SUMMARY OF PROPOSALS
RELATING TO
MIDDLE INCOME TAX RELIEF
AND ECONOMIC GROWTH

Scheduled for a Hearing

Before the

HOUSE COMMITTEE ON WAYS AND MEANS

on December 6 and 17-18, 1991

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

December 6, 1991

JCX-32-91

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a summary of proposals relating to middle income tax relief and economic growth, scheduled for public hearings by the House Committee on Ways and Means on December 6 and 17-18, 1991.[2]

The proposals have been categorized as follows: (A) middle income tax relief and economic growth proposals (proposals with several tax relief or incentive provisions); (B) personal exemption, standard deduction, and child and earned income tax credit proposals; (C) capital gains, passive losses, and other investment incentive proposals; (D) individual retirement arrangement and homebuyers' tax credit proposals; and (E) other proposals.

This document does not include any revenue estimates of the proposals. Chairman Rostenkowski has directed that revenue estimates be prepared for the proposals described in this document. However, because the Congressional Budget Office (CBO) will, within the next few weeks, announce revised macroeconomic baseline assumptions, the staff of the Joint Committee on Taxation will wait to prepare such estimates until the revised CBO baseline assumptions have been announced.

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[1] This document may be cited as follows: Joint Committee on Taxation, Summary of Proposals Relating to Middle Income Tax Relief and Economic Growth (JCX-32-91), December 6, 1991.

[2] A detailed description of the proposals contained in this document will be printed later as a pamphlet by the U.S. Government Printing Office.

SUMMARY OF PROPOSALS

A. Middle Income Tax Relief and Economic Growth Proposals

1. H.R. 3730--"The Middle Income Tax Relief and Fairness Act of 1992" (Messrs. Rostenkowski, Gephardt, Pease, Downey, Rangel, Matsui, Anthony, Dorgan of North Dakota, Donnelly, Coyne, Levin of Michigan, Cardin, McDermott, and others)

The bill would provide a refundable income tax credit based on an employee's Social Security tax liability. The bill also would create a 35-percent individual income tax bracket, increase the individual minimum tax, and impose a surtax on individuals with taxable income over $1,000,000.

The bill would be effective for taxable years beginning after December 31, 1991.

2. "The Economic Growth, Investment and Job Creation Act" (House Republican Conference)

Overview

The proposal would (1) allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital asset, (2) provide taxpayers with a capital gain deduction with respect to dispositions of qualified small business stock, (3) provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets for purposes of determining gain or loss upon sale or other disposition, (4) provide that losses from the sale or exchange of a principal residence would be treated as a capital loss, (5) increase the amount that a taxpayer can expense for any taxable year in lieu of recovering such amount through depreciation deductions, (6) increase the amount of income an individual can earn before the Social Security earnings limit applies, (7) provide that the passive loss limitation would not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business, (8) specifically exempt qualified apprenticeship education organizations from taxation and allow a 20-percent income tax credit for contributions to these organizations, (9) permit individuals to establish and make nondeductible contributions to IRA plus accounts, (10) permit certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home, (11) permit taxpayers with adjusted gross incomes up to $50,000 to exclude from gross income the first $225 of interest received ($450 in the case of a joint return), and (12) repeal the excise tax on luxury items.

The specific provisions of the proposal are summarized below.

Deduction for capital gains

The proposal would allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital assets. Assets held three years or more would qualify for a 30-percent exclusion; assets held at least two years but less than three years would qualify for a 20-percent exclusion; and assets held at least one year but less than two years would qualify for a 10-percent exclusion.

Qualified capital assets generally would be capital assets as defined under present law, except that collectibles would be excluded. The capital gains exclusion would be a preference for purposes of the alternative minimum tax.

The capital gain provisions of the proposal would apply to dispositions made on or after September 30, 1991. For the portion of 1991 to which the proposal would apply, a 30-percent exclusion would apply for all assets held one year or more. For 1992, the exclusion would be 20 percent for assets held between one and two years and 30 percent for assets held at least two years.

50-percent capital gains exclusion on venture capital investments

The proposal would provide taxpayers with a capital gain deduction with respect to dispositions of qualified small business stock. Taxpayers who have held qualified small business stock for more than five years would be allowed a deduction equal to 50 percent of their qualified small business net capital gain.

Qualified small business stock would be stock issued after December 31, 1991, acquired at original issue for money or as compensation for services. At the time of issue, the amount of money, the adjusted basis of property and the value of services received by the corporation for stock as a contribution to capital and as paid-in surplus, plus the accumulated earnings and profits of the corporation, could not exceed $100 million. In addition, the corporation must conduct an active business and use substantially all its assets in an active business during the 5-year period commencing with the acquisition of the stock.

The qualified small business capital gain deduction would be treated as a preference item under the alternative minimum tax.

The proposal also would provide taxpayers with a seed capital gain deduction with respect to dispositions of qualified small business stock in corporations with paid-in capital and surplus not in excess of $5 million. The deduction for seed capital gain would be on a sliding scale, depending on holding period: 50 percent for five years, 60 percent for six years, 70 percent for seven years, 80 percent for eight years, 90 percent for nine years, and 100 percent for 10 years.

The seed capital gain deduction would not be treated as a preference item under the alternative minimum tax.

The amount of money and other property that a small business corporation under section 1244 can receive for stock as a contribution to capital and as paid-in surplus would be increased from $1 million to $5 million.

These provisions of the proposal would apply to stock issued after December 31, 1991. If a taxpayer holds appreciated stock that would have been treated as qualified small business stock at the time it was issued had these rules been in place, the taxpayer may elect to recognize all accrued gain with respect to such stock. In such event, any subsequent gains would be eligible for the qualified small business capital gain deduction or the seed capital gain deduction. The holding period for such stock would begin on the date the gain is recognized.

<u>Indexing basis of certain assets</u>

The proposal would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion, and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the gross national product ("GNP") deflator in the calendar quarter in which the disposition occurs by the GNP deflator for the calendar quarter in which the asset was acquired by the taxpayer (or, if later, the calendar quarter ending December 31, 1993). In the case of stock in regulated investment companies and real estate investment trusts and interests in common trust funds, partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The indexing provisions of the proposal would apply to dispositions after December 31, 1993.

Loss on the sale of principal residence

The proposal would provide that losses from the sale or exchange of a principal residence would be treated as a capital loss, effective for sales and exchanges after December 31, 1991.

Expensing of certain depreciable property

The proposal generally would allow a taxpayer to expense and deduct up to $18,200 of the cost of certain tangible personal property that is placed in service in a taxable year for use as an integral part of manufacturing, production, or extraction.

The proposal would be effective for taxable years beginning after December 31, 1991.

Increase social security earnings limitation

The proposal would increase by $1,000 per year over a period of 5 years the income threshold at which Social security benefits are reduced. The proposal would apply to taxable years ending after 1991.

Passive loss rules

The proposal would provide that the passive loss limitation does not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business. The proposal would be effective with respect to taxable years beginning after December 31, 1991.

Leading employers into apprentice programs ("LEAP")

The proposal would specifically exempt apprenticeship education organizations from taxation. Apprenticeship education organizations would be organizations that were organized and operated solely for purposes of administering a qualified apprenticeship education program and that satisfied certain additional organizational tests.

The proposal also would permit a 20-percent income tax credit for contributions made by businesses to any apprenticeship education organization. The deduction to employers for contributions to such organizations would not be reduced by the amount of the credit.

The proposal would apply to years beginning after December 31, 1991.

Individual retirement arrangements (IRAs)

IRA plus accounts

The proposal would permit individuals to establish and make nondeductible contributions to IRA plus accounts. Contributions to IRA plus accounts could be made regardless of income or other retirement plan coverage. Contributions to the IRA plus would be limited to $2,000 per taxpayer per year, less the amount of deductible contributions made to a deductible IRA. The $2,000 limit would be increased to $3,000 for taxable years beginning after 1996.

No tax or penalty would be imposed on IRA plus distributions attributable to the employee's being disabled, or on distributions made on or after the date on which the individual attains age 59-1/2 or dies, provided such funds are withdrawn at least 5 years after the date of the creation of the IRA plus.

Rollovers from normal IRAs to an IRA plus would be permitted, although the amount representing previously-deductible contributions would be subject to income tax. A special transition rule would apply to rollovers made before June 30, 1993.

Penalty-free IRA withdrawals for qualified expenses

The proposal would allow certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home. Individuals also could withdraw funds to help children and grandchildren purchase a first home.

Effective date

The proposal would apply to taxable years beginning after December 31, 1991.

Interest exclusion for middle-income taxpayers

The proposal would exclude from gross income the first $225 of interest received ($450 in the case of a joint return). The amount of the exclusion available would be phased out for taxpayers with adjusted gross income (AGI) in the range of $50,000-$60,000 ($25,000-$35,000 for married, filing separately). For purposes of this proposed exclusion, some fraction of the dividends from real estate investment companies (RICs) and real estate investment trusts (REITs) may be treated as interest. The proposal would apply with respect to taxable years beginning after December 31, 1991.

Repeal the luxury excise taxes

The proposal would repeal the 10-percent excise tax on luxury items, effective on the date of enactment.

3. H.R. 960--"Economic Growth and Jobs Creation Act of 1991" (Messrs. DeLay, Tallon, Darden, Armey, Ballenger, Boehner, Cox, Dannemeyer, Doolittle, Hancock, Herger, Riggs, Weber, and others)

Social security tax rates

The bill would lower the social security tax rate for employers and employees from 6.2 percent to 5.3 percent, and the corresponding tax rate for self-employed individuals from 12.4 percent to 10.6 percent.

Capital gains and indexing

Under the bill, a maximum rate of 15 percent would apply to the net capital gain recognized by individuals and corporations (7.5 percent in the case of individuals in the 15-percent bracket). In addition, the AMT rate on net capital gain would be reduced to 15 percent. For purposes of computing a taxpayer's personal exemption and itemized deduction phaseouts, the taxpayer's AGI would be reduced by any net capital gain. The dollar limitation on the annual use of capital losses by individuals would be indexed for inflation under the bill.

The bill would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations and personal holding companies, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion, and amortization would be determined without regard to the inflation adjustment. Special proration rules would apply to stock in regulated investment companies and real estate investment trusts and interests in common trust funds, based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The capital gain provisions of the bill would apply to sales or exchanges occurring after June 30, 1991. The provision that would provide for the indexing of the limitation on capital losses would apply to tax years beginning after December 31, 1991.

Depreciation

The bill would index the ACRS depreciation allowances for certain tangible property placed in service in taxable years beginning after 1990. In addition, for taxable years beginning after 1996, the bill would adjust (and would phase in the adjustments to) the ACRS depreciation allowances for tangible property to eventually allow the expensing of the cost of such property in the year the property is placed in service.

Individual retirement arrangements (IRAs)

The bill would permit individuals to make nondeductible contributions to IRA plus accounts. Amounts held in IRA plus accounts could be withdrawn tax-free if the withdrawal is a qualified distribution and the withdrawal occurs at least 5 years after the individual first made a contribution to the IRA plus account. Contributions to an IRA plus account generally could not exceed $2,000 per year.

Social Security benefit taxation

Beginning after 1996, the bill would adjust for inflation the income thresholds for determining whether a portion of social security benefits is taxable, and would exclude from income for this purpose withdrawal from IRAs.

4. H.R. 2242--"Working Family Tax Relief Act of 1991" (Messrs. Downey, Stark, Donnelly, Rangel, Gibbons, Jacobs, Matsui, and others)

The bill would replace the present-law personal exemption for children under 18 with an $800 refundable income tax credit. The bill would repeal the young child, supplemental health insurance, and family-size adjustment components of the earned income tax credit (EITC), and would increase the basic EITC credit rate. The bill would repeal present-law provisions that reduce personal exemptions and itemized deductions for higher-income individuals. The bill would increase individual income tax rates and impose a surtax on high-income individuals.

The bill generally would be effective for taxable years beginning after December 31, 1991, except that the tax credit for dependent children and the surtax would be effective for taxable years beginning after December 31, 1992.

5. H.R. 3128-- "All Americans Savings and Investment Incentive Act of 1991" (Mr. Gallo)

Capital gains exclusion

The bill would allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital assets. Assets held 3 years or more would qualify for a 30-percent exclusion; assets held at least 2 years but less than 3 years would qualify for a 20-percent exclusion; and assets held at least one year but less than 2 years would qualify for a 10-percent exclusion. The provision would be effective for sales and exchanges after September 30, 1991.

Interest exclusion

The bill also would exclude from gross income the first $350 of interest received ($700 in the case of a joint return). The amount of the exclusion available would be phased out for taxpayers with adjusted gross income (AGI) in the range of $50,000-$60,000 ($25,000-$35,000 for married, filing separately). The provision would apply with respect to taxable years beginning after December 31, 1991.

6. H.R. 3130--"Economic Growth Act of 1991" (Messrs. Gingrich, Gunderson, Walker, McCollum, Ireland, Mrs. Johnson of Conn., Messrs. Kyl, Hastert, McEwen, Kasich, Ramstad, Thomas of Wyoming, Rohrabacher, and Hunter)

Overview

The bill would (1) allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital asset, (2) provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets for purposes of determining gain or loss upon sale or other disposition, (3) authorize the Secretary of the Department of Housing and Urban Development (HUD) to designate up to 50 enterprise zones, companies in which (and stockholders of such companies) would receive favorable tax treatment, (4) permanently extend the tax credit for qualified research expenditures (including university basic research payments), (5) permit individuals to establish and make nondeductible contributions to IRA plus accounts, (6) give first-time home buyers with adjusted gross income less than $41,000 a refundable tax credit of up to $1,000 for the purchase of a principal residence, (7) permit certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home, or for certain medical or education expenses, (8) increase the amount of income an individual can earn before the Social Security earnings limit applies, and (9) increase the amount of the personal exemption for taxable years following the declaration of an economic growth dividend by the Secretary of the Treasury.

The following is a summary of the specific provisions of the bill.

Capital gains and indexing

The bill would allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital assets. Assets held three years or more would qualify for a 30-percent exclusion; assets held at least two years but less than three years would qualify for a 20-percent exclusion; and assets held at least one year but less than two years would qualify for a 10-percent exclusion.

Qualified capital assets generally would be capital assets as defined under present law, except that collectibles would be excluded. The capital gains exclusion would be a preference for purposes of the alternative minimum tax.

Under the bill, gain on the disposition of depreciable real property would be taxed as ordinary income to the extent of all previous depreciation allowances with respect to the property (as opposed to recapturing only the excess of accelerated depreciation over straight-line depreciation, as under present law).

The bill generally would provide individuals with an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the consumer price index ("CPI") in the calendar year preceding the year the disposition occurs by the CPI in the calendar year preceding the year in which the asset was acquired by the taxpayer. In the case of stock in regulated investment companies (RICs) and real estate investment trusts (REITs), partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The capital gain provisions of the bill would apply to dispositions made on or after April 15, 1991. For the portion of 1991 to which the proposal would apply, a 30-percent exclusion would apply for all assets held one year or more. For 1992, the exclusion would be 20 percent for assets held between one and two years and 30 percent for assets held at least two years. The indexing provisions of the bill generally would apply to dispositions of any property the holding period of which begins after April 15, 1991.

Enterprise zones

Tax provisions

The bill would authorize the Secretary of HUD to designate up to 50 enterprise zones over a four-year period. The designations generally would remain in effect for 25 years. With respect to the designated zones, the following tax incentives would apply:

Employment tax credit--A 5-percent refundable tax credit would be provided to certain enterprise zone employees for their first $10,500 of wages.

Capital gain exclusion--Long-term capital gain realized from the disposition of certain property (excluding financial property and collectibles) used in an enterprise zone business for at least two years would be excluded from income.

Deduction for enterprise zone stock--Individuals could elect to deduct up to $50,000 per year of the purchase price of certain enterprise zone stock, subject to a $250,000 lifetime limitation. The deduction would be treated as a preference item for alternative minimum tax purposes. A corporation could not issue more than $5 million of stock eligible for the deduction.

Non-tax provisions

The bill also contains the following non-tax provisions with respect to enterprise zones: (1) applications for establishment of a foreign trade zone within an enterprise zone would be processed on a priority basis; (2) the definition of a small entity would be expanded for purposes of the Regulatory Flexibility Act; and (3) Title VII of the Housing and Community Development Act of 1987 would be repealed.

Effective date

The enterprise zone tax provisions would be effective for taxable years ending after December 31, 1990. The non-tax provisions generally would be effective upon enactment.

<u>Permanent extension of research credit</u>

The bill would permanently extend the 20-percent tax credit for qualified research expenditures, effective for taxable years beginning after December 31, 1990.

<u>Individual retirement accounts</u>

<u>IRA plus accounts</u>

The bill would permit individuals to establish and make nondeductible contributions to IRA plus accounts. Contributions to IRA plus accounts could be made regardless of income or other retirement plan coverage. Contributions to the IRA plus would be limited to $2,000 per taxpayer per year, less the amount of deductible contributions made to a deductible IRA. The $2,000 limit would be increased to $3,000 for taxable years beginning after 1996.

No tax or penalty would be imposed on IRA plus distributions attributable to the employee's being disabled, or on distributions made on or after the date on which the individual attains age 59-1/2 or dies, provided such funds are withdrawn at least 5 years after the date of the creation of the IRA plus.

Rollovers from normal IRAs to an IRA plus would be permitted, although the amount representing previously-deductible contributions would be subject to income tax. A special transition rule applies to rollovers made before June 30, 1993.

<u>Penalty-free IRA withdrawals for qualified expenses</u>

The bill would allow certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home, certain education expenses, and certain medical expenses. Individuals also could withdraw funds to help children and grandchildren with a qualified expense.

<u>Effective Date</u>

The provision would apply to taxable years beginning after December 31, 1991.

<u>Increase social security earnings limitation</u>

The bill would increase by $1,000 per year over a period of 5 years the income threshold at which Social security benefits are reduced. The provision would apply to taxable years ending after 1991.

First-time homebuyers tax credit

The bill would give qualified first-time homebuyers a refundable tax credit of $1,000 for the purchase of a principal residence, effective for purchases after July 31, 1991.

Growth dividend--increase in personal exemption

The bill would increase the amount of the personal exemption in taxable years following the declaration of an economic growth dividend by the Secretary of the Treasury.

7. "Family and Corporate Tax Sense Act of 1992" (Mr. Schulze)

The following provisions were proposed by Mr. Schulze in a press release dated December 3, 1991.

H.R. 3170--"The Uniform Business Tax Act of 1991"(Messrs. Schulze, Guarini, Thomas, Applegate, Bustamante, Cunningham, DeFazio, Duncan, Fish, Gekas, Horton, Huckaby, Hunter, Lent, Lipinski, Moran, Ravenel, Regula, Rowland, Skeen and Mr. Walsh, and Mrs. Bentley and Ms. Kaptur)

Under H.R. 3170, for taxable years beginning after 1990, a tax (the "uniform business tax" ("UBT")) would be imposed equal to 9 percent of the taxable value of goods and services produced and sold in the United States by a taxable business. The UBT would replace the corporate income tax and the corporate alternative minimum tax, which would be repealed under the bill. In addition, the UBT is creditable against the payroll tax liability of an employer. To the extent a corporation's payroll tax liability exceeds its UBT liability, such excess may be carried forward and credited against future UBT liability. For a noncorporate taxpayer, the portion of the UBT in excess of the payroll tax liability may be credited against the taxpayer's income tax. The UBT also would be imposed on the customs value of imported property, with a de minimis exception for certain personal use items.

H.R. 3170 would be effective for taxable years beginning after December 31, 1990.

Capital gains exclusion; depreciation recapture

The proposal would allow individuals an exclusion of a percentage of the gain realized upon the disposition of qualified capital assets. Assets held 3 years or more would qualify for a 30-percent exclusion; assets held at least 2 years but less than 3 years would qualify for a 20-percent exclusion; and assets held at least one year but less than 2 years would qualify for a 10-percent exclusion.

Qualified capital assets generally would be capital assets as defined under present law, except that collectibles would be excluded. The capital gains exclusion would be a preference for purposes of the alternative minimum tax.

Under the bill, gain on the disposition of depreciable real property would be taxed as ordinary income to the extent of all previous depreciation allowances with respect to the property (as opposed to recapturing only the excess of accelerated depreciation over straight-line depreciation, as under present law).

The bill would apply to dispositions (and installment payments received) after date of enactment. For the portion of 1991 to which the proposal would apply, a 30-percent exclusion would apply for all assets held one year or more. For 1992, the exclusion would be 20 percent for assets held between one and two years and 30 percent for assets held at least two years.

<u>Social Security payroll taxes</u>

The proposal would reduce the social security payroll tax rates by 1 percentage point, beginning in 1993.

<u>H.R. 1287--Exclusion of gain on the sale of a principal residence (Messrs. Schulze, Thomas of Calif., Bunning, and others)</u>

The bill would repeal the age and dollar limitations on the one-time exclusion of gain from the sale of a principal residence under present law, effective for sales after the date of enactment.

<u>Increase in personal exemption</u>

The proposal would increase the personal exemption for dependents to $3,500 in 1993.

8. H.R. 3678--"Economic Growth Act of 1991" (Mr. Walker)

<u>Capital gains and indexing</u>

Under the bill, an individual would be allowed a deduction equal to 33 percent of net capital gain for the taxable year. Net gain from the sale of collectibles would not be eligible for the deduction. The capital gain deduction would not apply for purposes of computing alternative minimum taxable income.

Under the bill, gain on the disposition of depreciable real property would be taxed as ordinary income to the extent of all previous depreciation allowances with respect to the property (as opposed to recapturing only the excess of accelerated depreciation over straight-line depreciation, as under present law).

The bill generally would provide individuals with an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion and amortization would be determined without regard to the inflation adjustment. In the case of stock in regulated investment companies (RICs) and real estate investment trusts (REITs), partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The capital gain provisions of the bill would apply to taxable years beginning after the date of enactment. The depreciation recapture provisions would apply to dispositions made after the date of enactment. The indexing provisions generally would apply to dispositions of any property the holding period of which begins after the date of enactment.

<u>Enterprise zones</u>

<u>Tax provisions</u>

The bill would authorize the Secretary of HUD to designate up to 50 enterprise zones over a four-year period. Zone designations generally would remain in effect for 25 years. With respect to the designated zones, the following tax incentives would apply:

<u>Employment tax credit</u>--A 5-percent refundable tax credit would be provided to certain enterprise zone employees for their first $10,500 of wages.

<u>Capital gain exclusion</u>--Long-term capital gain realized from the disposition of certain property (excluding financial property and collectibles) used in an enterprise zone business for at least two years would be excluded from income.

Deduction for enterprise zone stock--Individuals could elect to deduct up to $50,000 per year of the purchase price of certain enterprise zone stock, subject to a $250,000 lifetime limitation. The deduction would be treated as a preference item for alternative minimum tax purposes. A corporation could not issue more than $5 million of stock eligible for the deduction.

Non-tax provisions

The bill also contains the following non-tax provisions with respect to enterprise zones: (1) applications for establishment of a foreign trade zone within an enterprise zone would be processed on a priority basis; (2) the definition of a small entity would be expanded for purposes of the Regulatory Flexibility Act; and (3) Title VII of the Housing and Community Development Act of 1987 would be repealed.

Effective date

The enterprise zone tax provisions would be effective for taxable years ending after the date of enactment. The non-tax provisions generally would be effective upon enactment.

Permanent extension of research credit

The bill would permanently extend the 20-percent tax credit for qualified research expenditures, effective for taxable years beginning after December 31, 1990.

Individual retirement arrangements (IRAs)

IRA plus accounts

The bill would permit individuals to establish and make nondeductible contributions to IRA plus accounts. Contributions to IRA plus accounts could be made regardless of income or other retirement plan coverage. Contributions to the IRA plus would be limited to $2,000 per taxpayer per year, less the amount of deductible contributions made to a deductible IRA. The $2,000 limit would be increased to $3,000 for taxable years beginning after 1996.

No tax or penalty would be imposed on IRA plus distributions attributable to the employee's being disabled, or on distributions made on or after the date on which the individual attains age 59-1/2 or dies, provided such funds are withdrawn at least 5 years after the date of the creation of the IRA plus.

Rollovers from normal IRAs to an IRA plus would be permitted, although the amount representing previously-deductible contributions would be subject to income tax. A special transition rule applies to rollovers made before June 30, 1993.

Penalty-free IRA withdrawals for qualified expenses

The bill would allow certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home, certain education expenses, and certain medical expenses. Individuals also could withdraw funds to help children and grandchildren with a qualified expense.

Effective date

The provision would apply to taxable years beginning after December 31, 1991.

Credit for the purchase of a principal residence by a first-time homebuyer

The bill would provide qualified first-time homebuyers a refundable income tax credit of $1,000, effective for purchases after the date of enactment.

Increase in social security earnings limitation

The bill would increase by $1,000 per year over a period of 6 years the income threshold at which Social Security benefits are reduced. The provision would apply to taxable years ending after 1991.

Individual income tax rates; minimum tax rate

The bill would reduce individual income tax rates by one-fourth and would reduce the individual alternative minimum tax from 24 percent to 16 percent, effective for taxable years beginning after the date of enactment.

Budget sequestration

The bill would call for a sequestration, other than for exempt accounts (benefits under Title II of the Social Security Act and interest on U.S. debt), to offset any reduction in Federal revenues from the tax provisions of the bill.

9. H.R. 3680--"The Family Tax Relief Act of 1991" (Messrs. Russo, Guarini, Ms. Pelosi, and Mr. Miller of California)

The bill would provide a refundable tax credit equal to $350 for each dependent child under age 18, and would reduce certain spending and modify the budget process to offset the cost of this credit.

The bill would be effective for taxable years beginning after December 31, 1991.

10. H.R. 3744--"Economic Growth and Family Tax Freedom Act of 1991" (Messrs. Weber, DeLay, Wolf, Armey, Ramsted, Smith of Texas, Doolittle, Packard, McEwen, Santorum, Zimmer, Cox of California, Walker, Rohrabacher, Boehner, Kye, Ireland, Broomfield, Dickinson, Cunningham, Barrett, Skeen, Riggs, Tallon, Paxon, Ravenel, Sensenbrenner, Thomas of Wyoming, Walsh, Solomon, and Camp)

Overview

The bill would (1) allow taxpayers to claim a nonrefundable tax credit of $1,000 for children younger than age 6 and $300 for children younger than age 19, (2) reduce the maximum capital gains tax rate to 15 percent (7.5 percent in the case of individuals in the 15-percent bracket) and provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets for purposes of determining gain or loss, (3) exclude from gross income any gain from the sale of a principal residence, (4) modify the depreciation allowance rules, (5) permit individuals to establish and make nondeductible contributions to IRA plus accounts, (6) provide that the passive loss limitation does not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business, and (7) authorize the Secretary of the Department of Housing and Urban Development (HUD) to designate up to 50 enterprise zones, companies in which (and stockholders of such companies) would receive favorable tax treatment.

Tax credit for children

The bill would allow taxpayers to claim a nonrefundable tax credit equal to (1) $1,000 for each qualifying child of the taxpayer who had not reached the age of 6, and (2) $300 for each qualifying child of the taxpayer who had attained the age of 6 but who had not reached the age of 19. The provision would apply to taxable years beginning after December 31, 1990.

Capital gains and indexing

Under the bill, a maximum rate of 15 percent would apply to the net capital gain recognized by individuals and corporations (7.5 percent in the case of individuals in the 15-percent bracket). In addition, the AMT rate on net capital gain would be reduced to 15 percent. For purposes of computing a taxpayer's personal exemption and itemized deduction phaseouts, the taxpayer's AGI would be reduced by any net capital gain. The dollar limitation on the annual use of capital losses by individuals would be indexed for inflation under the bill.

The bill would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations and personal holding companies, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion, and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the gross national product ("GNP") deflator in the calendar quarter in which the disposition occurs by the GNP deflator for the calendar quarter in which the asset was acquired by the taxpayer (or, if later, the calendar quarter ending December 31, 1991). In the case of stock in regulated investment companies and real estate investment trusts and interests in common trust funds, partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The provisions generally would apply to sales or exchanges occurring after December 31, 1991. The provision that would provide for the indexing of the limitation on capital losses would apply to tax years beginning after December 31, 1991.

<u>Exclusion of gain on the sale of a principal residence</u>

The bill would exclude from gross income any gain from the sale of a principal residence (i.e., the bill would repeal the dollar, age, use, and one-time limitations on the exclusion of gain on the sale of a principal residence).

The bill would apply to sales occurring after December 31, 1991, in taxable years ending after that date.

<u>Depreciation and expensing</u>

The bill would index the ACRS depreciation allowances for certain tangible property placed in service in taxable years beginning after 1991, replace the 200-percent declining balance method of current law with the 125-percent declining balance method, and phase-out the alternative minimum tax adjustments related to depreciation. In addition, for taxable years beginning after 1996, the bill would adjust (and phases-in the adjustments to) the ACRS depreciation allowances for tangible property to eventually allow taxpayers to expense the cost of such property in the year the property is placed in service. Thus, after the periods provided for all the phase-ins and phase-outs under the bill, taxpayers would be allowed to expense (rather than depreciate) the cost of tangible property placed in service for regular tax and alternative minimum tax purposes.

The indexing provision would be effective for qualifying property placed in service in taxable years beginning after December 31, 1990, and the expensing provision would be effective for qualifying property placed in service in taxable years beginning after December 31, 1996.

Individual retirement arrangements (IRAs)

IRA plus accounts

The bill would permit individuals to establish and make nondeductible contributions to IRA plus accounts. Contributions to IRA plus accounts could be made regardless of income or other retirement plan coverage. Contributions to the IRA plus would be limited to $2,000 per taxpayer per year, less the amount of deductible contributions made to a deductible IRA. The $2,000 limit would be increased to $3,000 for taxable years beginning after 1996.

No tax or penalty would be imposed on IRA plus distributions attributable to the employee's being disabled, or on distributions made on or after the date on which the individual attains age 59-1/2 or dies, provided such funds are withdrawn at least 5 years after the date of the creation of the IRA plus.

Rollovers from normal IRAs to an IRA plus would be permitted, although the amount representing previously-deductible contributions would be subject to income tax. A special transition rule applies to rollovers made before June 30, 1993.

Penalty-free IRA withdrawals for qualified expenses

The bill would allow certain individuals to receive a tax-free withdrawal of up to 25 percent of their IRA account for the purchase of a first home, certain education expenses, and certain medical expenses. Individuals also could withdraw funds to help children and grandchildren with a qualified expense.

Effective date

The provision would apply to taxable years beginning after December 31, 1991.

Passive loss rules

The bill would provide that the passive loss limitation does not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business. The provision would be effective with respect to taxable years beginning after December 31, 1991.

Enterprise zones

Tax provisions

The bill would authorize the Secretary of HUD to designate up to 50 enterprise zones over a four-year period. Zone designations generally would remain in effect for 25 years. With respect to the designated zones, the following tax incentives would apply:

Employment tax credit--A 5-percent refundable tax credit would be provided to certain enterprise zone employees for their first $10,500 of wages.

Capital gain exclusion--Long-term capital gain realized from the disposition of property (excluding collectibles) used in an enterprise zone business for at least two years would be excluded from income.

Deduction for enterprise zone stock--Individuals could elect to deduct up to $100,000 per year of the purchase price of certain enterprise zone stock, subject to a $500,000 lifetime limitation. The deduction would be treated as a preference item for alternative minimum tax purposes. A corporation could not issue more than $50 million of stock eligible for the deduction.

Non-tax provisions

The bill also contains the following non-tax provisions with respect to enterprise zones: (1) applications for establishment of a foreign trade zone within an enterprise zone would be processed on a priority basis; (2) the definition of a small entity would be expanded for purposes of the Regulatory Flexibility Act; and (3) Title VII of the Housing and Community Development Act of 1987 would be repealed.

Effective date

The enterprise zone tax provisions would be effective for taxable years ending after December 31, 1991. The non-tax provisions generally would be effective upon enactment.

11. **S. 1921--"The Tax Fairness and Savings Incentive Act of 1991" (Senators Bentsen, Adams, Akaka, Baucus, Boren, Breaux, Burdick, Daschle, DeConcini, Dodd, Ford, Hatch, Inouye, Johnston, Lieberman, Mikulski, Pryor, Roth, and Symms)**

Child refundable tax credit

The bill would provide a refundable tax credit equal to $300 for each child under age 19 residing with the taxpayer. The bill also would restore the pre-1986 deduction rules for contributions to individual retirement arrangements (IRAs) and create a new special IRA. Income on amounts contributed to special IRAs would not be includible in income if held in the special IRA for at least 5 years. Contribution limits for IRAs, special IRAs, and elective deferrals under certain other tax-favored arrangements would be coordinated. Individuals would be permitted to transfer amounts in IRAs to special IRAs. The bill would add exemptions to the 10-percent tax on early withdrawals for certain distributions for certain medical expenses, first-time home purchase, and education expenses.

Reduce defense spending

The bill would reduce defense spending in order to offset the cost of the bill's tax reduction provisions.

Effective date

The tax credit and IRA provisions generally would be effective for taxable years beginning after December 31, 1991, except that the new exceptions to the early withdrawal tax on IRAs would apply to distributions after the date of enactment.

12. S. 1865--"Defense Tax Rebate Act" (Senator Roth)

Individual income tax rates

Generally, the bill would reduce individual income tax rates except for high-income individuals. The rate reduction would be phased-in for taxable years 1992 through 1996. After taxable year 1996, the individual income tax rate structure would be composed of rates of 12 percent, 15 percent, 28 percent and 31 percent. The bill would also modify the withholding tables and procedures to reflect the lower tax rates.

The bill would be effective for taxable years beginning after December 31, 1991

Individual retirement arrangements (IRAs)

The bill would restore the deductibility of IRA contributions for all taxpayers under the rules in effect prior to the Tax Reform Act of 1986 and would index for inflation the limits on contributions to IRAs. In addition, the bill would create a new special IRA to which a taxpayer could make nondeductible contributions. Withdrawals from a special IRA would not be includible in income if attributable to contributions that had been held by the special IRA for at least 5 years. These provisions would be effective for taxable years beginning after December 31, 1991.

The bill would permit amounts in IRAs to be transferred to a special IRA. Amounts so transferred generally would be includible in income as if the amounts had been withdrawn from the IRA, except that the early withdrawal tax would not apply. In the case of transfers made before January 1, 1994, the amount includible in income is spread over the 4 taxable years following the transfer.

The 10-percent additional income tax on early withdrawals would not apply to withdrawals from an IRA and from elective deferrals under section 401(k) plan or tax-sheltered annuity to the extent the amount withdrawn is used for the purchase of a first home or for certain education or catastrophic medical expenses. This provision would be effective for payments and distributions made after the date of enactment.

Incremental investment tax credit

The bill would provide a 10-percent income tax credit for increasing the amount invested in new manufacturing and other productive equipment.

The bill would apply to property acquired by a taxpayer after December 31, 1991, and to the basis of property that is attributable to construction, reconstruction, or creation after December 31, 1991.

Modifications to social security benefits

Social security benefits are reduced for certain beneficiaries if they have wages or earned income in excess of a certain amount. The amount of the exemption depends on whether the beneficiary has attained retirement age. The bill would temporarily increase the otherwise applicable exempt amount for persons who have attained retirement age (i.e., 65 for 1991) by $3,000, and then would repeal the earnings test for individuals who have attained retirement age (rather than age 70). The benefit reduction of $1 for each $2 of earnings would then apply only to persons below retirement age, as under present law. The temporary increase in the exemption amount would be effective beginning in 1992, and the repeal of the earnings test for individuals who have attained retirement age would be effective in 1997.

The bill would also accelerate the increase in the delayed retirement credit so that it is 8 percent in 1993.

B. Personal Exemption; Standard Deduction; Child and Earned Income Tax Credits

1. H.R. 1277--Increase in Personal Exemption (Messrs. Wolf, Hastert, Dickinson, Lightfoot, Walsh, Cunningham, Ramstad, Klug, Hansen, Doolittle, Dornan of California, Weldon, Barrett, Smith of Texas, Cox of California, Holloway, McEwen, Bilirakis, and Inhofe)

The bill would increase the personal exemption for dependent children under the age of 18 to $3,500 in 1992, and would modify the rounding rules for indexed amounts. The bill would be effective for taxable years beginning after December 31, 1991.

2. H.R. 2633--Supplemental Young Child Tax Credit (Mr. Wolf)

The bill would replace the present-law supplemental young child component of the earned income tax credit with an expanded supplemental young child credit available to taxpayers with qualifying children under the age of five, effective for taxable years beginning after December 31, 1991.

3. H.R. 2714--Increase in Personal Exemption (Mr. Crane)

The bill would increase the personal exemption to $4,000, effective for taxable years beginning after December 31, 1990.

4. H.R. 3148--Increase in Personal Exemption for Certain Dependent Children; Change in Individual Income Tax Rates (Mrs. Schroeder)

The bill would increase the personal exemption for dependent children under the age of 18 to $3,500 in 1992, and modify the rounding rules for indexed amounts. The bill also would create a 36-percent rate for individuals and impose a surtax on higher income individuals.

Generally, the bill would be effective for taxable years beginning after December 31, 1991.

5. H.R. 3202--"Tax Reduction and Simplification Act of 1991" (Messrs. Panetta, Kolten, Lipinski, and Lawrence Smith)

The bill would increase the basic standard deduction and would provide an additional standard deduction of $1,400 for each dependent for whom a taxpayer is allowed a personal exemption under present law. Both the basic standard deduction and the additional standard deduction would be indexed for future inflation. Also, the bill would reduce the amount of itemized deductions that are otherwise allowable for a taxable year by 10 percent (in addition to any present-law limitations).

The bill would be effective for taxable years beginning after December 31, 1991.

6. H.R. 3228--"Middle Class Tax Relief Act of 1991" (Ms. DeLauro, Messrs. Bonior, Gejdenson, and Frank, Ms. Pelosi, Messrs. Swett, Jefferson, Johnson of South Dakota, and Abercrombie)

<u>Personal exemption</u>

The bill would allow certain taxpayers an additional personal exemption amount of $1,000 (indexed for inflation) for themselves (and a spouse, in the case of a joint return) and for each dependent. The $1,000 additional exemption amount would be phased out for taxpayers with AGI in the following ranges (adjusted for inflation): $47,000 to $102,000 for married individuals filing joint returns; $37,000 to $87,300 for individuals filing as head of household; $28,000 to $61,000 for unmarried individuals filing single returns; and $23,500 to $51,000 for married individuals filing separate returns.

<u>Individual and corporate income tax rates; surtax</u>

As a revenue offset, the bill would: (1) provide for a new 36-percent individual income tax rate for AGI in excess of $100,000 in the case of a joint return, $85,000 for a head of household, or $70,000 for a single individual (threshold amounts adjusted for inflation); (2) impose a 15-percent surtax on tax attributable to an individual's AGI in excess of $225,000; (3) increase the individual alternative minimum tax rate from 24 percent to 27 percent; (4) impose a 2.5-percent surtax on the amount of alternative minimum taxable income in excess of $225,000; and (5) increase the top corporate tax rate from 34 percent to 36 percent.

<u>Effective date</u>

The bill would apply to taxable years beginning after December 31, 1991.

C. Capital Gains and Losses; Passive Losses; Investment Incentives

1. H.R. 246--Indexing of Capital Assets (Mr. Archer and others)

The bill generally would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the gross national product ("GNP") deflator in the calendar quarter in which the disposition occurs by the GNP deflator for the calendar quarter in which the asset was acquired by the taxpayer (or, if later, the calendar quarter ending December 31, 1991).

In the case of stock in regulated investment companies and real estate investment trusts and interests in common trust funds, partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The bill would apply to dispositions after December 31, 1991, in taxable years ending after such date.

2. H.R. 248--Capital Gains Exclusion (Mr. Archer)

Under the bill, corporate and noncorporate taxpayers would be allowed a deduction equal to 30 percent of the net capital gains for the taxable year.

The bill generally would be effective for taxable years ending after the date of enactment.

3. H.R. 1414--Amends the Treatment of Certain Real Estate Activities Under the Limitations on Losses from Passive Activities
(Messrs. Andrews, Thomas of California, Archer, Bunning, Matsui, Vander Jagt, Sundquist, Pickle, Jacobs, Chandler, Jenkins, Crane, Shaw, Grandy, Mrs. Johnson of Connecticut, Anthony, Moody, Schulze, Rangel, Downey, Cardin, Dorgan, Guarini et al.)

The bill would provide that the passive loss limitation does not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business. This provision would be effective with respect to taxable years beginning after December 31, 1991.

4. H.R. 1445--"Rural Development Investment Zone Act of 1991" (Messrs. Dorgan, Grandy, and others)

Designation of rural development investment zones

The bill would authorize the Secretary of the Treasury to designate up to 100 rural development investment zones. Zone designations would remain in effect for up to 12 years.

Tax incentives for rural development investment zones

Wage tax credit.--The bill would provide to employers in rural development investment zones a 10-percent tax credit for certain wages paid to qualified employees. The credit would apply to only the amount of qualified wages paid during the taxable year which exceeds the amount of qualified wages paid during the preceding 12-month period. Qualified wages with respect to any qualified employee would be limited to 2.5 times the amount of wages subject to Federal unemployment (FUTA) tax (currently $7,000).

Investment tax credit.--The bill would provide a 10-percent tax credit for depreciable real property which in placed in service and located in (and used predominantly in the active conduct of a trade or business in) a rural development investment zone. The credit rate for new placed-in-service property would be phased out during the last several years that the designation of an area as a rural development investment zone remains in effect.

Effective date.--The wage tax credit would be effective for taxable years beginning after December 31, 1990. The investment tax credit generally would apply to property placed in service in periods after December 31, 1990.

Non-tax provisions

The bill would expand the definition of small entity for certain entities within rural development investment zones for purposes of the Regulatory Flexibility Act. In addition, the bill would require expedited processing of any application involving the establishment of a foreign trade zone within a rural development investment zone, and would require Federal agencies to provide special assistance to rural development investment zones to the extent permitted by law.

5. H.R. 1721--"Capital Gains Tax Fairness Act of 1991" (Mr. Dorgan)

Lifetime capital gains deduction

The bill would provide individuals aged 25 or older with a deduction equal to 50 percent of their capital gains, up to a lifetime cap of $200,000 of gain. Assets eligible for the lifetime capital gains deduction would be capital assets held for more than one year, except collectibles and publicly traded assets (such as stock traded on a stock exchange).

Annual capital gains deduction

In addition to the lifetime capital gains deduction, the bill would provide individuals with a deduction of up to $1,000 of capital gains each year. The deduction would not be available to any individual who may be claimed as a dependent by another taxpayer. The deduction would be phased out for those with incomes between $100,000 and $150,000.

Assets eligible for the annual $1,000 capital gains deduction would be capital assets held for more than one year, including publicly traded assets, but not including collectibles. The annual $1,000 capital gains deduction would not count against the lifetime capital gains deduction and cap described above.

These capital gain deductions would not apply for purposes of computing alternative minimum taxable income.

Depreciation recapture

The bill also would provide that gain on the disposition of depreciable real property would be taxed as ordinary income to the extent of all previous depreciation allowances with respect to the property (as opposed to recapturing only the excess of accelerated depreciation over straight-line depreciation, as under present law).

Effective date

Both the lifetime capital gains deduction and the annual $1,000 capital gains deduction would apply to taxable years ending on or after April 11, 1991. The depreciation recapture provision would apply to dispositions of assets on or after April 11, 1991.

6. H.R. 2646--"The Productive Investment Incentive Act" (Mrs. Johnson, and Messrs. Guarini, Shays, Sharp, and Rhodes)

The bill generally would allow a taxpayer to expense and deduct up to $250,000 of the cost of certain tangible personal property that is for use as an integral part of manufacturing, production, or extraction.

The bill would be effective for taxable years beginning after December 31,1990.

7. H.R. 2873--"Economic Growth and Venture Capital Act of 1991" (Mr. Edwards of Oklahoma)

Under the bill, a maximum rate of 15 percent would apply to the net capital gain recognized by individuals and corporations (7.5 percent in the case of individuals in the 15-percent bracket). In addition, the AMT rate on net capital gain would be reduced to 15 percent. The dollar limitation on the annual use of capital losses by individuals would be indexed for inflation under the bill.

The bill would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations and personal holding companies, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion, and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the gross national product ("GNP") deflator in the calendar quarter in which the disposition occurs by the GNP deflator for the calendar quarter in which the asset was acquired by the taxpayer (or, if later, the calendar quarter ending December 31, 1990). In the case of stock in regulated investment companies and real estate investment trusts and interests in common trust funds, partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The bill would be effective for taxable years beginning after December 31, 1990.

8. H.R. 3514--Reduction in Capital Gains Rate and Indexing of Capital Assets (Mr. Crane)

Under the bill, a maximum rate of 15 percent would apply to the net capital gain recognized by individuals and corporations (7.5 percent in the case of individuals in the 15-percent bracket). In addition, the AMT rate on net capital gain would be reduced to 15 percent. The dollar limitation on the annual use of capital losses by individuals would be indexed for inflation under the bill.

The bill would provide for an inflation adjustment to (i.e., indexing of) the basis of certain assets (called "indexed assets") for purposes of determining gain or loss upon sale or other disposition. Assets eligible for the inflation adjustment generally would include corporate stock and tangible property which are capital assets or property used in a trade or business. Specifically excluded from the definition of indexed assets would be creditor's interests, options, net lease property, certain preferred stock, stock in S corporations and personal holding companies, and certain foreign stock. The adjustment would apply only to assets held more than one year. The deduction for depreciation, depletion, and amortization would be determined without regard to the inflation adjustment.

The inflation adjustment under the bill would be computed by dividing the gross national product ("GNP") deflator in the calendar quarter in which the disposition occurs by the GNP deflator for the calendar quarter in which the asset was acquired by the taxpayer (or, if later, the calendar quarter ending December 31, 1991). In the case of stock in regulated investment companies and real estate investment trusts and interests in common trust funds, partial indexing would be provided by the bill based on the ratio of the value of indexed assets held by the entity to the value of all its assets.

The provisions generally would apply to sales or exchanges occurring after December 31, 1991. The provision that would provide for the indexing of the limitation on capital losses would apply to tax years beginning after December 31, 1991.

9. H.R. 3652, Amends the Treatment of Certain Real Estate Activities Under the Passive Loss Rules and Provides Individuals With a Capital Gains Preference Based on the Period the Asset is Held (Mr. Shaw)

Passive loss limitation

The bill would provide that the passive loss limitation does not apply to losses and credits from certain rental real estate activities of taxpayers engaged in the real property business. This provision would be effective with respect to taxable years beginning after December 31, 1991.

Capital gains exclusion

The bill would allow individuals an exclusion of up to 30 percent of the gain realized on the disposition of capital assets. This provision would apply to sales and exchanges after September 30, 1991. For the portion of 1991 to which the proposal would apply, a 30-percent exclusion would apply for all assets held one year or more. For 1992, the exclusion would be 20 percent for assets held between one and 2 years and 30 percent for assets held at least 2 years.

10. H.R. 3741--"Enterprise Capital Formation Act of 1991" (Messrs. Matsui, Moody, Gradison, Markey, Hoagland, Pickle, Vander Jagt, Guarini, McGrath, Anthony, Chandler, Andrews of Texas, Mrs. Johnson of CT, Mr. Bunning, and others)

Qualified small business net capital gain

The bill would provide taxpayers with a capital gain deduction with respect to dispositions of qualified small business stock. Taxpayers who have held qualified small business stock for more than five years would be allowed a deduction equal to 50 percent of their qualified small business net capital gain.

Qualified small business stock would be stock issued after December 31, 1991, acquired at original issue for money or as compensation for services. At the time of issue, the amount of money, the adjusted basis of property and the value of services received by the corporation for stock as a contribution to capital and as paid-in surplus, plus the accumulated earnings and profits of the corporation, could not exceed $100 million. In addition, the corporation must conduct an active business and use substantially all its assets in an active business during the 5-year period commencing with the acquisition of the stock.

The qualified small business capital gain deduction would be treated as a preference item under the alternative minimum tax.

<u>Seed capital gain deduction</u>

The bill also would provide taxpayers with a seed capital gain deduction with respect to dispositions of qualified small business stock in corporations with paid-in capital and surplus not in excess of $5 million. The deduction for seed capital gain would be on a sliding scale, depending on holding period: 50 percent for five to six years, 60 percent for six to seven years, 70 percent for seven to eight years, 80 percent for eight to nine years, 90 percent for nine to 10 years, and 100 percent for more than 10 years.

The seed capital gain deduction would not be treated as a preference item under the alternative minimum tax.

<u>Section 1244 stock</u>

The amount of money and other property that a small business corporation under section 1244 can receive for stock as a contribution to capital and as paid-in surplus would be increased from $1 million to $5 million.

<u>Effective date</u>

The bill would apply to stock issued after December 31, 1991. If a taxpayer holds appreciated stock that would have been treated as qualified small business stock at the time it was issued had these rules been in place, the taxpayer may elect to recognize all accrued gain with respect to such stock. In such event, any subsequent gains would be eligible for the qualified small business capital gain deduction or the seed capital gain deduction. The holding period for such stock would begin on the date the gain is recognized.

The bill would apply to stock issued after December 31, 1991. If a taxpayer holds appreciated stock that would have been treated as qualified small business stock at the time it was issued had these rules been in place, the taxpayer may elect to recognize all accrued gain with respect to such stock. In such event, any subsequent gains are eligible for the qualified small business capital gain deduction or the seed capital gain deduction. The holding period for such stock would begin on the date the gain is recognized.

11. H.R. 3810--"The Investment Incentive and Recovery Act of 1991" (Messrs. Guarini and Levin)

The bill would provide a 7.5-percent income tax credit for increasing the amount invested in new manufacturing and other productive equipment for taxable years beginning after

1991. The credit would be allowed to offset 100 percent of the regular tax and alternative minimum tax liabilities of the taxpayer.

12. H.R. 3875--"Middle Income Tax Relief Act of 1991" (Messrs. Donnelly, Neal, and Mavroules)

The bill would provide individuals aged 25 or older with a deduction equal to 50 percent of their capital gains, up to a lifetime cap of $400,000 of gain. The bill also would impose a new maximum income tax rate of 34 percent on noncorporate taxpayers, and increase to 29 percent the alternative minimum tax rate applicable to such taxpayers.

13. H.R. 3945--Recognition of Losses on Sale of a Principal Residence (Mr. Archer)

The bill would provide that gains that would be recognized on the sale or exchange of a principal residence of a taxpayer are reduced (but not below zero) by the aggregate of the losses sustained by the taxpayer on the sale or exchange of prior principal residences of the taxpayer that were not previously taken into account. Only losses on sales or exchanges after December 31, 1990, would be taken into account. The bill would be effective for sales and exchanges after December 31, 1990.

14. H.R. 3979--Income Tax Credit for Payments or Contributions to Certain Cooperative Research Organizations (Mr. Levin)

Computation of credit

The bill would provide that taxpayers who make qualifying payments or contributions to a qualified cooperative research organization ("research cooperative") would be eligible for an income tax credit of up to 50 percent of the amount of such payments or contributions.

Under the bill, the amount of the credit would equal the taxpayer's qualified cooperative research expenditures incurred during the taxable year (of, if less, a portion of expenditures from three preceding years) multiplied by the applicable credit rate, which would vary for each recipient research cooperative, depending on the funding sources for that cooperative. A research cooperative that received its funding entirely from private, nongovernmental sources would have a maximum applicable percentage rate equal to 50 percent.

Qualified expenditures

Expenditures which would qualify for the credit generally would be cash payments or the fair market value of property or other in-kind contributions (including the use of the taxpayer's real property, personal property, intangible property or employees) made to a qualified research cooperative, subject to various limitations.

Contributions qualifying for the credit would not include any amounts funded by a grant, contract, or otherwise by any governmental entity, and limitations would apply to contributions that are designated to a specific project.

Interaction with other provisions

The bill includes restrictions to prohibit taxpayers from claiming the credit provided for by the bill in addition to another credit or deduction under present-law provisions for the same research expenditure.

Effective date

The bill would be effective for taxable years beginning after the date of enactment.

D. Individual Retirement Arrangements; Homebuyers' Tax Credit

1. H.R. 519--Penalty-Free Withdrawals from IRAs, etc. for Purchase of First Home (Mr. Thomas)

The bill would permit taxpayers to withdraw up to $10,000 from an IRA, section 401(k) plan, or tax-sheltered annuity plan for the purchase of a first home without the imposition of income tax or the 10-percent tax on early withdrawals. The $10,000 limit would be reduced for taxpayers with modified adjusted gross income above certain levels. The bill would also waive the 10-percent additional tax on distributions from IRAs, section 401(k) plans, and tax-sheltered annuities to pay for the first home of a child of the taxpayer, subject to the same limitations applicable to withdrawals to pay for the first home of the taxpayer (treating the child as the taxpayer).

2. H.R. 1406--"Savings and Investment Incentive Act of 1991" (Messrs. Pickle, Thomas, Andrews, Schulze, Mazzoli, and others)

The bill would restore the pre-1986 deduction rules for contributions to individual retirement arrangements (IRAs) and create a new special IRA. Amounts contributed to special IRAs would not be includible in income if held in the special IRA for at least 5 years. Contribution limits for IRAs and special IRAs would be coordinated. The bill would add exemptions to the 10-percent tax on early withdrawals for certain distributions for certain medical expenses, first-time home purchase, and education expenses. The bill would index the IRA deduction limit in $500 increments.

3. H.R. 3739--Credit for the Purchase of a Principal Residence by a First-Time Homebuyer (Mrs. Johnson)

The bill would provide first-time homebuyers a nonrefundable tax credit equal to 5 percent of the purchase price of a principal residence with a maximum credit of $2,000, effective for purchases after the date of enactment.

E. Other Proposals

1. H.R. 710--"Tax-exempt Bond Simplification Act of 1991" (Messrs. Anthony, Coyne, Guarini, Jacobs, Matsui, Moody, Shaw, Sundquist, and others)

Interest on State and local government bonds generally is excluded from income for purposes of the regular individual and corporate income taxes if the proceeds of the bonds are used to finance direct activities of these governmental units. Present law also excludes the interest on State and local government bonds ("private activity bonds") when a governmental unit incurs debt as a conduit to provide financing for private parties, if the financed activities are specified in the Internal Revenue Code (the "Code"). Tax-exempt bonds may not be issued to finance private activities not specified in the Code.

Issuers of all tax-exempt bonds generally are subject to two sets of arbitrage restrictions on investment of their bond proceeds. These restrictions are a yield restriction requirement, and a requirement that certain profits on nonpurpose investments be rebated to the Federal Government.

H.R. 710 would make numerous changes to the requirements governing issuance of tax-exempt bonds. Among the changes are: (1) repeal of a limit on unrelated and disproportionate private business use of governmental bond proceeds; (2) liberalization of the arbitrage yield restriction and rebate requirements; and (3) expansion of an exception from a financial institution interest deduction disallowance available to smaller governmental units.

The bill generally would be effective for bonds issued after December 31, 1990.

2. H.R. 951--"The Boating Industry Jobs Preservation" Act of 1991" (Messrs. Shaw, Vander Jagt, McGrath, Petri, Smith of Florida, Henry, Saxton, Machtley, Abercrombie, and Bonior)

The bill would repeal the luxury excise tax on boats, effective on January 1, 1991 (the date of imposition of the tax).

3. H.R. 2550--"The Leading Employers into Apprentice Partnerships Act" (Messrs. Grandy, Rangel, Houghton, and Morrison)

The bill would exempt apprenticeship education organizations from taxation. Apprenticeship education organizations would be organizations that are organized and operated solely for purposes of administering a qualified apprenticeship education program and that satisfy certain additional organizational tests.

The bill also would permit a 20-percent income tax credit for contributions made by businesses to any apprenticeship education organization. The deduction to employers for contributions to such organizations would not be reduced by the amount of the credit.

The bill would apply to years beginning after December 31, 1991.

4. H.R. 3651--Restoring the Exclusion From Gross Income for Income From Discharge of Qualified Real Property Business Indebtedness (Mr. Shaw)

For discharges of indebtedness on qualified real property, a taxpayer would be permitted to reduce the basis of depreciable assets rather than include the amount of discharge in gross income. Qualified real property indebtedness is, for a corporation, indebtedness incurred by the corporation in connection with any real property, or, for an individual, indebtedness incurred by the individual in connection with real property used in the individual's trade or business.

The bill would apply to discharges after December 31, 1991, in taxable years ending after that date.