Joint Committee on Taxation
September 27, 1994
JCX-21-94

SUMMARY OF THE PROVISIONS FOR FINANCING THE IMPLEMENTATION OF THE URUGUAY ROUND OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The following is a brief summary of certain of the financing provisions relating to the implementation of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).[1]

1. Withholding on distributions of Indian casino profits to tribal members

Under the proposal, an Indian tribe that distributes net revenues from certain gaming activities to its members would be required to withhold on such payments in accordance with a schedule of graduated withholding rates or in accordance with such tables or computational procedures as the Secretary of the Treasury may prescribe. The proposal would be effective for payments made after December 31, 1994.

2. Voluntary withholding on certain Federal payments and on unemployment compensation

The proposal would give taxpayers who receive specified Federal payments and unemployment compensation the option of requesting that the agency making the payments withhold Federal income taxes from the payments. The proposal would be effective for payments made after December 31, 1996.

3. Treatment of Subpart F and section 936 income of taxpayers using annualized method for estimated tax

The proposal generally would require estimated tax payments to be made throughout the year for subpart F inclusions and certain amounts includible under section 936 for the year,

[1] The GATT legislative language will be submitted by the President to the Congress under the current "fast track" trade legislative procedures. Once submitted by the President, the GATT legislative provisions may not be amended and are to be considered by the Congress on an expedited basis. Technical explanations of the trade and tax provisions of the GATT legislation will be included in the President's Statement of Administrative Action as well as official committee reports to be filed by the House Committee on Ways and Means and the Senate Committee on Finance.

generally effective for taxable years of shareholders beginning after December 31, 1994. To minimize administrative difficulties, certain safe harbors would be provided.

4. Time for payments and deposits of certain excise taxes

The proposal generally would accelerate to September 29 (rather than the subsequent fiscal year) the due date for deposit (or payment) of all excise taxes that must be remitted to the Federal Government on a semi-monthly basis for the period September 16 through September 26. Special rules would apply to the taxes on ozone-depleting chemicals, communications services, and air transportation. In addition, safe harbors would be provided with respect to the payment of certain excise taxes. The proposal would be effective on January 1, 1995, for taxes other than the taxes on air transportation, and on January 1, 1997, for the air transportation excise taxes.

5. Reduction in rate of interest paid on certain corporate overpayments of tax

The rate of interest paid on overpayments of tax would be reduced to the sum of the Federal short-term rate plus one-half percentage point for any portion of an overpayment of any Federal tax by a corporation for a taxable period that exceeds $10,000. The proposal would apply for purposes of determining interest for periods after December 31, 1994.

6. Extension of the earned income tax credit to military personnel stationed outside the United States

The proposal would require that members of the Armed Forces receive annual reports from the Department of Defense of earned income (which includes nontaxable earned income such as amounts received as basic allowances for housing and subsistence). This proposal would be effective for remuneration paid after December 31, 1994.

The proposal would permit members of the Armed Forces stationed outside the United States on extended active duty to claim the earned income tax credit. This proposal would be effective for taxable years beginning after December 31, 1994.

7. Certain nonresident aliens ineligible for earned income tax credit

The proposal would make individuals who are nonresident aliens for any portion of the taxable year ineligible to claim the earned income tax credit unless an election under Code section 6013(g) or (h) is in effect for the taxable year. The proposal would be effective for taxable years beginning after December 31, 1994.

8. Income of prisoners disregarded in determining earned income tax credit

For purposes of computing the earned income tax credit, the proposal would remove from the definition of earned income any amount received for services provided while an individual is an inmate in a penal institution. The proposal would be effective for taxable years beginning after December 31, 1993.

9. Treatment of excess pension assets used for retiree health benefits

The proposal generally would extend for 5 years, for 1996 through 2000, the present-law provision permitting excess defined benefit pension plan assets to be used to provide retiree health benefits under a section 401(h) account, with a modification to the maintenance of effort requirement and a clarification of the allocation rule for amounts previously set aside for retiree health benefits.

10. Rounding rules for cost-of-living adjustments

The proposal would provide that the dollar limits on contributions and benefits under qualified pension plans are indexed in $5,000 increments, the dollar limit on elective deferrals is indexed in $500 increments, and the dollar limit on compensation taken into account for simplified employee pensions is indexed in $50 increments, effective for years beginning after December 31, 1994. However, under the proposal, no dollar limit would be reduced below the limit in effect for years beginning in 1994.

11. Increase in inclusion of Social Security benefits paid to nonresidents

The proposal would increase from 50 percent to 85 percent the amount of Social Security or Railroad Retirement Tier 1 benefits included in the gross income of a nonresident alien individual that is subject to withholding tax, effective for benefits paid after December 31, 1994. The effect of the proposal is to more nearly conform the maximum effective rate of U.S. tax on these benefits to the corresponding rate applicable to similar benefits paid to U.S. citizens and residents. The proposal would not impose tax contrary to any treaty obligation of the United States. Thus, if taxation of such a benefit would conflict with an existing treaty, the treaty would continue to prevail.

12. Partnership distributions of marketable securities

The proposal would treat the distribution by a partnership of marketable securities like a distribution of cash for purposes of measuring gain. A partner would recognize gain to the extent the fair market value of the marketable securities exceeds the partner's adjusted basis in its partnership interest.

Exceptions would be provided: (1) if the distributed security was contributed by the distributee partner; (2) to the extent provided in regulations, if the distributed security was not a marketable security when acquired by the partnership; (3) if the partnership is an investment partnership and the distributee partner did not contribute any property to the partnership other than money or securities or certain similar property; or (4) to the extent of the distributee partner's share of the partnership's built-in gain (if any) with respect to the type (class and issuer) of securities distributed (e.g., pro-rata distributions).

The proposal generally would apply to partnership distributions of marketable securities after the date of enactment, except that the proposal would not apply to a distribution of a marketable security before January 1, 1995, by the partnership that held the security on July 27, 1994. Additional transition rules would be provided.

13. Taxpayer identification numbers (TINs) required at birth

Taxpayers claiming dependents would be required to provide a TIN for each dependent, regardless of the dependent's age. A parallel requirement would apply to taxpayers with qualifying children claiming the earned income tax credit. The proposal would be phased in for tax years 1995 and 1996 and would be fully effective for taxable year 1997.

14. Extension of Internal Revenue Service (IRS) user fees

The IRS user fee program would be extended for five years, applicable to requests made after September 30, 1995, and before October 1, 2000.

15. Modification of substantial understatement penalty for corporations participating in tax shelters

Under the proposal, if a corporate taxpayer has a substantial understatement that is attributable to a tax shelter item, the substantial understatement penalty would apply with respect to the understatement, unless the "reasonable cause exception" applies. The proposal would apply to transactions occurring after the date of enactment.

16. Modification of authority to set terms and conditions for savings bonds

The proposal would repeal the present-law requirement that savings bonds have a minimum investment yield of four percent per year. Thus, the proposal would permit the Treasury to set investment yields for savings bonds according to market conditions, without the constraint of a statutory minimum. This repeal would be effective only for bonds issued prospectively.

17. Pension Benefit Guaranty Corporation (PBGC) reform

The proposal generally would adopt the Retirement Protection Act of 1993, with modifications to better target underfunded plans and provide more gradual transition rules. The proposal would require greater contributions to underfunded plans, modify certain rules relating to participant protections, phase out the cap on the variable rate PBGC premium, and make related changes to the Internal Revenue Code and ERISA provisions relating to the PBGC. The proposal would not include the language in the House Ways and Means Committee report of July 29, 1994, relating to cross testing under defined contribution plans. The modifications to the minimum funding rules generally would be effective for years beginning after December 31, 1994. The phaseout of the cap on the variable rate premium generally would be effective for plan years beginning on or after July 1, 1994. Other provisions in the proposal would have various effective dates.

18. Modification of customs merchandise processing fee

The proposal would modify the current customs merchandise processing fee by setting the current rate at 0.21 percent of value for formally-entered merchandise and by increasing the upper end of the range of the fee to that level. The proposal also would raise the minimum fee to $25 and the maximum fee to $485. Flat rates for informal entries also would be adjusted from $5 to $6 for those n not prepared by Customs and from $8 to $9 for those prepared by Customs. The proposal would be effective January 1, 1995.