

BRIEF SUMMARY OF TAX PROVISIONS OF H.R. 4961

Prepared by the Staff  
of the  
Joint Committee on Taxation

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### A. Individual Income Tax Provisions

#### 1. Individual minimum tax

The bill consolidates the add-on minimum tax with the alternative minimum tax, adds several new tax preferences to the minimum tax, restructures the treatment of itemized deductions in the minimum tax, establishes a flat 20-percent tax rate and increases the minimum tax exemption from \$20,000 to \$30,000 for single persons and \$40,000 for married couples.

#### 2. Casualty loss deduction

The bill provides that nonbusiness casualty losses are only deductible to the extent they exceed 10 percent of adjusted gross income.

#### 3. Medical expense deduction

The bill increases the floor under medical deductions from 3 percent of adjusted gross income to 5 percent. It repeals the separate deduction for one-half of health insurance premiums up to \$150. It eliminates the 1-percent-of-income floor on deductions for drugs and limits that deduction to prescription drugs and insulin.

### B. Business Tax Provisions

#### 1. Corporate tax preferences

The bill scales back the following corporate tax preferences by 15 percent: percentage depletion for coal and iron ore, excess bad debt reserves of financial institutions, interest incurred by financial institutions to carry tax-exempt obligations acquired after 1982, DISC, section 1250 recapture on real estate, rapid amortization of pollution control facilities, intangible drilling costs of integrated oil companies (which would be amortized over 36 months) and mining exploration and development costs. This cutback applies only to corporations.

#### 2. Investment credit limit

The percent of tax liability which taxpayers may offset by the investment tax credit is reduced from 90 percent to 85 percent.

#### 3. Basis adjustment for investment credit

The basis of assets, which is used to compute cost recovery deductions and capital gain or loss, is reduced by one-half of the amount of the regular, energy and historic structure investment tax credit.

4. Accelerated depreciation

The bill repeals the acceleration of depreciation currently scheduled for 1985 and 1986.

5. Construction period interest and taxes

Interest and taxes attributable to the construction period on nonresidential real estate owned by a corporation will be capitalized and written off over 10 years.

6. Safe-harbor leasing

The bill repeals safe-harbor leasing after 1983. For the period between July 1, 1982, and January 1, 1984, a restricted form of safe-harbor leasing is put into effect. After 1984, a liberalized form of prior law leasing is permitted.

7. Foreign oil and gas

The bill provides rules under which companies with foreign oil and gas extraction income will not be able to use tax benefits from that income to reduce their taxes on other kinds of oil-related income and under which oil companies will be taxed on the oil-related income of their foreign subsidiaries.

8. Possessions corporations

The bill contains a series of rules to limit the extent to which businesses can use operations in U.S. possessions to avoid tax by transferring intangibles to their possession subsidiaries and by allowing passive income to accumulate in a possession.

9. Industrial development bonds

The bill provides several restrictions on industrial development bonds including a sunset of the small issue exemption after 1986. Investments financed with IDBs would, with certain exceptions, be limited to straight-line depreciation.

10. Mortgage subsidy bonds

The bill liberalizes several of the rules restricting the issuance of mortgage subsidy bonds for both single family and multi-family houses.

11. Mergers and acquisitions

The bill makes a number of changes in the rules relating to partial liquidations, stock redemptions, stock purchases and other provisions relating mergers and acquisitions. These are designed to reduce the tax benefits which now arise from mergers and acquisitions.

12. Completed contract method of accounting

The bill revises the rules for determining which costs are currently deductible and which must be allocated to long-term contracts. Exceptions are provided for small construction contractors.

13. Original issue discount bonds

The bill eliminates the tax benefits associated with original issue discount, or zero coupon, bonds.

14. Coupon stripping

The bill eliminates the special tax treatment now afforded stripping of coupons from bonds.

15. Targeted jobs credit

The bill extends the targeted jobs credit for 2 years, makes the credit available for summer employment of economically disadvantaged 16 and 17 year olds, and makes several administrative changes.

16. Accelerated corporate tax payments

The bill increases the percent of tax liability which corporations must cover with estimated tax payments from 80 to 90 percent.

C. Compliance Provisions

1. Withholding on dividends and interest

The bill imposes 10 percent withholding on dividends and interest, similar to the withholding which now applies to wages. Exemptions are provided for people over 65 whose income (not including exempt income like social security) is less than about \$22,000 for a married couple, and there is an exemption at a lower level of income for individuals below 65.

2. Other compliance provisions

The bill includes a number of changes designed to improve taxpayer compliance. These include additional reporting requirements, changes in penalty provisions, modifications of voluntary withholding on pensions, partnership audits, and various taxpayer safeguards.

#### D. Pension Provisions

The bill reduces the limits on contributions to, and benefits from, tax-qualified pension plans. The limit for defined contribution plans is reduced from \$45,475 to \$30,000 per year, and the limit on annual benefits in a defined benefit plan is reduced from \$136,425 to \$90,000. The indexing of these limits is suspended until 1986. Limits are placed on loans from retirement plans. Rules are provided to achieve parity between corporate and non-corporate pension plans. A \$100,000 cap is placed on the estate tax exclusion for annuities. Finally, there are modifications in the rules relating to retirement plans for church employees, State judicial retirement plans, profit-sharing plans for disabled employees, and group trusts. A nondiscrimination rule is added for employer-provided group term life insurance.

#### E. Taxation of Life Insurance Companies

The bill makes a series of changes in the tax treatment of life insurance companies and annuities. The Modco provisions of present law are repealed, and the formula for revaluing preliminary term reserves is changed. In addition, a number of provisions are adopted to reduce insurance company taxes for a 2-year stopgap period. There are also new rules relating to annuity contracts and (for 2 years) flexible premium contracts.

#### F. Employment Tax Provisions

##### 1. Independent contractors

The bill provides that real estate agents and direct sellers will be treated as self-employed persons and extends the moratorium and interim relief provisions relating to independent contractors.

##### 2. Federal unemployment tax

The wage base subject to the Federal unemployment tax is increased to \$7,000 and the Federal tax rate to 3.5 percent.

##### 3. Medicare coverage of Federal employees

The bill subjects Federal employees to the hospital insurance portion of the social security tax and makes them eligible for Medicare.

#### G. Excise Taxes

##### 1. Airport and airway taxes

The bill reauthorizes the airport and airway trust fund through 1987 and reinstates (with some modifications) aviation excise taxes which were reduced in 1980.

2. Telephone tax

The bill increases the telephone tax to 3 percent for the years 1983 through 1985 and terminates the tax after 1985.

3. Cigarette excise tax

The bill increases the cigarette excise tax by 8 cents per pack through September 30, 1985.

4. Windfall profit tax

The bill repeals the special windfall profit tax adjustment for transportation costs applicable to Alaskan oil and clarifies the exemption for Alaskan native corporations.

H. Miscellaneous Provisions

The bill contains the following miscellaneous changes in the tax law:

- a. Extension of the exclusion for National Research Service Awards.
- b. Tax-exempt status for certain amateur athletic organizations.
- c. Modification of the provision denying deductions for payments to foreign government officials.
- d. A technical change permitting use of annual accrual accounting for partnerships growing sugarcane.
- e. Modifications to the provision awarding reasonable attorneys' fees in civil tax cases where the government's position was unreasonable.
- f. Modification of the definition of a lending or financial business under the personal holding company tax.
- g. Additional refunds of the excise tax on buses.
- h. Modification of the rules under which veterans organizations may qualify for tax-exempt status.
- i. A revision of the rules limiting the disclosure of tax information in nontax criminal investigations.
- j. Authorization for the Secretary of the Treasury to vary the investment yield on savings bonds and to issue additional long-term debt.
- k. Relief for the Jefferson County Mental Health Center.

l. Modifications of the New Jersey general revenue sharing allocation.

m. Modifications to the Communications Act of 1934 facilitating the movement of VHF television stations to States which do not currently have such stations.

I. Revenue Effect

The bill is expected to raise \$18.0 billion in fiscal year 1983, \$37.7 billion in 1984 and \$42.7 billion in 1985.

