

**DESCRIPTION OF AN AMENDMENT
IN THE NATURE OF A SUBSTITUTE
TO THE PROVISIONS CONTAINED IN
H.R. 4579, THE "TAXPAYER RELIEF ACT OF 1998"**

**Scheduled for a Markup by the
HOUSE COMMITTEE ON WAYS AND MEANS**

**On
September 17, 1998**

**Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION**

September 17, 1998

JCX-64-98

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On September 17, 1998, the House Committee on Ways and Means has scheduled a markup of the provisions contained in H.R. 4579, the "Taxpayer Relief Act of 1998 (the Act)." A description of these provisions is contained in JCX-60-98. The amendment in the nature of a substitute would adopt the provisions of the Act, as modified by this document.¹

1. Exceptions under Subpart F for certain active financing income

Description of Amendment

The amendment would modify the anti-abuse rules with respect to the active financing provision of the Taxpayer Relief Act of 1998. Under the amendment, the anti-abuse rules would provide that items with respect to a transaction or series of transactions would be disregarded if one of the principal purposes of the transaction or transactions is to qualify income or gain for the exceptions from subpart F under the active financing provision, including any transaction or a series of transactions a principal purpose of which is the acceleration or deferral of any item in order to claim the benefits of these exceptions. In addition, the anti-abuse rules would provide that items of income, gain, loss or deduction of, or derived from, an entity which is not engaged in regular and continuous transactions with persons which are not related persons would be disregarded. Moreover, items of income, gain, loss or deduction with respect to a transaction or series of transactions would be disregarded if one of the principal purposes of the transaction or transactions is to qualify income or gain for the exceptions under the active financing provision, including utilizing or doing business with: (1) one or more entities in order to satisfy any home country requirement, or (2) a special purpose entity or arrangement, including a securitization or financing arrangement or any similar entity or arrangement. Finally, the anti-abuse rules would provide that a related person, officer, director, or employee with respect to any controlled foreign corporation (or qualified business unit) which otherwise would be treated as a customer of such corporation or unit with respect to any transaction would not be treated as a customer, if a principal purpose of such transaction is to satisfy any requirement for these exceptions.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of an Amendment in the Nature of a Substitute to the Provisions Contained in H.R. 4579, the "Taxpayer Relief Act of 1998"* (JCX-64-98), September 17, 1998.

2. Increases in the social security earnings limit for individuals who have attained retirement age

Present Law

Senior citizens age 70 and older receive full Social Security benefits regardless of the amount of earnings they have from wages or self employment. Those between the full retirement age (currently age 65) and age 70 receive full benefits only if their earnings are lower than an earnings limit amount determined by law. In 1998, the limit for those age 65 to 69 is \$14,500. The limit is gradually raised to \$30,000 by the year 2002. After 2002, the annual exempt amounts are indexed to growth in average wages.

<u>Year</u>	<u>Present law earnings limit</u>
1998	\$14,500
1999	\$15,500
2000	\$17,000
2001	\$25,000
2002	\$30,000
2003	\$31,231
2004	\$32,463
2005	\$33,806
2006	\$35,149
2007	\$36,604
2008	\$37,948

Senior citizens between the age of full retirement (currently age 65) and 70 who earn more than the earnings limit lose \$1 in benefits for every \$3 in wages or self-employment income they earn over the limit.

Description of Proposal

The proposal would raise the earnings limit for those between full retirement age (currently age 65) and age 70 in calendar years 1999 - 2008, as follows:

<u>Year</u>	<u>Proposed earnings limit</u>
1998	\$14,500
1999	\$17,000
2000	\$18,500
2001	\$26,000
2002	\$30,000
2003	\$31,300
2004	\$34,000
2005	\$35,400
2006	\$36,800
2007	\$38,350
2008	\$39,750

Senior citizens between full retirement age (currently age 65) and 70 who earn over the given earnings limit for the year would continue to lose \$1 in benefits for every \$3 earned over the limit. After 2008, the annual exempt amounts would be indexed to growth in average wages.

Effective Date

The proposal would be effective for the taxable years ending after 1998.