exceeding the adjusted basis of such property immediately before such distribution, and

"(2) if the distribution is to a United States shareholder and is not a dividend—

"(A) the United States shareholder's adjusted basis in the stock of the controlled foreign corporation with respect to which such distribution is made shall be increased by the amount (if any) of such distribution which would (but for this subsection) be includible in gross income, and

"(B) the adjusted basis of such property in the hands of such United States shareholder immediately after such distribution shall be such adjusted basis immediately before such

1 distribution reduced by the amount of the in-
2 crease described in subparagraph (A).
3 "(b) DISTRIBUTION.—A distribution is described in
4 this section if the distribution is—
5 "(1) received by a domestic corporation from a
6 controlled foreign corporation with respect to which
7 such corporation is a United States shareholder, and
8 "(2) made by the controlled foreign corporation
9 before the last day of the third taxable year of the
10 controlled foreign corporation beginning after De-
11 cember 31, 2017.
12 "(c) INTANGIBLE PROPERTY.—For purposes of this
13 subsection, the term 'intangible property' has the meaning
14 given such term by section 936(h)(3)(B) or which is com-
15 puter software described in section 197(e)(3)(B).".
16 (b) CONFORMING AMENDMENTS.—
17 (1) Section 197(f)(2)(B)(i) is amended by in-
18 serting "966(a)," after "731,".
19 (2) The table of sections for subpart F of part
20 III of subchapter N of chapter 1 is amended by add-
21 ing at the end the following new item:

"Sec. 966. Transfers of intangible property to United States shareholders.".

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to distributions made in taxable
24 years of foreign corporations beginning after December
25 31, 2017, and to taxable years of United States share-

1 holders in which or with which such taxable years of for-
2 eign corporations end.

3 CHAPTER 2—OTHER MODIFICATIONS OF
4 SUBPART F PROVISIONS

5 SEC. 14211. ELIMINATION OF INCLUSION OF FOREIGN BASE
6 COMPANY OIL RELATED INCOME.

7 (a) REPEAL.—Subsection (a) of section 954 is
8 amended—
9 (1) by inserting "and" at the end of paragraph
10 (2),
11 (2) by striking the comma at the end of para-
12 graph (3) and inserting a period, and
13 (3) by striking paragraph (5).
14 (b) CONFORMING AMENDMENTS.—
15 (1) Section 952(c)(1)(B)(iii) is amended by
16 striking subclause (I) and redesignating subclauses
17 (II) through (V) as subclauses (I) through (IV), re-
18 spectively.
19 (2) Section 954(b) is amended—
20 (A) by striking the second sentence of
21 paragraph (4),
22 (B) by striking "the foreign base company
23 services income, and the foreign base company
24 oil related income" in paragraph (5) and insert-

ing "and the foreign base company services income", and

(C) by striking paragraph (6).

(3) Section 954 is amended by striking subsection (g).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 14212. INFLATION ADJUSTMENT OF DE MINIMIS EXCEPTION FOR FOREIGN BASE COMPANY INCOME.

(a) IN GENERAL.—Section 954(b)(3) is amended by adding at the end the following new subparagraph:

"(D) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2017, the dollar amount in subparagraph (A)(ii) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

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

1 Any increase determined under the preceding
2 sentence shall be rounded to the nearest mul-
3 tiple of $50,000.".

4 (b) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years of foreign corpora-
6 tions beginning after December 31, 2017, and to taxable
7 years of United States shareholders in which or with which
8 such taxable years of foreign corporations end.

9 **SEC. 14213. REPEAL OF INCLUSION BASED ON WITH-**
10 **DRAWAL OF PREVIOUSLY EXCLUDED SUB-**
11 **PART F INCOME FROM QUALIFIED INVEST-**
12 **MENT.**

13 (a) IN GENERAL.—Subpart F of part III of sub-
14 chapter N of chapter 1 is amended by striking section 955.

15 (b) CONFORMING AMENDMENTS.—

16 (1)(A) Section 951(a)(1)(A) is amended to read
17 as follows:

18 "(A) his pro rata share (determined under
19 paragraph (2)) of the corporation's subpart F
20 income for such year, and".

21 (B) Section 851(b) is amended by striking "sec-
22 tion 951(a)(1)(A)(i)" in the flush language at the
23 end and inserting "section 951(a)(1)(A)".

(C) Section 952(c)(1)(B)(i) is amended by striking "section 951(a)(1)(A)(i)" and inserting "section 951(a)(1)(A)".

(D) Section 953(c)(1)(C) is amended by striking "section 951(a)(1)(A)(i)" and inserting "section 951(a)(1)(A)".

(2) Section 951(a) is amended by striking paragraph (3).

(3) Section 953(d)(4)(B)(iv)(II) is amended by striking "or amounts referred to in clause (ii) or (iii) of section 951(a)(1)(A)".

(4) Section 964(b) is amended by striking ", 955,".

(5) Section 970 is amended by striking subsection (b).

(6) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 955.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 14214. MODIFICATION OF STOCK ATTRIBUTION RULES FOR DETERMINING STATUS AS A CONTROLLED FOREIGN CORPORATION.

(a) IN GENERAL.—Section 958(b) is amended—

(1) by striking paragraph (4), and

(2) by striking "Paragraphs (1) and (4)" in the last sentence and inserting "Paragraph (1)".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) the last taxable year of foreign corporations beginning before January 1, 2018, and each subsequent taxable year of such foreign corporations, and

(2) taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 14215. MODIFICATION OF DEFINITION OF UNITED STATES SHAREHOLDER.

(a) IN GENERAL.—Section 951(b) is amended by inserting ", or 10 percent or more of the total value of shares of all classes of stock of such foreign corporation" after "such foreign corporation".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 14216. ELIMINATION OF REQUIREMENT THAT CORPORATION MUST BE CONTROLLED FOR 30 DAYS BEFORE SUBPART F INCLUSIONS APPLY.

(a) IN GENERAL.—Section 951(a)(1) is amended by striking "for an uninterrupted period of 30 days or more" and inserting "at any time".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 14217. LOOK-THRU RULE FOR RELATED CONTROLLED FOREIGN CORPORATIONS MADE PERMANENT.

(a) IN GENERAL.—Paragraph (6) of section 954(c) is amended by striking subparagraph (C).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 14218. CORPORATIONS ELIGIBLE FOR DEDUCTION FOR DIVIDENDS FROM CONTROLLED FOREIGN CORPORATIONS EXEMPT FROM SUBPART F INCLUSION FOR INVESTMENT IN UNITED STATES PROPERTY.

(a) IN GENERAL.—Section 956(a) is amended by inserting "(other than a corporation)" after "United States shareholder" in the matter preceding paragraph (1).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations ending after December 31, 2017, and to taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

CHAPTER 3—PREVENTION OF BASE EROSION

SEC. 14221. DENIAL OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS WITH EXCESS DOMESTIC INDEBTEDNESS.

(a) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) DISALLOWANCE OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH

1 ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS
2 WITH EXCESS DOMESTIC INDEBTEDNESS.—
3 "(1) IN GENERAL.—In the case of any domestic
4 corporation which is a member of a worldwide affili-
5 ated group, the deduction allowed under this chapter
6 for interest paid or accrued by such domestic cor-
7 poration during the taxable year shall be reduced by
8 the product of—
9 "(A) the net interest expense of such do-
10 mestic corporation, multiplied by
11 "(B) the debt-to-equity differential per-
12 centage of such worldwide affiliated group.
13 "(2) CARRYFORWARD.—Any amount disallowed
14 under paragraph (1) for any taxable year shall be
15 treated as interest paid or accrued in the succeeding
16 taxable year.
17 "(3) DEBT-TO-EQUITY DIFFERENTIAL PER-
18 CENTAGE.—
19 "(A) IN GENERAL.—For purposes of this
20 subsection, the term 'debt-to-equity differential
21 percentage' means, with respect to any world-
22 wide affiliated group, the percentage which the
23 excess domestic indebtedness of such group
24 bears to the total indebtedness of the domestic
25 corporations which are members of such group.

"(B) EXCESS DOMESTIC INDEBTEDNESS.—For purposes of subparagraph (A), the term 'excess domestic indebtedness' means, with respect to any worldwide affiliated group, the excess (if any) of—

"(i) the total indebtedness of the domestic corporations which are members of such group, over

"(ii) 110 percent of the amount which the total indebtedness of such domestic corporations would be if the ratio of such indebtedness to the total equity of such domestic corporations equaled the ratio which—

"(I) the total indebtedness of such group, bears to

"(II) the total equity of such group.

"(C) TOTAL EQUITY.—For purposes of subparagraph (B), the term 'total equity' means, with respect to one or more corporations, an amount equal to—

"(i) the sum of the money and all other assets of such corporations, reduced (but not below one) by

"(ii) the total indebtedness of such corporations.

"(D) SPECIAL RULES FOR DETERMINING DEBT AND EQUITY.—

"(i) IN GENERAL.—For purposes of this paragraph—

"(I) the amount taken into account with respect to any asset shall be the adjusted basis thereof for purposes of determining gain,

"(II) the amount taken into account with respect to any indebtedness with original issue discount shall be its issue price plus the portion of the original issue discount previously accrued as determined under the rules of section 1272 (determined without regard to subsection (a)(7) or (b)(4) thereof), and

"(III) there shall be such other adjustments as the Secretary shall by regulations prescribe.

"(ii) INTRAGROUP DEBT AND EQUITY INTERESTS DISREGARDED.—For purposes of this paragraph, the total indebtedness,

and the assets, of any group of corporations shall be determined by treating all members of such group as one corporation.

"(iii) DETERMINATION OF ASSETS OF DOMESTIC GROUP.—For purposes of this paragraph, the assets of the domestic corporations which are members of any worldwide affiliated group shall be determined by disregarding any interest held by any such domestic corporation in any foreign corporation which is a member of such group.

"(E) PHASE IN OF PERCENTAGE USED IN DETERMINING EXCESS INDEBTEDNESS.—In the case of any taxable year beginning in a calendar year before 2022, the following percentages shall be substituted for '110 percent' in applying subparagraph (B)(ii):

"In the case of a taxable year beginning in:	**The percentage is:**
2018	130
2019	125
2020	120
2021	115

"(4) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) WORLDWIDE AFFILIATED GROUP.—The term 'worldwide affiliated group' means a

1 group consisting of the includible members of
2 an affiliated group, as defined in section
3 1504(a), determined—
4 "(i) by substituting 'more than 50
5 percent' for 'at least 80 percent' each place
6 it appears in such section, and
7 "(ii) without regard to paragraphs
8 (2), (3), and (4) of section 1504(b).
9 "(B) NET INTEREST EXPENSE.—The term
10 'net interest expense' means the excess (if any)
11 of
12 "(i) the interest paid or accrued by
13 the taxpayer during the taxable year, over
14 "(ii) the amount of interest includible
15 in the gross income of such taxpayer for
16 such taxable year.
17 The Secretary shall by regulations provide for
18 adjustments in determining the amount of net
19 interest expense if necessary.
20 "(5) TREATMENT OF AFFILIATED GROUP.—For
21 purposes of this subsection, all members of the same
22 affiliated group (within the meaning of section
23 1504(a) applied by substituting 'more than 50 per-
24 cent' for 'at least 80 percent' each place it appears)
25 shall be treated as one taxpayer.

"(6) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out the purposes of this subsection, including regulations or other guidance—

"(A) to prevent the avoidance of the purposes of this subsection,

"(B) providing such adjustments in the case of corporations which are members of an affiliated group as may be appropriate to carry out the purposes of this subsection,

"(C) providing for the coordination of this subsection with section 884,

"(D) providing for the reallocation of shares of partnership indebtedness, or distributive shares of the partnership's interest income or interest expense, and

"(E) providing for the coordination with the limitation under subsection (j).".

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

SEC. 14222. LIMITATIONS ON INCOME SHIFTING THROUGH INTANGIBLE PROPERTY TRANSFERS.

(a) DEFINITION OF INTANGIBLE ASSET.—Section 936(h)(3)(B) is amended—

(1) by striking "or" at the end of clause (v),

(2) by striking clause (vi) and inserting the following:

"(vi) any goodwill, going concern value, or workforce in place (including its composition and terms and conditions (contractual or otherwise) of its employment); or

"(vii) any other item the value or potential value of which is not attributable to tangible property or the services of any individual.", and

(3) by striking the flush language after clause (vii), as added by paragraph (2).

(b) CLARIFICATION OF ALLOWABLE VALUATION METHODS.—

(1) FOREIGN CORPORATIONS.—Section 367(d)(2) is amended by adding at the end the following new subparagraph:

"(D) REGULATORY AUTHORITY.—For purposes of the last sentence of subparagraph (A), the Secretary shall require—

"(i) the valuation of transfers of intangible property, including intangible

1 property transferred with other property or
2 services, on an aggregate basis, or
3 "(ii) the valuation of such a transfer
4 on the basis of the realistic alternatives to
5 such a transfer,
6 if the Secretary determines that such basis is
7 the most reliable means of valuation of such
8 transfers.".
9 (2) ALLOCATION AMONG TAXPAYERS.—Section
10 482 is amended by adding at the end the following:
11 "For purposes of this section, the Secretary shall re-
12 quire the valuation of transfers of intangible prop-
13 erty (including intangible property transferred with
14 other property or services) on an aggregate basis or
15 the valuation of such a transfer on the basis of the
16 realistic alternatives to such a transfer, if the Sec-
17 retary determines that such basis is the most reli-
18 able means of valuation of such transfers.".
19 (c) EFFECTIVE DATE.—
20 (1) IN GENERAL.—The amendments made by
21 this section shall apply to transfers in taxable years
22 beginning after December 31, 2017.
23 (2) NO INFERENCE.—Nothing in the amend-
24 ment made by subsection (a) shall be construed to
25 create any inference with respect to the application

of section 936(h)(3) of the Internal Revenue Code of 1986, or the authority of the Secretary of the Treasury to provide regulations for such application, with respect to taxable years beginning before January 1, 2018.

SEC. 14223. CERTAIN RELATED PARTY AMOUNTS PAID OR ACCRUED IN HYBRID TRANSACTIONS OR WITH HYBRID ENTITIES.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by inserting after section 267 the following:

"SEC. 267A. CERTAIN RELATED PARTY AMOUNTS PAID OR ACCRUED IN HYBRID TRANSACTIONS OR WITH HYBRID ENTITIES.

"(a) IN GENERAL.—No deduction shall be allowed under this chapter for any disqualified related party amount paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity.

"(b) DISQUALIFIED RELATED PARTY AMOUNT.—For purposes of this section—

"(1) DISQUALIFIED RELATED PARTY AMOUNT.—The term 'disqualified related party amount' means any interest or royalty paid or accrued to a related party to the extent that—

"(A) such amount is not included in the income of such related party under the tax law of the country of which such related party is a resident for tax purposes or is subject to tax, or

"(B) such related party is allowed a deduction with respect to such amount under the tax law of such country.

Such term shall not include any payment to the extent such payment is included in the gross income of a United States shareholder under section 951(a).

"(2) RELATED PARTY.—The term 'related party' means a related person as defined in section 954(d)(3), except that such section shall be applied with respect to the person making the payment described in paragraph (1) in lieu of the controlled foreign corporation otherwise referred to in such section.

"(c) HYBRID TRANSACTION.—For purposes of this section, the term 'hybrid transaction' means any transaction, series of transactions, agreement, or instrument one or more payments with respect to which are treated as interest or royalties for purposes of this chapter and which are not so treated for purposes the tax law of the

1 foreign country of which the recipient of such payment
2 is resident for tax purposes or is subject to tax.
3 "(d) HYBRID ENTITY.—For purposes of this section,
4 the term 'hybrid entity' means any entity which is either—
5 "(1) treated as fiscally transparent for purposes
6 of this chapter but not so treated for purposes of the
7 tax law of the foreign country of which the entity is
8 resident for tax purposes or is subject to tax, or
9 "(2) treated as fiscally transparent for purposes
10 of such tax law but not so treated for purposes of
11 this chapter.
12 "(e) REGULATIONS.—The Secretary shall issue such
13 regulations or other guidance as may be necessary or ap-
14 propriate to carry out the purposes of this section, includ-
15 ing regulations or other guidance providing for—
16 "(1) rules for treating certain conduit arrange-
17 ments which involve a hybrid transaction or a hybrid
18 entity as subject to subsection (a),
19 "(2) rules for the application of this section to
20 foreign branches,
21 "(3) rules for treating certain structured trans-
22 actions as subject to subsection (a),
23 "(4) rules for treating a tax preference as an
24 exclusion from income for purposes of applying sub-
25 section (b)(1) if such tax preference has the effect

of reducing the generally applicable statutory rate by 25 percent or more,

"(5) rules for treating the entire amount of interest or royalty paid or accrued to a related party as a disqualified related party amount if such amount is subject to a participation exemption system or other system which provides for the exclusion or deduction of a substantial portion of such amount,

"(6) rules for determining the tax residence of a foreign entity if the entity is otherwise considered a resident of more than one country or of no country,

"(7) exceptions from subsection (a) with respect to—

"(A) cases in which the disqualified related party amount is taxed under the laws of a foreign country other than the country of which the related party is a resident for tax purposes, and

"(B) other cases which the Secretary determines do not present a risk of eroding the Federal tax base,

"(8) requirements for record keeping and information reporting in addition to any requirements imposed by section 6038A.".

(b) CONFORMING AMENDMENT.—The table of sections for part IX of subchapter B of chapter 1 is amended by inserting after the item relating to section 267 the following new item:

"Sec. 267A. Certain related party amounts paid or accrued in hybrid transactions or with hybrid entities.".

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

SEC. 14224. SHAREHOLDERS OF SURROGATE FOREIGN CORPORATIONS NOT ELIGIBLE FOR REDUCED RATE ON DIVIDENDS.

(a) IN GENERAL.—Section 1(h)(11)(C)(iii) is amended—

(1) by striking "shall not include any foreign corporation" and inserting "shall not include—

"(I) any foreign corporation",

(2) by striking the period at the end and inserting ", and", and

(3) by adding at the end the following new subclause:

"(II) any corporation which is a surrogate foreign corporation (as de-

fined in section 7874(a)(2)(B)) other than a foreign corporation which is treated as a domestic corporation under section 7874(b).".

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

Subpart C—Modifications Related to Foreign Tax Credit System

SEC. 14301. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS; DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.

(a) REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 902.

(b) DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.—Section 960, as amended by section 14201, is amended—

(1) by striking subsection (c), by redesignating subsection (b) as subsection (c), by striking all that precedes subsection (c) (as so redesignated) and inserting the following:

1 **"SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**
2 **SIONS.**

3 "(a) IN GENERAL.—For purposes of this subpart, if
4 there is included in the gross income of a domestic cor-
5 poration any item of income under section 951(a)(1) with
6 respect to any controlled foreign corporation with respect
7 to which such domestic corporation is a United States
8 shareholder, such domestic corporation shall be deemed to
9 have paid so much of such foreign corporation's foreign
10 income taxes as are properly attributable to such item of
11 income.

12 "(b) SPECIAL RULES FOR DISTRIBUTIONS FROM
13 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-
14 poses of this subpart—

15 "(1) IN GENERAL.—If any portion of a dis-
16 tribution from a controlled foreign corporation to a
17 domestic corporation which is a United States share-
18 holder with respect to such controlled foreign cor-
19 poration is excluded from gross income under section
20 959(a), such domestic corporation shall be deemed
21 to have paid so much of such foreign corporation's
22 foreign income taxes as—

23 "(A) are properly attributable to such por-
24 tion, and

25 "(B) have not been deemed to have to been
26 paid by such domestic corporation under this

1 section for the taxable year or any prior taxable
2 year.
3 "(2) TIERED CONTROLLED FOREIGN CORPORA-
4 TIONS.—If section 959(b) applies to any portion of
5 a distribution from a controlled foreign corporation
6 to another controlled foreign corporation, such con-
7 trolled foreign corporation shall be deemed to have
8 paid so much of such other controlled foreign cor-
9 poration's foreign income taxes as—
10 "(A) are properly attributable to such por-
11 tion, and
12 "(B) have not been deemed to have been
13 paid by a domestic corporation under this sec-
14 tion for any prior taxable year.",
15 (2) and by adding after subsection (d) (as
16 added by section 14201) the following new sub-
17 sections:
18 "(e) FOREIGN INCOME TAXES.—The term 'foreign
19 income taxes' means any income, war profits, or excess
20 profits taxes paid or accrued to any foreign country or
21 possession of the United States.
22 "(f) REGULATIONS.—The Secretary shall prescribe
23 such regulations or other guidance as may be necessary
24 or appropriate to carry out the provisions of this section.".
25 (c) CONFORMING AMENDMENTS.—

(1) Section 78 is amended to read as follows:

"SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX CREDIT.

"If a domestic corporation chooses to have the benefits of subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year—

"(1) an amount equal to the taxes deemed to be paid by such corporation under subsections (a) and (b) of section 960 for such taxable year shall be treated for purposes of this title (other than section 960) as an item of income required to be included in the gross income of such domestic corporation under section 951(a), and

"(2) an amount equal to the aggregate tested foreign income taxes deemed paid by such corporation under section 960(d) (determined without regard to the phrase '80 percent of' in paragraph (1) thereof) shall be treated for purposes of this title (other than section 960) as an addition to the global intangible low-taxed income of such domestic corporation under section 951A(a) for such taxable year.".

(2) Paragraph (4) of section 245(a) is amended to read as follows:

1 "(4) POST-1986 UNDISTRIBUTED EARNINGS.—
2 The term 'post-1986 undistributed earnings' means
3 the amount of the earnings and profits of the for-
4 eign corporation (computed in accordance with sec-
5 tions 964(a) and 986) accumulated in taxable years
6 beginning after December 31, 1986—
7 "(A) as of the close of the taxable year of
8 the foreign corporation in which the dividend is
9 distributed, and
10 "(B) without diminution by reason of divi-
11 dends distributed during such taxable year.".
12 (3) Section 245(a)(10)(C) is amended by strik-
13 ing "902, 907, and 960" and inserting "907 and
14 960".
15 (4) Sections 535(b)(1) and 545(b)(1) are each
16 amended by striking "section 902(a) or 960(a)(1)"
17 and inserting "section 960".
18 (5) Section 814(f)(1) is amended—
19 (A) by striking subparagraph (B), and
20 (B) by striking all that precedes "No in-
21 come" and inserting the following:
22 "(1) TREATMENT OF FOREIGN TAXES.—".
23 (6) Section 865(h)(1)(B) is amended by strik-
24 ing "902, 907," and inserting "907".

(7) Section 901(a) is amended by striking "sections 902 and 960" and inserting "section 960".

(8) Section 901(e)(2) is amended by striking "but is not limited to—" and all that follows through "that portion" and inserting "but is not limited to that portion".

(9) Section 901(f) is amended by striking "sections 902 and 960" and inserting "section 960".

(10) Section 901(j)(1)(A) is amended by striking "902 or".

(11) Section 901(j)(1)(B) is amended by striking "sections 902 and 960" and inserting "section 960".

(12) Section 901(k)(2) is amended by striking ", 902,".

(13) Section 901(k)(6) is amended by striking "902 or".

(14) Section 901(m)(1) is amended by striking "relevant foreign assets—" and all that follows and inserting "relevant foreign assets shall not be taken into account in determining the credit allowed under subsection (a).".

(15) Section 904(d)(6)(A) is amended by striking "902, 907," and inserting "907".

1 (16) Section 904(h)(10)(A) is amended by
2 striking "sections 902, 907, and 960" and inserting
3 "sections 907 and 960".
4 (17) Section 904(k) is amended to read as fol-
5 lows:
6 "(k) CROSS REFERENCES.—For increase of limita-
7 tion under subsection (a) for taxes paid with respect to
8 amounts received which were included in the gross income
9 of the taxpayer for a prior taxable year as a United States
10 shareholder with respect to a controlled foreign corpora-
11 tion, see section 960(c).".
12 (18) Section 905(c)(1) is amended by striking
13 the last sentence.
14 (19) Section 905(c)(2)(B)(i) is amended to read
15 as follows:
16 "(i) shall be taken into account for
17 the taxable year to which such taxes relate,
18 and".
19 (20) Section 906(a) is amended by striking "(or
20 deemed, under section 902, paid or accrued during
21 the taxable year)".
22 (21) Section 906(b) is amended by striking
23 paragraphs (4) and (5).
24 (22) Section 907(b)(2)(B) is amended by strik-
25 ing "902 or".

(23) Section 907(c)(3) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and

(B) by striking "section 960(a)" in subparagraph (A) (as so redesignated) and inserting "section 960".

(24) Section 907(c)(5) is amended by striking "902 or".

(25) Section 907(f)(2)(B)(i) is amended by striking "902 or".

(26) Section 908(a) is amended by striking "902 or".

(27) Section 909(b) is amended—

(A) by striking "section 902 corporation" in the matter preceding paragraph (1) and inserting "specified 10-percent owned foreign corporation (as defined in section 245A(b))",

(B) by striking "902 or" in paragraph (1),

(C) by striking "by such section 902 corporation" and all that follows in the matter following paragraph (2) and inserting "by such specified 10-percent owned foreign corporation or a domestic corporation which is a United States shareholder with respect to such speci-

fied 10-percent owned foreign corporation.", and

(D) by striking "SECTION 902 CORPORATIONS" in the heading thereof and inserting "SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS".

(28) Section 909(d) is amended by striking paragraph (5).

(29) Section 958(a)(1) is amended by striking "960(a)(1)" and inserting "960".

(30) Section 959(d) is amended by striking "Except as provided in section 960(a)(3), any" and inserting "Any".

(31) Section 959(e) is amended by striking "section 960(b)" and inserting "section 960(c)".

(32) Section 1291(g)(2)(A) is amended by striking "any distribution—" and all that follows through "but only if" and inserting "any distribution, any withholding tax imposed with respect to such distribution, but only if".

(33) Section 6038(c)(1)(B) is amended by striking "sections 902 (relating to foreign tax credit for corporate stockholder in foreign corporation) and 960 (relating to special rules for foreign tax credit)" and inserting "section 960".

(34) Section 6038(c)(4) is amended by striking subparagraph (C).

(35) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 902.

(36) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 960 and inserting the following:

"Sec. 960. Deemed paid credit for subpart F inclusions.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 14302. SEPARATE FOREIGN TAX CREDIT LIMITATION BASKET FOR FOREIGN BRANCH INCOME.

(a) IN GENERAL.—Section 904(d)(1), as amended by section 14201, is amended by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D), respectively, and by inserting after subparagraph (A) the following new subparagraph:

"(B) foreign branch income,".

(b) FOREIGN BRANCH INCOME.—

1 (1) IN GENERAL.—Section 904(d)(2) is amend-
2 ed by inserting after subparagraph (I) the following
3 new subparagraph:
4 "(J) FOREIGN BRANCH INCOME.—
5 "(i) IN GENERAL.—The term 'foreign
6 branch income' means the business profits
7 of such United States person which are at-
8 tributable to 1 or more qualified business
9 units (as defined in section 989(a)) in 1 or
10 more foreign countries. For purposes of
11 the preceding sentence, the amount of
12 business profits attributable to a qualified
13 business unit shall be determined under
14 rules established by the Secretary.
15 "(ii) EXCEPTION.—Such term shall
16 not include any income which is passive
17 category income.".
18 (2) CONFORMING AMENDMENT.—Section
19 904(d)(2)(A)(ii), as amended by section 14201, is
20 amended by striking "income described in paragraph
21 (1)(A) and" and inserting "income described in
22 paragraph (1)(A), foreign branch income, and".
23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2017.

1 **SEC. 14303. ACCELERATION OF ELECTION TO ALLOCATE IN-**
2 **TEREST, ETC., ON A WORLDWIDE BASIS.**

3 (a) IN GENERAL.—Section 864(f)(6) is amended by
4 striking "December 31, 2020" and inserting "December
5 31, 2017".

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

9 **SEC. 14304. SOURCE OF INCOME FROM SALES OF INVEN-**
10 **TORY DETERMINED SOLELY ON BASIS OF**
11 **PRODUCTION ACTIVITIES.**

12 (a) IN GENERAL.—Section 863(b) is amended by
13 adding at the end the following: "Gains, profits, and in-
14 come from the sale or exchange of inventory property de-
15 scribed in paragraph (2) shall be allocated and appor-
16 tioned between sources within and without the United
17 States solely on the basis of the production activities with
18 respect to the property.".

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

SEC. 14305. ELECTION TO INCREASE PERCENTAGE OF DOMESTIC TAXABLE INCOME OFFSET BY OVERALL DOMESTIC LOSS TREATED AS FOREIGN SOURCE.

(a) IN GENERAL.—Section 904(g) is amended by adding at the end the following new paragraph:

"(5) ELECTION TO INCREASE PERCENTAGE OF TAXABLE INCOME TREATED AS FOREIGN SOURCE.—

"(A) IN GENERAL.—If any pre-2018 unused overall domestic loss is taken into account under paragraph (1) for any applicable taxable year, the taxpayer may elect to have such paragraph applied to such loss by substituting a percentage greater than 50 percent (but not greater than 100 percent) for 50 percent in subparagraph (B) thereof.

"(B) PRE-2018 UNUSED OVERALL DOMESTIC LOSS.—For purposes of this paragraph, the term 'pre-2018 unused overall domestic loss' means any overall domestic loss which—

"(i) arises in a qualified taxable year beginning before January 1, 2018, and

"(ii) has not been used under paragraph (1) for any taxable year beginning before such date.

"(C) APPLICABLE TAXABLE YEAR.—For purposes of this paragraph, the term 'applicable taxable year' means any taxable year of the taxpayer beginning after December 31, 2017, and before January 1, 2028.".

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

PART II—INBOUND TRANSACTIONS

SEC. 14401. BASE EROSION AND ANTI-ABUSE TAX.

(a) IMPOSITION OF TAX.—Subchapter A of chapter 1 is amended by adding at the end the following new part:

"PART VII—BASE EROSION AND ANTI-ABUSE TAX

"Sec. 59A. Tax on base erosion payments of taxpayers with substantial gross receipts.

"SEC. 59A. TAX ON BASE EROSION PAYMENTS OF TAXPAYERS WITH SUBSTANTIAL GROSS RECEIPTS.

"(a) IMPOSITION OF TAX.—There is hereby imposed on each applicable taxpayer for any taxable year a tax equal to the base erosion minimum tax amount for the taxable year. Such tax shall be in addition to any other tax imposed by this subtitle.

"(b) BASE EROSION MINIMUM TAX AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the term 'base erosion minimum tax amount' means, with respect to any applicable taxpayer for any taxable year, the excess (if any) of—

"(A) an amount equal to 10 percent of the modified taxable income of such taxpayer for the taxable year, over

"(B) an amount equal to the regular tax liability (as defined in section 26(b)) of the taxpayer for the taxable year, reduced (but not below zero) by the excess (if any) of—

"(i) the credits allowed under this chapter against such regular tax liability, over

"(ii) the credit allowed under section 38 for the taxable year which is properly allocable to the research credit determined under section 41(a).

"(2) MODIFICATIONS FOR TAXABLE YEARS BEGINNING AFTER 2025.—In the case of any taxable year beginning after December 31, 2025, paragraph (1) shall be applied—

"(A) by substituting '12.5 percent' for '10 percent' in subparagraph (A) thereof, and

"(B) by reducing (but not below zero) the regular tax liability (as defined in section 26(b)) for purposes of subparagraph (B) thereof by the aggregate amount of the credits allowed under this chapter against such regular tax liability rather than the excess described in such subparagraph.

"(3) INCREASED RATE FOR CERTAIN BANKS AND SECURITIES DEALERS.—

"(A) IN GENERAL.—In the case of an applicable taxpayer described in subparagraph (B) for any taxable year—

"(i) paragraphs (1)(A) and (2)(A) shall each be applied by substituting '11 percent' for '10 percent', and

"(ii) paragraph (2)(A) shall be applied by substituting '13.5 percent' for '12.5 percent'.

"(B) TAXPAYER DESCRIBED.—An applicable taxpayer is described in this subparagraph if such taxpayer is a member of an affiliated group (as defined in section 1504(a)(1)) which includes—

"(i) a bank (as defined in section 581), or

"(ii) a registered securities dealer under section 15(a) of the Securities Exchange Act of 1934.

"(c) MODIFIED TAXABLE INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'modified taxable income' means the taxable income of the taxpayer computed under this chapter for the taxable year, determined without regard to—

"(A) any base erosion tax benefit with respect to any base erosion payment, or

"(B) the base erosion percentage of any net operating loss deduction allowed under section 172 for the taxable year.

"(2) BASE EROSION TAX BENEFIT.—

"(A) IN GENERAL.—The term 'base erosion tax benefit' means—

"(i) any deduction described in subsection (d)(1) which is allowed under this chapter for the taxable year with respect to any base erosion payment,

"(ii) in the case of a base erosion payment described in subsection (d)(2), any deduction allowed under this chapter for the taxable year for depreciation (or amor-

1 tization in lieu of depreciation) with re-
2 spect to the property acquired with such
3 payment, and
4 "(iii) in the case of a base erosion
5 payment described in subsection (d)(3),
6 any reduction in gross receipts with re-
7 spect to such payment in computing gross
8 income of the taxpayer for the taxable year
9 for purposes of this chapter.
10 "(B) TAX BENEFITS DISREGARDED IF TAX
11 WITHHELD ON BASE EROSION PAYMENT.—
12 "(i) IN GENERAL.—Except as pro-
13 vided in clause (ii), any base erosion tax
14 benefit attributable to any base erosion
15 payment—
16 "(I) on which tax is imposed by
17 section 871 or 881, and
18 "(II) with respect to which tax
19 has been deducted and withheld under
20 section 1441 or 1442,
21 shall not be taken into account in com-
22 puting modified taxable income under
23 paragraph (1)(A) or the base erosion per-
24 centage under paragraph (4).

"(ii) EXCEPTION.—The amount not taken into account in computing modified taxable income by reason of clause (i) shall be reduced under rules similar to the rules under section 163(j)(5)(B) (as in effect before the date of the enactment of the Tax Cuts and Jobs Act).

"(3) SPECIAL RULES FOR DETERMINING INTEREST FOR WHICH DEDUCTION ALLOWED.—For purposes of applying paragraph (1), in the case of a taxpayer to which subsection (j) or (n) of section 163 applies for the taxable year, the reduction in the amount of interest for which a deduction is allowed by reason of such subsection shall be treated as allocable first to interest paid or accrued to persons who are not related parties with respect to the taxpayer and then to such related parties.

"(4) BASE EROSION PERCENTAGE.—For purposes of paragraph (1)(B)—

"(A) IN GENERAL.—The term 'base erosion percentage' means, for any taxable year, the percentage determined by dividing—

"(i) the aggregate amount of base erosion tax benefits of the taxpayer for the taxable year, by

"(ii) the aggregate amount of the deductions allowable to the taxpayer under this chapter for the taxable year.

"(B) SPECIAL RULES.—The amount under subparagraph (A)(ii) shall be determined—

"(i) by taking into account base erosion tax benefits described in clauses (i) and (ii) of paragraph (2)(A), and

"(ii) by not taking into account any deduction allowed under section 172, 245A, or 250 for the taxable year.

"(d) BASE EROSION PAYMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'base erosion payment' means any amount paid or accrued by the taxpayer to a foreign person which is a related party of the taxpayer and with respect to which a deduction is allowable under this chapter.

"(2) PURCHASE OF DEPRECIABLE PROPERTY.—Such term shall also include any amount paid or accrued by the taxpayer to a foreign person which is a related party of the taxpayer in connection with the acquisition by the taxpayer from such person of property of a character subject to the allowance of depreciation (or amortization in lieu of depreciation).

1 "(3) CERTAIN PAYMENTS TO EXPATRIATED EN-
2 TITIES.—
3 "(A) IN GENERAL.—Such term shall also
4 include any amount paid or accrued by the tax-
5 payer with respect to a person described in sub-
6 paragraph (B) which results in a reduction of
7 the gross receipts of the taxpayer.
8 "(B) PERSON DESCRIBED.—A person is
9 described in this subparagraph if such person is
10 a—
11 "(i) surrogate foreign corporation
12 which is a related party of the taxpayer,
13 but only if such person first became a sur-
14 rogate foreign corporation after November
15 9, 2017, or
16 "(ii) foreign person which is a mem-
17 ber of the same expanded affiliated group
18 as the surrogate foreign corporation.
19 "(C) DEFINITIONS.—For purposes of this
20 paragraph—
21 "(i) SURROGATE FOREIGN CORPORA-
22 TION.—The term 'surrogate foreign cor-
23 poration' has the meaning given such term
24 by section 7874(a)(2) but does not include

1 a foreign corporation treated as a domestic
2 corporation under section 7874(b).
3 "(ii) EXPANDED AFFILIATED
4 GROUP.—The term 'expanded affiliated
5 group' has the meaning given such term by
6 section 7874(c)(1).
7 "(4) EXCEPTION FOR CERTAIN AMOUNTS WITH
8 RESPECT TO SERVICES.—Paragraph (1) shall not
9 apply to any amount paid or accrued by a taxpayer
10 for services if—
11 "(A) such services are services which meet
12 the requirements for eligibility for use of the
13 services cost method under section 482 (deter-
14 mined without regard to the requirement that
15 the services not contribute significantly to fun-
16 damental risks of business success or failure),
17 and
18 "(B) such amount constitutes the total
19 services cost with no markup.
20 "(e) APPLICABLE TAXPAYER.—For purposes of this
21 section—
22 "(1) IN GENERAL.—The term 'applicable tax-
23 payer' means, with respect to any taxable year, a
24 taxpayer—

"(A) which is a corporation other than a regulated investment company, a real estate investment trust, or an S corporation,

"(B) the average annual gross receipts of which for the 3-taxable-year period ending with the preceding taxable year are at least $500,000,000, and

"(C) the base erosion percentage (as determined under subsection (c)(4)) of which for the taxable year is 4 percent or higher.

"(2) GROSS RECEIPTS.—

"(A) SPECIAL RULE FOR FOREIGN PERSONS.—In the case of a foreign person the gross receipts of which are taken into account for purposes of paragraph (1)(B), only gross receipts which are taken into account in determining income which is effectively connected with the conduct of a trade or business within the United States shall be taken into account. In the case of a taxpayer which is a foreign person, the preceding sentence shall not apply to the gross receipts of any United States person which are aggregated with the taxpayer's gross receipts by reason of paragraph (3).

1 "(B) OTHER RULES MADE APPLICABLE.—
2 Rules similar to the rules of subparagraphs (B),
3 (C), and (D) of section 448(c)(3) shall apply in
4 determining gross receipts for purposes of this
5 section.
6 "(3) AGGREGATION RULES.—All persons treat-
7 ed as a single employer under subsection (a) of sec-
8 tion 52 shall be treated as 1 person for purposes of
9 this subsection and subsection (c)(4), except that in
10 applying section 1563 for purposes of section 52, the
11 exception for foreign corporations under section
12 1563(b)(2)(C) shall be disregarded.
13 "(f) FOREIGN PERSON.—For purposes of this sec-
14 tion, the term 'foreign person' has the meaning given such
15 term by section 6038A(c)(3).
16 "(g) RELATED PARTY.—For purposes of this sec-
17 tion—
18 "(1) IN GENERAL.—The term 'related party'
19 means, with respect to any applicable taxpayer—
20 "(A) any 25-percent owner of the taxpayer,
21 "(B) any person who is related (within the
22 meaning of section 267(b) or 707(b)(1)) to the
23 taxpayer or any 25-percent owner of the tax-
24 payer, and

"(C) any other person who is related (within the meaning of section 482) to the taxpayer.

"(2) 25-PERCENT OWNER.—The term '25-percent owner' means, with respect to any corporation, any person who owns at least 25 percent of—

"(A) the total voting power of all classes of stock of a corporation entitled to vote, or

"(B) the total value of all classes of stock of such corporation.

"(3) SECTION 318 TO APPLY.—Section 318 shall apply for purposes of paragraphs (1) and (2), except that—

"(A) '10 percent' shall be substituted for '50 percent' in section 318(a)(2)(C), and

"(B) subparagraphs (A), (B), and (C) of section 318(a)(3) shall not be applied so as to consider a United States person as owning stock which is owned by a person who is not a United States person.

"(h) EXCEPTION FOR CERTAIN PAYMENTS MADE IN THE ORDINARY COURSE OF TRADE OR BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraph (3), any qualified derivative payment shall not be treated as a base erosion payment.

1 "(2) QUALIFIED DERIVATIVE PAYMENT.—
2 "(A) IN GENERAL.—The term 'qualified
3 derivative payment' means any payment made
4 by a taxpayer pursuant to a derivative with re-
5 spect to which the taxpayer—
6 "(i) recognizes gain or loss as if such
7 derivative were sold for its fair market
8 value on the last business day of the tax-
9 able year (and such additional times as re-
10 quired by this title or the taxpayer's meth-
11 od of accounting),
12 "(ii) treats any gain or loss so recog-
13 nized as ordinary, and
14 "(iii) treats the character of all items
15 of income, deduction, gain, or loss with re-
16 spect to a payment pursuant to the deriva-
17 tive as ordinary.
18 "(B) REPORTING REQUIREMENT.—No
19 payments shall be treated as qualified derivative
20 payments under subparagraph (A) for any tax-
21 able year unless the taxpayer includes in the in-
22 formation required to be reported under section
23 6038B(b)(2) with respect to such taxable year
24 such information as is necessary to identify the
25 payments to be so treated and such other infor-

1 mation as the Secretary determines necessary
2 to carry out the provisions of this subsection.
3 "(3) EXCEPTIONS FOR PAYMENTS OTHERWISE
4 TREATED AS BASE EROSION PAYMENTS.—This sub-
5 section shall not apply to any qualified derivative
6 payment if—
7 "(A) the payment would be treated as a
8 base erosion payment if it were not made pur-
9 suant to a derivative, including any interest,
10 royalty, or service payment, or
11 "(B) in the case of a contract which has
12 derivative and nonderivative components, the
13 payment is properly allocable to the nonderiva-
14 tive component.
15 "(4) DERIVATIVE DEFINED.—For purposes of
16 this subsection—
17 "(A) IN GENERAL.—The term 'derivative'
18 means any contract (including any option, for-
19 ward contract, futures contract, short position,
20 swap, or similar contract) the value of which, or
21 any payment or other transfer with respect to
22 which, is (directly or indirectly) determined by
23 reference to one or more of the following:
24 "(i) Any share of stock in a corpora-
25 tion.

"(ii) Any evidence of indebtedness.

"(iii) Any commodity which is actively traded.

"(iv) Any currency.

"(v) Any rate, price, amount, index, formula, or algorithm.

Except as provided in regulations prescribed by the Secretary to prevent the avoidance of the purposes of this part, such term shall not include any item described in clauses (i) through (v).

"(B) TREATMENT OF AMERICAN DEPOSITORY RECEIPTS AND SIMILAR INSTRUMENTS.—Except as otherwise provided by the Secretary, for purposes of this part, American depository receipts (and similar instruments) with respect to shares of stock in foreign corporations shall be treated as shares of stock in such foreign corporations.

"(i) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section, including regulations—

"(1) providing for such adjustments to the application of this section as are necessary to prevent

1 the avoidance of the purposes of this section, includ-
2 ing through—
3 "(A) the use of unrelated persons, conduit
4 transactions, or other intermediaries, or
5 "(B) transactions or arrangements de-
6 signed, in whole or in part—
7 "(i) to characterize payments other-
8 wise subject to this section as payments
9 not subject to this section, or
10 "(ii) to substitute payments not sub-
11 ject to this section for payments otherwise
12 subject to this section and
13 "(2) for the application of subsection (g), in-
14 cluding rules to prevent the avoidance of the excep-
15 tions under subsection (g)(3).".
16 (b) REPORTING REQUIREMENTS AND PENALTIES.—
17 (1) IN GENERAL.—Subsection (b) of section
18 6038A is amended to read as follows:
19 "(b) REQUIRED INFORMATION.—
20 "(1) IN GENERAL.—For purposes of subsection
21 (a), the information described in this subsection is
22 such information as the Secretary prescribes by reg-
23 ulations relating to—
24 "(A) the name, principal place of business,
25 nature of business, and country or countries in

which organized or resident, of each person which—

"(i) is a related party to the reporting corporation, and

"(ii) had any transaction with the reporting corporation during its taxable year,

"(B) the manner in which the reporting corporation is related to each person referred to in subparagraph (A), and

"(C) transactions between the reporting corporation and each foreign person which is a related party to the reporting corporation.

"(2) ADDITIONAL INFORMATION REGARDING BASE EROSION PAYMENTS.—For purposes of subsection (a) and section 6038C, if the reporting corporation or the foreign corporation to whom section 6038C applies is an applicable taxpayer, the information described in this subsection shall include—

"(A) such information as the Secretary determines necessary to determine the base erosion minimum tax amount, base erosion payments, and base erosion tax benefits of the taxpayer for purposes of section 59A for the taxable year, and

"(B) such other information as the Secretary determines necessary to carry out such section.

For purposes of this paragraph, any term used in this paragraph which is also used in section 59A shall have the same meaning as when used in such section.".

(2) INCREASE IN PENALTY.—Paragraphs (1) and (2) of section 6038A(d) are each amended by striking "$10,000" and inserting "$25,000".

(c) DISALLOWANCE OF CREDITS AGAINST BASE EROSION TAX.—Paragraph (2) of section 26(b) is amended by inserting after subparagraph (A) the following new subparagraph:

"(B) section 59A (relating to base erosion and anti-abuse tax),".

(d) CONFORMING AMENDMENTS.—

(1) The table of parts for subchapter A of chapter 1 is amended by adding after the item relating to part VI the following new item:

"Part VII. Base erosion and anti-abuse tax".

(2) Paragraph (1) of section 882(a), as amended by this Act, is amended by inserting " or 59A," after "section 11,".

(3) Subparagraph (A) of section 6425(c)(1), as amended by section 13001, is amended to read as follows:

"(A) the sum of—

"(i) the tax imposed by section 11, or subchapter L of chapter 1, whichever is applicable, plus

"(ii) the tax imposed by section 59A, over".

(4)(A) Subparagraph (A) of section 6655(g)(1), as amended by section 13001, is amended by striking "plus" at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

"(ii) the tax imposed by section 59A, plus".

(B) Subparagraphs (A)(i) and (B)(i) of section 6655(e)(2), as amended by section 13001, are each amended by inserting "and modified taxable income" after "taxable income".

(C) Subparagraph (B) of section 6655(e)(2) is amended by adding at the end the following new clause:

"(iii) MODIFIED TAXABLE INCOME.—The term 'modified taxable income' has the

1 meaning given such term by section
2 59A(c)(1).".

3 (e) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to base erosion payments (as de-
5 fined in section 59A(d) of the Internal Revenue Code of
6 1986, as added by this section) paid or accrued in taxable
7 years beginning after December 31, 2017.

8 **PART III—OTHER PROVISIONS**

9 **SEC. 14501. RESTRICTION ON INSURANCE BUSINESS EXCEP-**
10 **TION TO PASSIVE FOREIGN INVESTMENT**
11 **COMPANY RULES.**

12 (a) IN GENERAL.—Section 1297(b)(2)(B) is amend-
13 ed to read as follows:

14 "(B) derived in the active conduct of an in-
15 surance business by a qualifying insurance cor-
16 poration (as defined in subsection (f)),".

17 (b) QUALIFYING INSURANCE CORPORATION DE-
18 FINED.—Section 1297 is amended by adding at the end
19 the following new subsection:

20 "(f) QUALIFYING INSURANCE CORPORATION.—For
21 purposes of subsection (b)(2)(B)—

22 "(1) IN GENERAL.—The term 'qualifying insur-
23 ance corporation' means, with respect to any taxable
24 year, a foreign corporation—

"(A) which would be subject to tax under subchapter L if such corporation were a domestic corporation, and

"(B) the applicable insurance liabilities of which constitute more than 25 percent of its total assets, determined on the basis of such liabilities and assets as reported on the corporation's applicable financial statement for the last year ending with or within the taxable year.

"(2) ALTERNATIVE FACTS AND CIRCUMSTANCES TEST FOR CERTAIN CORPORATIONS.—If a corporation fails to qualify as a qualified insurance corporation under paragraph (1) solely because the percentage determined under paragraph (1)(B) is 25 percent or less, a United States person that owns stock in such corporation may elect to treat such stock as stock of a qualifying insurance corporation if—

"(A) the percentage so determined for the corporation is at least 10 percent, and

"(B) under regulations provided by the Secretary, based on the applicable facts and circumstances—

"(i) the corporation is predominantly engaged in an insurance business, and

"(ii) such failure is due solely to run-off-related or rating-related circumstances involving such insurance business.

"(3) APPLICABLE INSURANCE LIABILITIES.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'applicable insurance liabilities' means, with respect to any life or property and casualty insurance business—

"(i) loss and loss adjustment expenses, and

"(ii) reserves (other than deficiency, contingency, or unearned premium reserves) for life and health insurance risks and life and health insurance claims with respect to contracts providing coverage for mortality or morbidity risks.

"(B) LIMITATIONS ON AMOUNT OF LIABILITIES.—Any amount determined under clause (i) or (ii) of subparagraph (A) shall not exceed the lesser of such amount—

"(i) as reported to the applicable insurance regulatory body in the applicable financial statement described in paragraph

1 (4)(A) (or, if less, the amount required by
2 applicable law or regulation), or
3 "(ii) as determined under regulations
4 prescribed by the Secretary.
5 "(4) OTHER DEFINITIONS AND RULES.—For
6 purposes of this subsection—
7 "(A) APPLICABLE FINANCIAL STATE-
8 MENT.—The term 'applicable financial state-
9 ment' means a statement for financial reporting
10 purposes which—
11 "(i) is made on the basis of generally
12 accepted accounting principles,
13 "(ii) is made on the basis of inter-
14 national financial reporting standards, but
15 only if there is no statement that meets
16 the requirement of clause (i), or
17 "(iii) except as otherwise provided by
18 the Secretary in regulations, is the annual
19 statement which is required to be filed
20 with the applicable insurance regulatory
21 body, but only if there is no statement
22 which meets the requirements of clause (i)
23 or (ii).
24 "(B) APPLICABLE INSURANCE REGU-
25 LATORY BODY.—The term 'applicable insurance

1 regulatory body' means, with respect to any in-
2 surance business, the entity established by law
3 to license, authorize, or regulate such business
4 and to which the statement described in sub-
5 paragraph (A) is provided.".

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

9 **SEC. 14502. REPEAL OF FAIR MARKET VALUE METHOD OF**
10 **INTEREST EXPENSE APPORTIONMENT.**

11 (a) IN GENERAL.—Paragraph (2) of section 864(e)
12 is amended to read as follows:

13 "(2) GROSS INCOME AND FAIR MARKET VALUE
14 METHODS MAY NOT BE USED FOR INTEREST.—All
15 allocations and apportionments of interest expense
16 shall be determined using the adjusted bases of as-
17 sets rather than on the basis of the fair market
18 value of the assets or gross income.".

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

22 **SEC. 14503. MODIFICATION TO SOURCE RULES INVOLVING**
23 **POSSESSIONS.**

24 (a) IN GENERAL.—Subsection (b)(2) of Section 937
25 of the Internal Revenue Code of 1986 is amended by in-

1 serting ", but only to the extent such income is attrib-
2 utable to an office or fixed place of business within the
3 United States (determined under the rules of Section
4 864(c)(5))" before the period at the end.

5 (b) SOURCE RULES FOR PERSONAL PROPERTY
6 SALES.—Subsection (j)(3) of section 865 of the Internal
7 Revenue Code of 1986 is amended by inserting "932,"
8 after "931,".

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 2018.

12 # TITLE II

13 **SEC. 20001. OIL AND GAS PROGRAM.**

14 (a) DEFINITIONS.—In this section:

15 (1) COASTAL PLAIN.—The term "Coastal
16 Plain" means the area identified as the 1002 Area
17 on the plates prepared by the United States Geologi-
18 cal Survey entitled "ANWR Map – Plate 1" and
19 "ANWR Map – Plate 2", dated October 24, 2017,
20 and on file with the United States Geological Survey
21 and the Office of the Solicitor of the Department of
22 the Interior.

23 (2) SECRETARY.—The term "Secretary" means
24 the Secretary of the Interior, acting through the Bu-
25 reau of Land Management.

1 (b) OIL AND GAS PROGRAM.—
2 (1) IN GENERAL.—Section 1003 of the Alaska
3 National Interest Lands Conservation Act (16
4 U.S.C. 3143) shall not apply to the Coastal Plain.
5 (2) ESTABLISHMENT.—
6 (A) IN GENERAL.—The Secretary shall es-
7 tablish and administer a competitive oil and gas
8 program for the leasing, development, produc-
9 tion, and transportation of oil and gas in and
10 from the Coastal Plain.
11 (B) PURPOSES.—Section 303(2)(B) of the
12 Alaska National Interest Lands Conservation
13 Act (Public Law 96–487; 94 Stat. 2390) is
14 amended—
15 (i) in clause (iii), by striking "and" at
16 the end;
17 (ii) in clause (iv), by striking the pe-
18 riod at the end and inserting "; and"; and
19 (iii) by adding at the end the fol-
20 lowing:
21 "(v) to provide for an oil and gas pro-
22 gram on the Coastal Plain.".
23 (3) MANAGEMENT.—Except as otherwise pro-
24 vided in this section, the Secretary shall manage the
25 oil and gas program on the Coastal Plain in a man-

1 ner similar to the administration of lease sales under
2 the Naval Petroleum Reserves Production Act of
3 1976 (42 U.S.C. 6501 et seq.) (including regula-
4 tions).

5 (4) ROYALTIES.—Notwithstanding the Mineral
6 Leasing Act (30 U.S.C. 181 et seq.), the royalty
7 rate for leases issued pursuant to this section shall
8 be 16.67 percent.

9 (5) RECEIPTS.—Notwithstanding the Mineral
10 Leasing Act (30 U.S.C. 181 et seq.), of the amount
11 of adjusted bonus, rental, and royalty receipts de-
12 rived from the oil and gas program and operations
13 on Federal land authorized under this section—

14 (A) 50 percent shall be paid to the State
15 of Alaska; and

16 (B) the balance shall be deposited into the
17 Treasury as miscellaneous receipts.

18 (c) 2 LEASE SALES WITHIN 10 YEARS.—

19 (1) REQUIREMENT.—

20 (A) IN GENERAL.—Subject to subpara-
21 graph (B), the Secretary shall conduct not
22 fewer than 2 lease sales area-wide under the oil
23 and gas program under this section by not later
24 than 10 years after the date of enactment of
25 this Act.

(B) SALE ACREAGES; SCHEDULE.—

(i) ACREAGES.—The Secretary shall offer for lease under the oil and gas program under this section—

(I) not fewer than 400,000 acres area-wide in each lease sale; and

(II) those areas that have the highest potential for the discovery of hydrocarbons.

(ii) SCHEDULE.—The Secretary shall offer—

(I) the initial lease sale under the oil and gas program under this section not later than 4 years after the date of enactment of this Act; and

(II) a second lease sale under the oil and gas program under this section not later than 7 years after the date of enactment of this Act.

(2) RIGHTS-OF-WAY.—The Secretary shall issue any rights-of-way or easements across the Coastal Plain for the exploration, development, production, or transportation necessary to carry out this section.

(3) SURFACE DEVELOPMENT.—In administering this section, the Secretary shall authorize up

to 2,000 surface acres of Federal land on the Coastal Plain to be covered by production and support facilities (including airstrips and any area covered by gravel berms or piers for support of pipelines) during the term of the leases under the oil and gas program under this section.

SEC. 20002. LIMITATIONS ON AMOUNT OF DISTRIBUTED QUALIFIED OUTER CONTINENTAL SHELF REVENUES.

Section 105(f)(1) of the Gulf of Mexico Energy Security Act of 2006 (43 U.S.C. 1331 note; Public Law 109–432) is amended by striking "exceed $500,000,000 for each of fiscal years 2016 through 2055." and inserting the following: "exceed—

"(A) $500,000,000 for each of fiscal years 2016 through 2019;

"(B) $650,000,000 for each of fiscal years 2020 and 2021; and

"(C) $500,000,000 for each of fiscal years 2022 through 2055.".

SEC. 20003. STRATEGIC PETROLEUM RESERVE DRAWDOWN AND SALE.

(a) DRAWDOWN AND SALE.—

(1) IN GENERAL.—Notwithstanding section 161 of the Energy Policy and Conservation Act (42

1 U.S.C. 6241), except as provided in subsections (b)
2 and (c), the Secretary of Energy shall draw down
3 and sell from the Strategic Petroleum Reserve
4 7,000,000 barrels of crude oil during the period of
5 fiscal years 2026 through 2027.
6 (2) DEPOSIT OF AMOUNTS RECEIVED FROM
7 SALE.—Amounts received from a sale under para-
8 graph (1) shall be deposited in the general fund of
9 the Treasury during the fiscal year in which the sale
10 occurs.
11 (b) EMERGENCY PROTECTION.—The Secretary of
12 Energy shall not draw down and sell crude oil under sub-
13 section (a) in a quantity that would limit the authority
14 to sell petroleum products under subsection (h) of section
15 161 of the Energy Policy and Conservation Act (42 U.S.C.
16 6241) in the full quantity authorized by that subsection.
17 (c) LIMITATION.—The Secretary of Energy shall not
18 drawdown or conduct sales of crude oil under subsection
19 (a) after the date on which a total of $600,000,000 has
20 been deposited in the general fund of the Treasury from
21 sales authorized under that subsection.