

**DESCRIPTION OF REVENUE PROVISIONS
TO BE CONSIDERED IN CONNECTION WITH
THE MARKUP OF
THE WORK INCENTIVES IMPROVEMENT ACT OF 1999**

Scheduled for Markup
by the
SENATE COMMITTEE ON FINANCE

on March 4, 1999

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



March 2, 1999
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INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, contains a description of the revenue proposals to be considered by the Senate Committee on Finance in connection with the markup of the Work Incentives Improvement Act of 1999, scheduled for March 4, 1999.

This document contains a description of the following revenue proposals: to modify the foreign tax credit carryover rules, to limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services, and to extend IRS user fees.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revenue Provisions to be Considered in Connection with the Markup of the Work Incentives Improvement Act of 1999* (JCX-10-99), March 2, 1999.

DESCRIPTION OF REVENUE PROVISIONS

1. Modify Foreign Tax Credit Carryover Rules

Present Law

U.S. persons may credit foreign taxes against U.S. tax on foreign-source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S.-source income. Separate foreign tax credit limitations are applied to specific categories of income.

The amount of creditable taxes paid or accrued (or deemed paid) in any taxable year which exceeds the foreign tax credit limitation is permitted to be carried back two years and forward five years. The amount carried over may be used as a credit in a carryover year to the extent the taxpayer otherwise has excess foreign tax credit limitation for such year. The separate foreign tax credit limitations apply for purposes of the carryover rules.

Description of Proposal

The proposal would reduce the carryback period for excess foreign tax credits from two years to one year. The proposal also would extend the excess foreign tax credit carryforward period from five years to seven years.

Effective Date

The proposal would apply to foreign tax credits arising in taxable years beginning after December 31, 2001.

2. Limit Use of Non-Accrual Experience Method of Accounting to Amounts to Be Received for the Performance of Qualified Professional Services

Present Law

An accrual method taxpayer generally must recognize income when all events have occurred that fix the right to its receipt and its amount can be determined with reasonable accuracy. An accrual method taxpayer may deduct the amount of any receivable that was previously included in income if the receivable becomes worthless during the year.

Accrual method taxpayers are not required to include in income amounts to be received for the performance of services which, on the basis of experience, will not be collected (the "non-accrual experience method"). The availability of this method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount charged.

Description of Proposal

The non-accrual experience method would apply only to amounts to be received for the performance of qualified personal services. Amounts to be received for the performance of all other services would be subject to the general rule regarding inclusion in income. Qualified personal services are personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting. As under present law, the availability of the method would be conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount.

Effective Date

The proposal would be effective for taxable years ending after the date of enactment. Any change required as a result of the proposal would be considered a change in the taxpayer's method of accounting, initiated by the taxpayer with the consent of the Secretary. Any required section 481(a) adjustment would be taken into account over a period not to exceed four years.

3. Extension of IRS User Fees

Present Law

The IRS provides written responses to questions of individuals, corporations, and organizations relating to their tax status or the effects of particular transactions for tax purposes. The IRS generally charges a fee for requests for a letter ruling, determination letter, opinion letter, or other similar ruling or determination. Public Law 104-117² extended the statutory authorization for these user fees³ through September 30, 2003.

Description of Proposal

The proposal would extend the statutory authorization for these user fees through September 30, 2006.

Effective Date

The proposal would be effective on the date of enactment.

² An Act to provide that members of the Armed Forces performing services for the peacekeeping efforts in Bosnia and Herzegovina, Croatia, and Macedonia shall be entitled to tax benefits in the same manner as if such services were performed in a combat zone, and for other purposes (March 20, 1996).

³ These user fees were originally enacted in section 10511 of the Revenue Act of 1987 (Public Law 100-203, December 22, 1987).