

Timber REITs Roundtable Meeting

Wednesday, April 1st

2:45pm – 4pm


JW Marriot Desert Ridge Resort & Spa

Phoenix, AZ

Discussion Leads:

Daniel McKeithen, Partner, Sutherland

Paul Stamnes, VP-Tax, Plum Creek Timber Company, Inc.



AMERICAN BUSINESS COMPETITIVENESS ACT

A PATH TO ECONOMIC TRANSFORMATION

A plan to **wipe away the tax system** imposed on American businesses and **replace it with a simple, fair and flat alternative.**

The American Business Competitiveness Act establishes a permanent tax rate of 25% on all businesses- no matter how they are organized. It eliminates all special deductions and credits, as well as complex inventory rules. In their place is 100% expensing.

This revolutionary change in the way we tax business can be achieved **without adding a penny to the debt.**

THE ABC ACT - JUST THE BASICS

The American Business Competitiveness Act (ABC Act) would establish the most aggressive pro-growth business tax policy in the developed world. If implemented, it would result in massive investments and job creation throughout the United States.

Lower Business Income Tax

All businesses, no matter how they are organized, will be taxed at the same low rate; **25 percent**.

The taxation of non-business income remains unchanged, except that interest income is taxed at the same rate as dividends and capital gains.

Pro-Growth

The ABC Act will allow **100 percent expensing**, meaning firms will deduct their full investment costs from their current year tax liabilities.

- This includes land, buildings and inventory, as well as other tangible or intangible property.
- Expensing that exceeds taxable income can be carried to future tax years with interest or backwards to reduce taxes from prior years.

This will create a powerful incentive for businesses of all sizes to invest and grow, generating new jobs across America.

No Loopholes

The ABC Act eliminates all special loopholes. The complex tax code, with its high compliance costs and distorting impact on the economy, is wiped away and replaced with a **simple, fair and flat tax**.

Less Complex & Fewer Distortions

The elimination of deductions and credits simplifies the tax code and reduces compliance costs.

- Complex property and inventory rules such as depreciations, amortization and depletion are replaced by full expensing.
- The tax code's pressure on firms to carry debt is removed by eliminating the business interest deduction while lowering the individual income tax on interest income.

International Tax Reform

Territorial tax rules will make U.S. businesses more globally competitive.

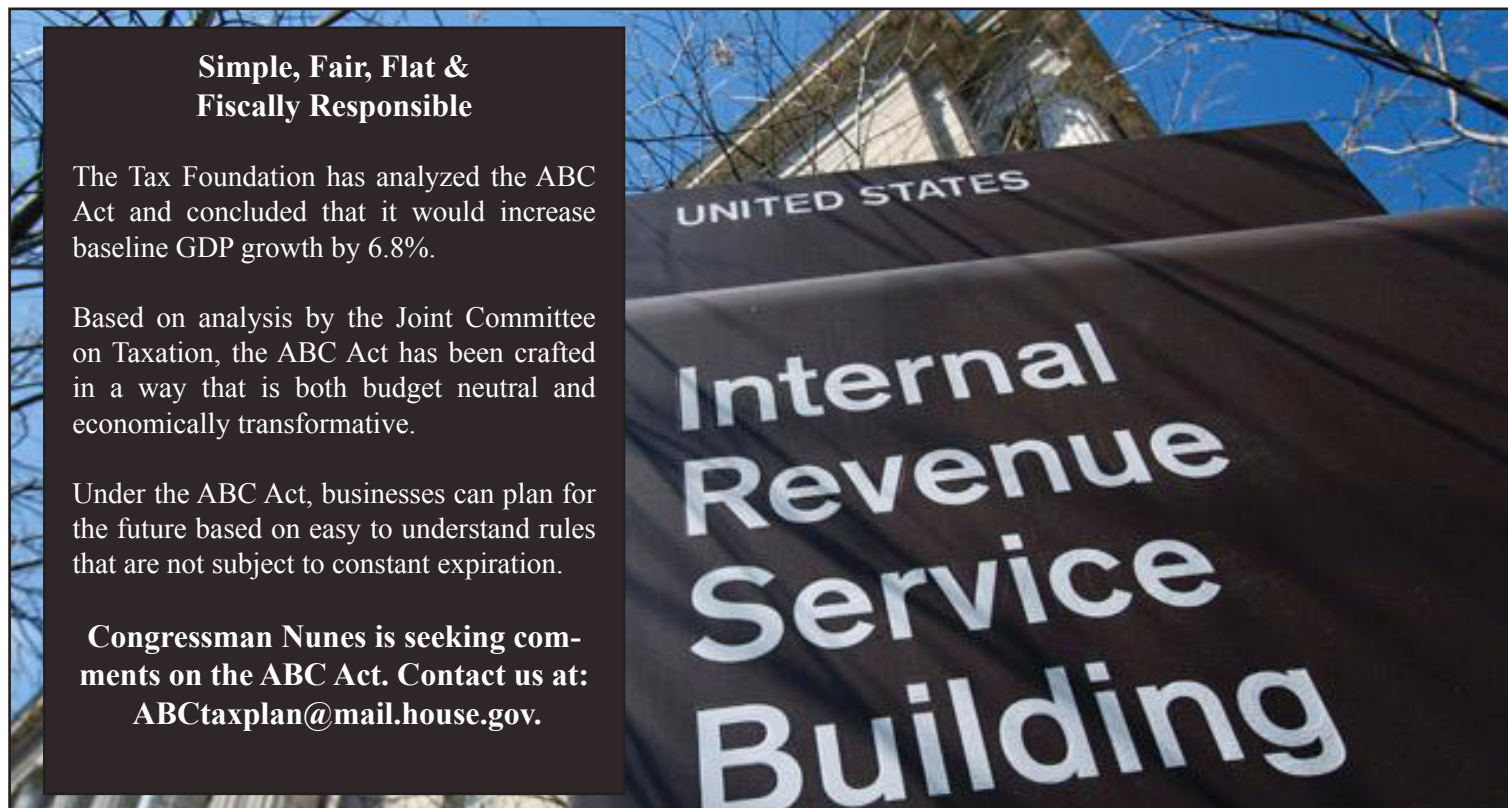
Simple, Fair, Flat & Fiscally Responsible

The Tax Foundation has analyzed the ABC Act and concluded that it would increase baseline GDP growth by 6.8%.

Based on analysis by the Joint Committee on Taxation, the ABC Act has been crafted in a way that is both budget neutral and economically transformative.

Under the ABC Act, businesses can plan for the future based on easy to understand rules that are not subject to constant expiration.

Congressman Nunes is seeking comments on the ABC Act. Contact us at:
ABCTaxplan@mail.house.gov



HOW TO MAKE AMERICA A GLOBAL TAX HAVEN

An expert from Bloomberg - March 25, 2013

....*Nunes* suggests a new approach: a “business consumption tax” that treats all businesses the same, whatever their organizational form. Instead of taxing their income, it taxes their cashflow -- income minus expenses, except for interest payments. That way, businesses would no longer write off their investments according to a complicated depreciation schedule. Investments would be tax-free.

Both U.S. and foreign companies would have more reason to invest here, Nunes says. “This would make the U.S. the largest tax haven in human history.”

I’ve run across two objections to Nunes’s idea. The first is that it is simply too ambitious to be politically viable: If Congress is having trouble reforming the corporate tax, goes the argument, it won’t be able to digest an entirely new approach to taxing business income. What this objection ignores is that the moderately ambitious proposals all face obstacles that are probably insuperable -- obstacles this proposal avoids.

The second objection is that Nunes’s proposal would cost the federal government a lot of revenue. A Joint Committee on Taxation estimate of the proposal’s budget impact would make it possible to evaluate this claim, but it sounds plausible. If it turns out to be expensive, though, the concept can still work: The tax rate would just have

to be higher than the 25 percent that Nunes has tentatively put forward.

Even if the rate were left at the 35 percent that currently applies to corporations, the shift to the new tax would still be a boon for the economy. The statutory rate would be higher than that of other countries, but the number that matters -- the effective tax rate on investments -- would be a very competitive zero, thanks to companies’ ability to write off their costs immediately. Eliminating the deduction for interest, meanwhile, would end a destabilizing distortion in the economy: the federal tax code’s preference for corporate financing via debt rather than equity. That preference also gives an advantage to established firms that have greater borrowing capacity than startups.

If Congress still finds the Nunes proposal too ambitious to contemplate, it could undertake reform on a much smaller scale. Leave tax rates alone, keep the separate schedules for different types of companies, and just make a trade: Companies would get immediate write-offs on investments and in return lose the interest deduction. That trade would probably leave the government’s revenue at roughly the same level. It would certainly be simpler than most other proposals to reform business taxation. And it would encourage more investment and less debt.

Tax Foundation Analysis of the ABC Act

Individual And Business Changes Modeled:

Cut Corporate Rate to 25%

Assorted changes in Corporate Tax Base

Revenue Effect due to reduced Profit Shifting

Full Expensing*

Cap Tax Rate on Noncorp Business Income at 25%

Tax Individual Interest Income at Capital Gains Rate**

ECONOMIC AND BUDGET CHANGES VERSUS 2013 LAW

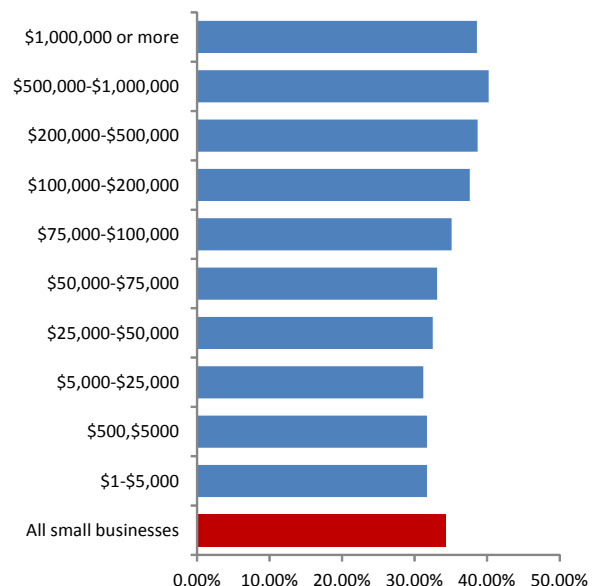
(billions of 2013 dollars except as noted)

GDP	6.80%
GDP (\$ billions)	\$1,107.8
Private business GDP	7.07%
Private business stocks	20.63%
Wage rate	5.72%
Private business hours of work	1.28%
Full-time equivalent jobs (in thousands)	1,228.4

Static federal revenue estimate, GDP assumed constant (\$ billions)	-\$129.0
Dynamic federal revenue estimate after GDP gain or loss (\$ billions)	\$96.2

Weighted Average service price	% Change
Corporate	-11.40%
Noncorporate	-10.87%
All business	-11.24%

High Rates Are A Large Burden For Small Business



We need more jobs, in California and throughout the country.

By Devin Nunes: Originally printed in the Orange County Register

America's official 7.6 percent unemployment rate reflects a worse situation than it seems, since the figure does not account for millions of jobless Americans who have stopped looking for work. In fact, the number of Americans who work or are seeking work fell by a half million people in March, yielding the lowest monthly rate – 63.3 percent – since May 1979.

What it takes to create jobs is no secret. We need to provide a reasonable, stable regulatory and tax environment that encourages business start-ups and coaxes existing companies to invest, expand and hire new workers. But that's not what we have.

The revolutionary "green economy" promised by the Obama administration has turned out to be a textbook example of the failures of command economies. As central planners issue a morass of regulations, taxes and subsidies designed to support certain companies and industries while punishing others, they create perverse incentives that make lobbying and government favoritism – not good business models – the arbiter of a company's success. This system enables corruption and empowers big government and big business at the expense of small businesses and everyday Americans.

We need comprehensive economic reform that promotes simplicity, fairness, economic growth and job creation. A good place to begin is by reforming business taxes.

There is widespread bipartisan agreement that we need more jobs, in California and throughout the country. We need to reform the federal business tax code – an impossibly complex array of rates and rules featuring a top rate of 35 percent that is the highest in the industrialized world. Most reform proposals focus on lowering the rates while leaving the code's complex structure mostly intact. I am proposing something different – that we completely overhaul the code to make it simple, fair, and most important, to create jobs.

My plan, called the American Business Competitiveness tax reform, is designed to complement current congressional efforts to reform taxes. It would replace the business tax structure with a new form of consumption tax. This is neither a sales tax nor a value-added tax (VAT). Instead, the ABC

tax reform would encourage business investment by allowing 100 percent expensing in the current year. This means that companies of any size, no matter how they're organized, would pay no taxes on any of their spending for personnel, equipment, property, or other expenditure related to the operation of their business in the United States.

Expensing, essentially tax deductions for business investment, is allowed under the current tax code but is subject to innumerable and ever-changing conditions and limits; what a company can expense depends on a firm's size and industry, the type of asset bought and its cost, the amount of time over which the firm can deduct costs ("depreciation") and whether the business is entitled to "bonus depreciation" measures. By replacing this convoluted system with a uniform rule of 100 percent expensing, the ABC tax reform would quickly spark economic growth and job creation. Simply put, the more a company invests and expands, the more it reduces the percentage of its income that is taxed.

To boost growth even further, non-expensed income for all businesses would be taxed at one low, globally competitive rate – 25 percent – and all credits, special deals and loopholes on the business side would be eliminated. That would subject all businesses, whether a mom-and-pop grocery or a billion-dollar conglomerate, to the same clear rules and the same tax rate, eliminating the ability of special interests and big business to manipulate the tax code.

Democrats and Republicans alike should support a reform that levels the playing field for all businesses, brings certainty and clarity to the tax code, undercuts the power of special interests, incentivizes the return of money parked in foreign tax havens, and encourages business start-ups.

Free-market reform is urgently needed throughout the country, but especially in California. Our excessive tax and regulatory regime is killing businesses and driving them to other states. The ABC tax reform will create jobs here and in all other states, in all industries, to the benefit of all Americans. Instead of tinkering with tax rates, let's make a bolder move to get the economy moving again.



The American Business Competitiveness Act (ABC Act)

A BUDGET NEUTRAL PLAN TO CREATE JOBS

FEATURES:

- **A path to permanent tax reform and a 25% rate on all businesses:** Under the ABC Act, the income tax imposed on American businesses, no matter how they are organized, will decline uniformly over a period of ten years. **In year ten, business taxes will reach a final permanent rate of 25%.**
- **A flat, fair and easily understood system:** The business tax system will undergo a radical transformation. All credits and deductions will be wiped away immediately. Complex inventory rules and depreciation schedules will disappear. In place of these complex and often unfair rules will be a relatively simple system of expensing.

Annual business taxes will be determined by deducting all of the costs associated with operating in the United States from all of the income generated in the United States. Everything will be deducted immediately, including property and heavy equipment which has traditionally been subject to complex depreciation schedules.

- **A tax on actual profits without taxing job creation:** by allowing 100% expensing, with the ability to carry forward excess, businesses face minimal tax in their formative years or when they are investing heavily (thereby creating opportunity in America). However, they pay their full tax when they earn income – no loopholes and no exceptions.
- **An economically sound plan that is fiscally responsible:** the ABC Act will not add to the debt. It is designed to be a budget neutral yet economically powerful. Economists agree that this form of taxation is pro-growth. The Tax Foundation indicates the ABC Act will fundamentally transform the American economy.

The ABC Act has been extensively reviewed by the Joint Tax Committee. Based on their analysis the bill has been carefully crafted to achieve budget neutrality without sacrificing the end goal of a **fair, flat tax system and a competitive 25% tax rate.**

Please send your comments to ABCTaxplan@mail.house.gov.





The American Business Competitiveness Act

REDUCE TAXES ON ALL JOB CREATORS – a 25% business income tax

- ✓ All businesses, no matter how they are organized, will be taxed at the same low rate, 25 percent.
- ✓ Individual income taxes are not changed.

PRO-GROWTH – encourages job creation

- ✓ Allows 100 percent expensing, meaning firms will deduct their full operating costs from their current year tax liability.
 - This includes land, buildings, inventory, as well as other tangible or intangible property.
 - Expensing that exceeds taxable income can be carried to future tax years with interest or backwards to reduce taxes from prior years.
- ✓ Growth and investment are the only mechanisms by which a business can reduce their taxes. This creates a powerful incentive for domestic job growth.

NO LOOPHOLES – all special tax provisions are eliminated

- ✓ Eliminates tax credits and deductions for all businesses. There are no special loopholes that advantage one business model or product over another. The government will no longer pick winners and losers.

LESS COMPLEX – the rules are easy to understand for everyone

- ✓ The elimination of deductions and credits simplifies the tax code.
- ✓ Complex property and inventory rules such as depreciations, amortization and depletion are replaced by full expensing.
- ✓ Government-preferences will no longer incentivize the inefficient allocation of resources.
- ✓ Debt will no longer be preferred under the tax code, reducing the pressure on firms to carry debt.

SIMPLIFIED INTERNATIONAL TAX SYSTEM – allows stranded income to return

- ✓ Territorial tax rules will make the U.S. more globally competitive.



[DISCUSSION DRAFT]

JANUARY 26, 2015

114TH CONGRESS
1ST SESSION

H. R. _____

To amend the Internal Revenue Code of 1986 to tax business income on
a cash flow basis, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. NUNES introduced the following bill; which was referred to the Committee
on _____

A BILL

To amend the Internal Revenue Code of 1986 to tax business
income on a cash flow basis, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “American Business Competitiveness Act of 2015”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
2 shall be considered to be made to a section or other provi-
3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents is
5 as follows:

- Sec. 1. Short title, etc.
- Sec. 2. Congressional findings.
- Sec. 3. Maximum tax rate for net business income.
- Sec. 4. Definition of net business income tax base.
- Sec. 5. Allowance of transition basis deduction.
- Sec. 6. Interest income of individuals taxed in same manner as dividend in-
come; reduced by interest expense.
- Sec. 7. Repeal of depreciation, international, and other tax provisions.
- Sec. 8. Expanded relief for net operating losses.
- Sec. 9. Repeal of corporate AMT and individual AMT preferences and adjust-
ments that pertain to capital cost recovery.
- Sec. 10. Repeal of business tax credits.
- Sec. 11. Disallowance of interest expense deduction, except qualified residence
interest.
- Sec. 12. Cash method of accounting.

6 **SEC. 2. CONGRESSIONAL FINDINGS.**

7 (a) FINDINGS RELATING TO THE DEPRECIATION
8 SYSTEM OF FEDERAL BUSINESS TAXATION.—Congress
9 finds the depreciation system—

10 (1) is rife with outdated asset classifications,
11 inaccurate depreciation schedules, targeted credits
12 and deductions, and targeted expensing provisions;

13 (2) rewards some business activities over oth-
14 ers;

15 (3) reduces savings and investment in the
16 United States by increasing the rate of return that
17 is required for investments to be viable; and

1 (4) creates complexity for both the Internal
2 Revenue Service and businesses.

3 (b) FINDINGS RELATING TO THE DEDUCTION OF
4 BUSINESS INTEREST.—Congress finds that the business
5 interest deduction—

6 (1) encourages businesses to finance their oper-
7 ations with debt;

8 (2) results in negative effective tax rates for
9 some investments; and

10 (3) heightens bankruptcy risk during periods of
11 economic distress.

12 (c) FINDINGS RELATING TO THE EXPENSING OF IN-
13 VESTMENT.—Congress finds that allowing businesses to
14 expense their investments—

15 (1) will make more investment opportunities
16 profitable for businesses to undertake;

17 (2) will promote investment in the United
18 States;

19 (3) will limit the Government's ability to reward
20 specific business activities through the tax code; and

21 (4) will simplify business taxation.

22 **SEC. 3. MAXIMUM TAX RATE FOR NET BUSINESS INCOME.**

23 (a) INDIVIDUAL NET BUSINESS INCOME.—

24 (1) MAXIMUM RATE OF 25 PERCENT.—

1 (A) IN GENERAL.—Paragraph (1) of sec-
2 tion 1(h) is amended—

3 (i) in subparagraph (A)—

4 (I) by striking “the net capital
5 gain” in clause (i) and inserting “the
6 sum of the net capital gain and the
7 net business income”; and

8 (II) by striking “the adjusted net
9 capital gain” in clause (ii)(II) and in-
10 serting “the sum of the adjusted net
11 capital gain and the net business in-
12 come”; and

13 (ii) in subparagraph (D)(i) by striking
14 “unrecaptured section 1250 gain” and in-
15 serting “25-percent rate gain”.

16 (B) 25-PERCENT RATE GAIN.—Subsection
17 (h) of section 1 is amended by adding at the
18 end the following:

19 “(12) 25-PERCENT RATE GAIN.—For purposes
20 of this subsection—

21 “(A) unrecaptured section 1250 gain, plus

22 “(B) net business income.”.

23 (2) PHASEIN OF 25-PERCENT RATE FOR NET
24 BUSINESS INCOME.—Subsection (h) of section 1, as

1 amended by paragraph (1), is amended by adding at
2 the end the following:

3 “(13) PHASEIN OF 25-PERCENT RATE FOR NET
4 BUSINESS INCOME.—

5 “(A) IN GENERAL.—During the 10-cal-
6 endar-year period beginning after December 31,
7 2014, paragraph (1) shall be applied with the
8 following modifications with respect to net busi-
9 ness income:

10 “(i) In the case that the applicable
11 percentage for a taxable year is greater
12 than 28 percent—

13 “(I) paragraph (1)(F) shall be
14 applied by subtracting net business in-
15 come (to the extent it has not been
16 taken into account under the pre-
17 ceding subparagraphs of this para-
18 graph) from the excess described
19 therein, and

20 “(II) paragraph (1), after the ap-
21 plication of subparagraphs (A)
22 through (F) (as modified by subclause
23 (I) of this clause) thereof), shall be
24 applied by adding to the sum thereof
25 the applicable percentage of net busi-

1 ness income which has not been taken
2 into account under the preceding sub-
3 paragraphs of this paragraph.

4 “(ii) In the case that the applicable
5 percentage for a taxable year exceeds 25
6 percent but does not exceed 28 percent,
7 paragraph (1), after the application of sub-
8 paragraphs (A) through (E), shall be ap-
9 plied by adding to the sum thereof the ap-
10 plicable percentage of net business income
11 which has not been taken into account
12 under the preceding subparagraphs of this
13 paragraph.

14 “(B) APPLICABLE PERCENTAGE.—For
15 purposes of subparagraph (A), the applicable
16 percentage for a taxable year shall be deter-
17 mined under the following table:

“For taxable years beginning in:	The applicable percentage is:
2015	38.14 percent
2016	36.68 percent
2017	35.22 percent
2018	33.76 percent
2019	32.3 percent
2020	30.84 percent
2021	29.38 percent
2022	29.72 percent
2023	26.46 percent
2024	25 percent.

18 “(C) COORDINATION.—During the 10-year
19 period referred to in subsection (a), paragraph
20 (1) shall be applied without regard to the

1 amendment made by section 3(a)(1) of the
2 American Business Competitiveness Act of
3 2015.

4 “(D) ADJUSTMENT OF TABLES.—The Sec-
5 retary shall adjust the tables prescribed under
6 subsection (f) to carry out this paragraph.”.

7 (b) CORPORATE INCOME TAX RATE REDUCTION;
8 TAX IMPOSED ONLY ON CORPORATION’S NET BUSINESS
9 INCOME.—

10 (1) IN GENERAL.—Section 11 is amended to
11 read as follows:

12 **“SEC. 11. TAX IMPOSED.**

13 “(a) CORPORATIONS IN GENERAL.—A tax is hereby
14 imposed for each taxable year on the net business income
15 of every corporation.

16 “(b) AMOUNT OF TAX.—The amount of the tax im-
17 posed by subsection (a) shall be the sum of—

18 “(1) 15 percent of so much of the net business
19 income as does not exceed \$50,000, and

20 “(2) 25 percent of so much of the net business
21 income as exceeds \$50,000 but does not exceed
22 \$75,000, and

23 “(3) the applicable percentage of so much of
24 the net business income as exceeds \$75,000.

1 In the case of a corporation which has net business income
 2 in excess of \$100,000 for any taxable year, the amount
 3 of tax determined under the preceding sentence for such
 4 taxable year shall be increased by the lesser of (i) 5 per-
 5 cent of such excess, or (ii) \$5,000.

6 “(c) PHASEIN.—For purposes of subparagraph (A),
 7 the applicable percentage for a taxable year shall be deter-
 8 mined under the following table:

“For taxable years beginning in:	The applicable percentage is:
2015	34 percent
2016	33 percent
2017	32 percent
2018	31 percent
2019	30 percent
2020	29 percent
2021	28 percent
2022	27 percent
2023	26 percent
2024 and thereafter	25 percent”.

9 (2) CONFORMING AMENDMENT.—Paragraphs
 10 (1) and (2) of section 1445(e) are each amended by
 11 striking “35 percent” and inserting “applicable per-
 12 centage (as determined under section 11)”.

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning on or
 15 after January 1, 2014.

16 **SEC. 4. DEFINITION OF NET BUSINESS INCOME TAX BASE.**

17 (a) IN GENERAL.—Subtitle A is amended by insert-
 18 ing after chapter 2A the following new subchapter:

19 **“CHAPTER 2B—BUSINESS INCOME**

“SUBCHAPTER A. BASIC RULES.

“SUBCHAPTER B. CAPITAL CONTRIBUTIONS, MERGERS, ACQUISITIONS, AND DISTRIBUTIONS.

“SUBCHAPTER C. INTERNATIONAL PROVISIONS.

“SUBCHAPTER D. FINANCIAL INSTITUTIONS.

“SUBCHAPTER E. OTHER DEFINITIONS.

1 **“Subchapter A—Basic Rules**

“Sec. 1421. Net business income.

2 **“SEC. 1421. NET BUSINESS INCOME.**

3 “(a) IN GENERAL.—For purposes of this title, the
4 term ‘net business income’ means, for a taxable year with
5 respect to a business entity, the amount by which the tax-
6 able receipts of the business entity for the taxable year
7 exceed the deductible amounts for the business entity for
8 the taxable year.

9 “(b) TAXABLE RECEIPTS.—

10 “(1) IN GENERAL.—The term ‘taxable receipts’
11 means all receipts from the sale of property, use of
12 property, and performance of services.

13 “(2) GAMES OF CHANCE.—Amounts received
14 for playing games of chance by business entities en-
15 gaging in the activity of providing such games shall
16 be treated as receipts from the sale of property or
17 services.

18 “(3) IN-KIND RECEIPTS.—The taxable receipts
19 attributable to the receipt of property, use of prop-
20 erty or services in whole or partial exchange for

1 property, use of property or services equal the fair
2 market value of the services or property received.

3 “(4) TAXES.—The term ‘taxable receipts’ does
4 not include any excise tax, sales tax, custom duty,
5 or other separately stated levy imposed by a Federal,
6 State, or local government received by a business en-
7 tity in connection with the sale of property or serv-
8 ices or the use of property.

9 “(5) FINANCIAL RECEIPTS.—

10 “(A) IN GENERAL.—The term ‘taxable re-
11 ceipts’ does not include financial receipts.

12 “(B) FINANCIAL RECEIPTS.—The term ‘fi-
13 nancial receipts’ includes—

14 “(i) interest,

15 “(ii) dividends and other distributions
16 by a business entity,

17 “(iii) proceeds from the sale of stock,
18 other ownership interests in business enti-
19 ties, or other financial instruments,

20 “(iv) proceeds from life insurance
21 policies,

22 “(v) proceeds from annuities,

23 “(vi) proceeds from currency hedging
24 or exchanges, and

1 “(vii) proceeds from other financial
2 transactions.

3 “(C) FINANCIAL INSTRUMENT.—The term
4 ‘financial instrument’ means any—

5 “(i) share of stock in a corporation,

6 “(ii) equity ownership in any widely
7 held or publicly traded partnership, trust,
8 or other business entity,

9 “(iii) note, bond, debenture, or other
10 evidence of indebtedness,

11 “(iv) interest rate, currency, or equity
12 notional principal contract,

13 “(v) evidence or interest in, or a de-
14 rivative financial instrument in, any finan-
15 cial instrument described in clause (i), (ii),
16 (iii), or (iv), or any currency, including any
17 option, forward contract, short position,
18 and any similar financial instrument in
19 such a financial instrument or currency,
20 and

21 “(vi) a position which—

22 “(I) is not a financial instrument
23 described in clause (i), (ii), (iii), or
24 (iv),

1 “(II) is a hedge with respect to
2 such a financial instrument, and

3 “(III) is clearly identified in the
4 dealer’s records as being described in
5 this subparagraph before the close of
6 the day on which it was acquired or
7 entered into.

8 “(c) DEDUCTIBLE AMOUNTS.—

9 “(1) IN GENERAL.—The term ‘deductible
10 amounts’ includes for a taxable year with respect to
11 a business entity—

12 “(A) the cost of business purchases in the
13 taxable year (as determined under subsection
14 (d)),

15 “(B) compensation expenses for an indi-
16 vidual (other than amounts paid to an indi-
17 vidual in his capacity as a business entity), or

18 “(C) the cost of employer-provided health
19 insurance for which the employee, members of
20 his family, or persons designated by him or
21 members of his family are the beneficiaries,

22 “(D) such entity’s loss carryover deduction
23 (determined under section 172),

24 “(E) in the case of an entity which is a
25 real estate investment trust, the amount of any

1 dividend payment made to a shareholder of
2 such trust, and

3 “(F) the transition basis deduction (as de-
4 termined under section 5 of the American Busi-
5 ness Competitiveness Act of 2015).

6 “(2) COMPENSATION EXPENSES.—For purposes
7 of subsection (a), the term ‘compensation expenses’
8 means—

9 “(A) wages, salaries or other cash payable
10 for services,

11 “(B) any taxes imposed on the recipient
12 that are withheld by the business entity,

13 “(C) the cost of property purchased to pro-
14 vide employees with compensation (other than
15 property incidental to the provision of fringe
16 benefits that are excluded from income under
17 the individual tax), and

18 “(D) the cost of fringe benefits other than
19 health insurance deductible under paragraph
20 (1)(C).

21 “(3) PHASEIN OF COMPENSATION DEDUC-
22 TION.—

23 “(A) IN GENERAL.—For purposes of para-
24 graph (2), in the case of compensation expenses
25 described in subparagraphs (A), (C), and (D) of

1 paragraph (2) of an applicable large employer,
 2 the amount taken into account under paragraph
 3 (2) shall be the applicable percentage of such
 4 amount (determined without regard to this
 5 paragraph).

6 “(B) APPLICABLE PERCENTAGE.—For
 7 purposes of subparagraph (A), the applicable
 8 percentage for a taxable year shall be deter-
 9 mined under the following table:

“For taxable years beginning in:	The applicable percentage is:
2015	80 percent
2016	82 percent
2017	84 percent
2018	86 percent
2019	88 percent
2020	90 percent
2021	92 percent
2022	94 percent
2023	96 percent
2024	98 percent
2025 and thereafter	100 percent.

10 “(C) APPLICABLE LARGE EMPLOYER.—
 11 For purposes of subparagraph (A), the term
 12 ‘applicable large employer’ has the meaning
 13 given such term by section 4980H(c)(2).

14 “(4) PASS-THRU WAGES MUST BE REASON-
 15 ABLE.—For purposes of paragraph (2)(A), amounts
 16 payable as wages, salaries or other cash payable for
 17 services by a S corporation, partnership, or other
 18 pass-thru entity shall not be treated as wages, sala-

1 ries or other cash payable for services unless such
2 amounts are reasonable for the service rendered.

3 “(d) COST OF BUSINESS PURCHASES.—

4 “(1) BUSINESS PURCHASES.—

5 “(A) IN GENERAL.—The term ‘business
6 purchases’ means the acquisition of—

7 “(i) property,

8 “(ii) the use of property, or

9 “(iii) services,

10 for use in a business activity.

11 “(B) EXAMPLES.—Business purchases in-
12 clude (without limitation) the—

13 “(i) purchase or rental of real prop-
14 erty,

15 “(ii) purchase or rental of capital
16 equipment,

17 “(iii) purchase of supplies and inven-
18 tory,

19 “(iv) purchase of services from inde-
20 pendent contractors, and

21 “(v) imports for use in a business ac-
22 tivity.

23 “(C) EXCLUSIONS.—Business purchases
24 do not include—

1 “(i) payments for use of money or
2 capital, such as interest or dividends (ex-
3 cept to the extent that a portion so paid is
4 a fee for financial intermediation services),

5 “(ii) premiums for life insurance,

6 “(iii) the acquisition of savings assets
7 or other financial instruments (as defined
8 in subsection (b)(5)(C)),

9 “(iv) taxes (except as provided in sub-
10 section (b)(2) relating to product taxes),
11 and

12 “(v) the cost of financial instruments
13 (as defined in subsection (b)(5)(C)).

14 “(2) COST OF BUSINESS PURCHASES.—

15 “(A) IN GENERAL.—The term ‘cost of a
16 business purchase’ is the amount paid or to be
17 paid for the business purchase.

18 “(B) PROPERTY AND SERVICES ACQUIRED
19 FOR PROPERTY.—If a business entity receives
20 property or services from a business entity in
21 whole or partial exchange for property or serv-
22 ices, the property or services acquired shall be
23 treated as if they were purchased for an
24 amount equal to the fair market value of the
25 services or property received. For purposes of

1 this section, property includes stock and other
2 equity interests in business other than stock or
3 an equity interest in the business entity acquiring
4 the property or services. See section 1422
5 for rules on property or services received in exchange
6 for an equity interest in the recipient.

7 “(C) GAMBLING PAYMENTS.—In the case
8 of a business involving gambling, lotteries, or
9 other games of chance, business purchases include
10 amounts paid to winners.

11 “(e) BUSINESS ENTITY AND BUSINESS ACTIVITY.—

12 “(1) BUSINESS ENTITY.—For purposes of determining
13 business income, the term ‘business entity’ means
14 any corporation (including any S corporation),
15 unincorporated association, partnership, limited
16 liability company, proprietorship, independent
17 contractor, individual, or any other person, engaging
18 in business activity in the United States. An individual
19 shall be considered a business entity only with
20 respect to the individual’s business activities.

21 “(2) BUSINESS ACTIVITY.—The term ‘business
22 activity’ means the sale of property or services, the
23 leasing of property, the development of property or
24 services for subsequent sale or use in producing
25 property or services for subsequent sale. The term

1 ‘business activity’ does not include casual or occa-
2 sional sales of property used by an individual (other
3 than in a business activity), such as the sale by an
4 individual of a vehicle used by the individual.

5 “(3) EXCEPTION FOR CERTAIN EMPLOYEES.—

6 “(A) IN GENERAL.—The term ‘business
7 activity’ does not include—

8 “(i) the performance of services by an
9 employee for an employer that is a busi-
10 ness entity with respect to the activity in
11 which the employee is engaged, or

12 “(ii) the performance of regular do-
13 mestic household services (including baby-
14 sitting, housecleaning, and lawn cutting)
15 by an employee of an employer that is an
16 individual or family.

17 “(B) EMPLOYEE DEFINED.—For purposes
18 of this subsection, the term ‘employee’ includes
19 an individual partner who provides services to a
20 partnership or an individual member who pro-
21 vides services to a limited liability company, or
22 a proprietor with respect to compensation for
23 services from his proprietorship.

24 “(f) SAVINGS ASSETS.—The term ‘savings assets’
25 means stocks, bonds, securities, certificates of deposits, in-

1 vestments in partnerships and limited liability companies,
2 shares of mutual funds, life insurance policies, annuities,
3 and other similar savings or investment assets.

4 **“Subchapter B—Capital Contributions,**
5 **Mergers, Acquisitions, and Distributions**

“Sec. 1422. Contributions to a business entity.

“Sec. 1422A. Distributions of property.

“Sec. 1422B. Asset acquisitions.

“Sec. 1422C. Mergers, stock acquisitions, and spin-offs, split-offs, etc.

6 **“SEC. 1422. CONTRIBUTIONS TO A BUSINESS ENTITY.**

7 “(a) BY BUSINESS ENTITY.—

8 “(1) CASH.—If a business entity contributes
9 cash to a business entity of which it is or becomes
10 a partial or full owner, the amount contributed is
11 not a deductible amount to the contributor or a tax-
12 able receipt to the recipient.

13 “(2) PROPERTY OR SERVICES.—If a business
14 entity contributes property or services to a business
15 entity of which it is or becomes a partial or full
16 owner, the transaction will not result in taxable re-
17 cepts to the contributor or a deduction for a busi-
18 ness purchase for the recipient and will not con-
19 stitute a sale resulting in taxable receipts to the con-
20 tributor.

21 “(b) BY INDIVIDUAL.—

22 “(1) CASH.—If an individual contributes cash
23 to a business entity, the amount contributed is not

1 a deductible amount to the contributor and the cash
2 received by the business entity is not a taxable re-
3 ceipt.

4 “(2) NEW PROPERTY.—If an individual contrib-
5 utes to a business entity property that the individual
6 purchased for the business entity but which was not
7 used by any person after its purchase, the property
8 shall be considered purchased by such business enti-
9 ty from the person from which the individual pur-
10 chased the property and the transaction will not re-
11 sult in a deductible amount to the contributor.

12 “(3) PERSONAL USE PROPERTY.—

13 “(A) IN GENERAL.—If an individual con-
14 tributes personal use property to a business en-
15 tity in which the individual has an ownership
16 interest or for which the individual receives an
17 ownership interest, the business entity shall not
18 be permitted to deduct the value of the property
19 received as a business expense. The business
20 entity will have a tax basis in the contributed
21 property equal to the contributor’s basis.

22 “(B) PERSONAL USE PROPERTY.—The
23 term ‘personal use property’ means any prop-
24 erty used by an individual at any time other
25 than in a business activity.

1 “(4) SERVICES.—If an individual contributes
2 services to a business entity in which the individual
3 has an ownership interest or receives an ownership
4 interest, the business entity shall not be permitted to
5 deduct the value of the services received (or the
6 value of the equity interest provided to the services
7 provider).

8 **“SEC. 1422A. DISTRIBUTIONS OF PROPERTY.**

9 “(a) DISTRIBUTIONS OTHER THAN TO CONTROL-
10 LING BUSINESS.—If a business entity distributes all or a
11 portion of its assets to its owners (other than a controlling
12 business entity), the business entity will be treated as if
13 it sold the assets to its owners at fair market value. The
14 fair market value will be determined by the distributing
15 business entity and those determinations, unless unreason-
16 able, will be binding on the recipients.

17 “(b) DISTRIBUTIONS TO A CONTROLLING BUSI-
18 NESS.—If a business entity distributes all or a portion of
19 its assets to a controlling business entity, the controlling
20 business entity will assume the distributing entity’s tax
21 attributes with respect to the assets and neither entity will
22 have taxable receipts or a deduction as a result of the
23 transaction.

24 “(c) DISTRIBUTION OF PERSONAL USE PROP-
25 ERTY.—If personal use property is distributed to the indi-

1 vidual who contributed the personal use property to a busi-
2 ness entity, the fair market value of the property for pur-
3 poses of subsection (a) shall equal the basis of the prop-
4 erty plus any enhancement in value of the property attrib-
5 utable to business purchases with respect to the property.

6 “(d) CONTROLLING BUSINESS ENTITY.—A business
7 entity is a ‘controlling business entity’ with respect to an-
8 other business entity if it, or any person to which it is
9 related, owns directly or indirectly more than 50 percent
10 of the profits or capital interest in the other business enti-
11 ty. For purposes of the preceding sentence, a person is
12 related to a business entity if such person owns directly
13 or indirectly more than 50 percent of the profits or capital
14 interest in the business entity.

15 “(e) APPLICATION OF THIS SECTION.—This section
16 applies to both liquidating and nonliquidating distribu-
17 tions.

18 **“SEC. 1422B. ASSET ACQUISITIONS.**

19 “(a) IN GENERAL.—If a business entity transfers
20 some or all of its assets, the consideration received for
21 such assets shall be allocated among the assets transferred
22 in the same manner as was required by section 1060 of
23 the Internal Revenue Code of 1986. If the transferee and
24 transferor agree in writing on the allocation of any consid-
25 eration, or as to the fair market value of any of the assets,

1 such agreement shall be binding on both the transferor
2 and transferee unless the Secretary determines that such
3 allocation (or fair market value) is not appropriate.

4 “(b) TAX CONSEQUENCES.—The tax consequences of
5 an asset acquisition shall be determined in accordance
6 with the rules of this chapter and shall be dependent upon
7 allocations made under subsection (a). In general, consid-
8 eration allocable to savings assets, such as stock in an-
9 other business entity, would not be included in taxable re-
10 cepts of the transferor and would not be a business pur-
11 chase of the purchaser, but consideration allocable to the
12 sale of tangible property and intangible property (other
13 than savings assets) will constitute taxable receipts of the
14 seller and a business purchase of the purchaser.

15 “(c) ELECTION TO TREAT ASSET ACQUISITION AS A
16 STOCK ACQUISITION.—In the case of the sale of substan-
17 tially all of the assets of a business entity or substantially
18 all of the assets of a line of business or a separately stand-
19 ing business of a business entity, the transferee and trans-
20 feror can jointly elect to treat the acquisition as if it were
21 an acquisition of the stock of a business entity holding
22 the assets so transferred. In such case, the rules of section
23 1422C shall apply.

24 “(d) AUTHORITY TO REQUIRE ALLOCATION AGREE-
25 MENT AND NOTICE TO THE SECRETARY.—If the Sec-

1 retary determines that certain types of asset acquisitions
2 have significant possibilities of tax avoidance, the Sec-
3 retary may require—

4 “(1) parties to such types of acquisitions to
5 enter into agreements allocating consideration,

6 “(2) parties to acquisitions involving certain
7 kinds of assets to enter into agreements allocating
8 part of the consideration to those assets, or

9 “(3) parties to certain acquisitions to report in-
10 formation to the Secretary.

11 “(e) ASSET ACQUISITION RULES DO NOT APPLY IF
12 CONSIDERATION INCLUDES EQUITY IN PURCHASER.—

13 “(1) IN GENERAL.—If a business entity issues
14 its own equity or equity in a subsidiary or other con-
15 trolled entity as part of the consideration for the
16 transfer of assets to it, the transaction shall be
17 treated as a business purchase and not as an asset
18 acquisition, and the taxpayer shall not be entitled to
19 a loss carryover for any unused deduction attrib-
20 utable to the equity portion of such transfer.

21 “(2) EQUITY.—For purposes of this subsection,
22 equity means—

23 “(A) stock, in the case of a corporation,

1 “(B) partnership or similar interest, in the
2 case of a partnership or limited liability com-
3 pany, and

4 “(C) an ownership interest or interest in
5 profits in the case of any other business entity.

6 **“SEC. 1422C. MERGERS, STOCK ACQUISITIONS, AND SPIN-**
7 **OFFS, SPLIT-OFFS, ETC.**

8 “(a) MERGERS.—A merger of one business entity
9 into another or two businesses entities into a third busi-
10 ness entity or any other similar transaction shall have no
11 direct consequences under the business cash flow tax. The
12 surviving entity shall assume the tax attributes of the
13 merged business entities, including any loss carryovers
14 and credit carryovers.

15 “(b) STOCK ACQUISITION.—The acquisition of all or
16 substantially all of the ownership interest in one business
17 entity either for cash or in exchange for ownership in the
18 acquiring entity or an entity controlled by the acquired
19 entity shall have no direct consequences under the busi-
20 ness cash flow tax.

21 “(c) SPIN-OFFS, SPLIT-OFFS, ETC.—A spin-off,
22 split-off or split-up of a business entity shall have no direct
23 tax consequences under this chapter.

24 **“Subchapter C—International Provisions**

“Sec. 1423. No tax imposed on income derived from trade or business outside
the United States.

“Sec. 1423A. No credit allowed for foreign taxes on income derived from trade or business outside the United States.

“Sec. 1423B. 5 percent toll charge on undistributed foreign earnings.

1 **“SEC. 1423. NO TAX IMPOSED ON INCOME DERIVED FROM**
2 **TRADE OR BUSINESS OUTSIDE THE UNITED**
3 **STATES.**

4 “(a) IN GENERAL.—Only taxable receipts and de-
5 ductible amounts which are effectively connected with the
6 conduct of a trade or business within the United States
7 shall be included or deducted in the computation of net
8 business income.

9 “(b) No tax shall be imposed under this title on in-
10 come effectively connected with the conduct of a trade or
11 business that is not a trade or business within the United
12 States.

13 **“SEC. 1423A. NO CREDIT ALLOWED FOR FOREIGN TAXES ON**
14 **INCOME DERIVED FROM TRADE OR BUSI-**
15 **NESS OUTSIDE THE UNITED STATES.**

16 “(a) IN GENERAL.—No credit shall be allowed under
17 this title for any income, war profits, or excess profits
18 taxes paid or accrued with respect to income effectively
19 connected with the conduct of a trade or business that
20 is not a trade or business within the United States.

21 “(b) UNUSED FOREIGN TAX CREDITS.—Under regu-
22 lations prescribed by the Secretary, any taxpayer that is
23 a corporation may elect to treat foreign tax credit

1 carryovers from taxable years beginning prior to January
2 1, 2015, as general business credit carryovers.

3 **“SEC. 1423B. 5 PERCENT TOLL CHARGE ON UNDISTRI-
4 B-UTED FOREIGN EARNINGS.**

5 “There is hereby imposed on any domestic corpora-
6 tion which owns 10 percent or more of the voting stock
7 of a foreign corporation a tax equal to 5 percent of the
8 corporation’s post-1986 undistributed earnings for the
9 corporation’s last taxable year beginning prior to January
10 1, 2015. For purposes of this subsection, post-1986 undis-
11 tributed earnings shall be computed as provided in section
12 902(c)(1) of the Internal Revenue Code of 1986 (as in
13 effect prior to the enactment of the American Business
14 Competitiveness Act of 2015), except that such undistrib-
15 uted earnings shall be diminished by the dividends distrib-
16 uted during such taxable year. Except as provided in regu-
17 lations prescribed by the Secretary, the tax imposed by
18 this subsection shall be paid at the same time and in the
19 same manner as the tax imposed by section 11 for the
20 corporation’s first taxable year beginning on or after Jan-
21 uary 1, 2015.

22 **“Subchapter D—Financial Institutions**

“Sec. 1424. Real-plus-financial treatment of certain transactions involving fi-
nancial institutions.

1 **“SEC. 1424. REAL-PLUS-FINANCIAL TREATMENT OF CER-**
2 **TAIN TRANSACTIONS INVOLVING FINANCIAL**
3 **INSTITUTIONS.**

4 “(a) TAXATION OF TRANSACTIONS BETWEEN FINAN-
5 CIAL INSTITUTIONS AND BUSINESSES.—

6 “(1) GENERAL RULE.—In the case of a tax-
7 payer that is a financial institution, taxable receipts
8 shall include all amounts received in covered finan-
9 cial transactions and deductible amounts and shall
10 include all amounts paid in covered financial trans-
11 actions.

12 “(2) FINANCIAL INSTITUTIONS.—For purposes
13 of this section, ‘financial institution’ shall mean,
14 under regulations prescribed by the Secretary, any
15 business entity that is regulated by any Federal or
16 State agency as a financial institution. Such term
17 includes regulated banks, insurance companies, cred-
18 it unions, investment banks, securities brokers, and
19 mutual funds.

20 “(3) COVERED FINANCIAL TRANSACTIONS.—
21 For purposes of this section, ‘covered financial
22 transactions’ shall mean transactions between a fi-
23 nancial institution and a party that is not a business
24 entity as defined in section 1421(e)(1). Under regu-
25 lations prescribed by the Secretary, transactions that
26 do not involve any significant provision of financial

1 services (other than services for which explicit fees
2 are charged) shall be treated as not being covered fi-
3 nancial transactions.

4 “(b) TRANSITION RULE.—Under regulations pre-
5 scribed by the Secretary, a tax is imposed on any financial
6 institution equal to 25 percent of the institution’s net
7 claims against parties that are not business entities, as
8 defined in section 1421(e)(1). Such claims shall be valued
9 at the end of the financial institution’s last taxable year
10 beginning before January 1, 2015, with value measured
11 by the institution’s basis in such claims. Except as pro-
12 vided in regulations prescribed by the Secretary, the tax
13 imposed by this subsection shall be paid at the same time
14 and in the same manner as the net business income tax
15 for the financial institution’s first taxable year beginning
16 on or after January 1, 2015.

17 **“Subchapter E—Other Definitions**

“Sec. 1425. Other definitions.

18 **“SEC. 1425. OTHER DEFINITIONS.**

19 “(a) IN GENERAL.—When used in this chapter,
20 where not otherwise distinctly expressed or manifestly in-
21 compatible with the intent thereof—

22 “(1) UNITED STATES.—The term ‘United
23 States’ includes the States and the District of Co-
24 lumbia.

1 “(2) TREATMENT OF POSSESSIONS.—

2 “(A) IN GENERAL.—For purposes of this
3 chapter, the United States possessions shall not
4 be treated as part of the United States.

5 “(B) POSSESSION.—For purposes of para-
6 graph (1), ‘United States possession’ or ‘possession’
7 means a possession of the United States
8 and includes the Commonwealth of Puerto Rico,
9 the Commonwealth of the Northern Marianas
10 Islands, Guam, American Samoa, and the
11 United States Virgin Islands.

12 “(3) DEFINITIONS GENERALLY.—Any definition
13 included in this chapter shall apply for all purposes
14 of this chapter unless—

15 “(A) such definition is limited to the pur-
16 poses of a particular chapter, section, or sub-
17 section, or

18 “(B) the definition clearly would not be ap-
19 plicable in a particular context.

20 “(b) INTERPRETATIONS CONSISTENT WITH REST OF
21 INTERNAL REVENUE CODE OF 1986.—Terms not defined
22 in this chapter, but defined elsewhere in this title, shall
23 be interpreted in a manner consistent with this title, ex-
24 cept to the extent such interpretation would be incon-
25 sistent with the principles and purposes of this chapter.”.

1 (b) EXEMPT ORGANIZATIONS AND UNRELATED
2 BUSINESS INCOME.—Sections 512 and 514 are both
3 amended by striking “gross income” each place it appears
4 and inserting “net business income”.

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to taxable years beginning on or
7 after January 1, 2015, except to the extent otherwise spe-
8 cifically provided in the text of such amendments.

9 **SEC. 5. ALLOWANCE OF TRANSITION BASIS DEDUCTION.**

10 In the case of any property held by the taxpayer on
11 December 31, 2014, and used in a trade or business of
12 the taxpayer on such date, the following rules shall apply:

13 (1) BASIS.—The basis of such property shall be
14 zero.

15 (2) DEDUCTION.—

16 (A) IN GENERAL.—There shall be allowed
17 to the taxpayer a deduction with respect to such
18 property, other than land.

19 (B) AMOUNT OF DEDUCTION.—Except as
20 provided in subparagraph (D), such deduction
21 shall be determined for a taxable year by amor-
22 tizing the basis of such property on the same
23 schedule and method that applied to such prop-
24 erty before the enactment of this Act.

1 (C) DISPOSAL OF PROPERTY.—Subpara-
2 graph (A) shall apply with respect to property
3 held by the taxpayer on December 31, 2014,
4 whether or not the taxpayer disposes of such
5 property after December 31, 2014.

6 (D) INVENTORY.—In the case of inventory,
7 the deduction allowed by subparagraph (A)
8 shall be allowed in the taxable year of the tax-
9 payer which includes January 1, 2015.

10 **SEC. 6. INTEREST INCOME OF INDIVIDUALS TAXED IN**
11 **SAME MANNER AS DIVIDEND INCOME; RE-**
12 **DEDUCED BY INTEREST EXPENSE.**

13 (a) IN GENERAL.—Subparagraph (A) of section
14 1(h)(11) is amended by striking “qualified dividend in-
15 come” and inserting “the sum of qualified dividend income
16 and qualified interest income and reduced by interest ex-
17 pense”.

18 (b) QUALIFIED INTEREST INCOME.—Paragraph (11)
19 of section 1(h) is amended by adding at the end the fol-
20 lowing:

21 “(E) QUALIFIED INTEREST INCOME.—For
22 purposes of this paragraph, the term ‘qualified
23 interest income’ means—

24 “(i) interest on deposits with a bank
25 (as defined in section 581),

1 “(ii) amounts (whether or not des-
2 ignated as interest) paid, in respect of de-
3 posits, investment certificates, or
4 withdrawable or repurchasable shares,
5 by—

6 “(I) a mutual savings bank, co-
7 operative bank, domestic building and
8 loan association, industrial loan asso-
9 ciation or bank, or credit union, or

10 “(II) any other savings or thrift
11 institution which is chartered and su-
12 pervised under Federal or State law,
13 the deposits or accounts in which are
14 insured under Federal or State law or
15 which are protected and guaranteed
16 under State law,

17 “(iii) interest on—

18 “(I) evidences of indebtedness
19 (including bonds, debentures, notes,
20 and certificates) issued by a domestic
21 corporation in registered form, and

22 “(II) to the extent provided in
23 regulations prescribed by the Sec-
24 retary, other evidences of indebtedness
25 issued by a domestic corporation of a

1 type offered by corporations to the
2 public,

3 “(iv) interest on obligations of the
4 United States, a State, or a political sub-
5 division of a State (not excluded from
6 gross income of the taxpayer under any
7 other provision of law), and

8 “(v) interest attributable to participa-
9 tion shares in a trust established and
10 maintained by a corporation established
11 pursuant to Federal law.”.

12 (c) INTEREST EXPENSE.—Paragraph (11) of section
13 1(h), as amended by subsection (b), is amended by insert-
14 ing at the end the following:

15 “(F) INTEREST EXPENSE.—The term ‘in-
16 terest expense’ means interest paid by the tax-
17 payer other than qualified residence interest.”.

18 (d) CONFORMING AMENDMENT.—The heading for
19 section 1(h)(11) is amended by inserting “AND INTEREST”
20 after “DIVIDENDS”.

21 (e) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2014.

1 **SEC. 7. REPEAL OF DEPRECIATION, INTERNATIONAL, AND**
2 **OTHER TAX PROVISIONS.**

3 (a) DEPRECIATION AND COST RECOVERY PROVI-
4 SIONS.—The following sections of the Internal Revenue
5 Code of 1986 are hereby repealed:

6 (1) Section 167 (relating to depreciation).

7 (2) Section 168 (relating to accelerated cost re-
8 covery system).

9 (3) Section 169 (relating to amortization of pol-
10 lution control facilities).

11 (4) Section 175 (relating to soil and water con-
12 servation expenditures; endangered species recovery
13 expenditures).

14 (5) Section 178 (relating to amortization of cost
15 of acquiring a lease).

16 (6) Section 179 (relating to election to expense
17 certain depreciable business assets).

18 (7) Section 179A (relating to deduction for
19 clean-fuel vehicles and certain refueling property).

20 (8) Section 179B (relating to deduction for cap-
21 ital costs incurred in complying with Environmental
22 Protection Agency sulfur regulations).

23 (9) Section 179C (relating to election to ex-
24 pense certain refineries).

25 (10) Section 179D (relating to energy efficient
26 commercial buildings deduction).

1 (11) Section 179E (relating to election to ex-
2 pense advanced mine safety equipment).

3 (12) Section 190 (relating to expenditures to
4 remove architectural and transportation barriers to
5 the handicapped and elderly).

6 (13) Section 194 (relating to treatment of re-
7 forestation expenditures).

8 (14) Section 197 (relating to amortization of
9 goodwill and certain other intangibles).

10 (15) Section 198 (relating to expensing of envi-
11 ronmental remediation costs).

12 (16) Section 198A (relating to expensing of
13 qualified disaster expenses).

14 (17) Section 199 (relating to income attrib-
15 utable to domestic production activities).

16 (18) Section 263 (relating to capital expendi-
17 tures).

18 (19) Section 263A (relating to capitalization
19 and inclusion in inventory costs of certain expenses).

20 (20) Section 471 (relating to general rule for
21 inventories).

22 (21) Section 472 (relating to last-in, first-out
23 inventories).

24 (22) Section 473 (relating to qualified liquida-
25 tions of LIFO inventories).

1 (23) Section 474 (relating to simplified dollar-
2 value LIFO method for certain small businesses).

3 (24) Section 611 (relating to allowance of de-
4 duction for depletion).

5 (25) Section 612 (relating to basis for cost de-
6 pletion).

7 (26) Section 613 (relating to percentage deple-
8 tion).

9 (27) Section 613A (relating to limitations on
10 percentage depletion in case of oil and gas wells).

11 (28) Section 614 (relating to definition of prop-
12 erty).

13 (29) Section 616 (relating to development ex-
14 penditures).

15 (30) Section 617 (relating to deduction and re-
16 capture of certain mining exploration expenditures).

17 (b) RECOGNITION OF REVENUE AND TIMING OF DE-
18 DUCTION PROVISIONS.—The following provisions of the
19 Internal Revenue Code of 1986 are hereby repealed:

20 (1) Section 456 (relating to prepaid dues in-
21 come of certain membership organizations).

22 (2) Section 458 (relating to magazines, paper-
23 backs, and records returned after the close of the
24 taxable year).

1 (3) Section 460 (relating to special rules for
2 long-term contracts).

3 (4) Section 467 (relating to certain payments
4 for the use of property or services).

5 (5) Section 468 (relating to special rules for
6 mining and solid waste reclamation and closing
7 costs).

8 (c) INTERNATIONAL PROVISIONS.—The following
9 provisions of the Internal Revenue Code of 1986 are here-
10 by repealed:

11 (1) Section 902 (relating to deemed paid credit
12 where domestic corporation owns 10 percent or more
13 of voting stock of foreign corporation).

14 (2) Section 907 (relating to special rules in case
15 of foreign oil and gas income).

16 (3) Subpart F of part III of subchapter N of
17 chapter 1 (relating to controlled foreign corpora-
18 tions) other than section 965.

19 (4) Subpart G of part III of subchapter N of
20 chapter 1 (relating to export trade corporations).

21 (5) Part IV of part III of subchapter N of
22 chapter 1 (relating to domestic international sales
23 corporations).

24 (d) EFFECTIVE DATE.—

1 (1) SUBSECTION (a).—The amendments made
2 by subsection (a) shall apply to property placed in
3 service after December 31, 2014, in taxable years
4 ending after that date.

5 (2) SUBSECTION (b).—The amendments made
6 by subsection (b) of this section shall apply to tax-
7 able years beginning on or after January 1, 2015.

8 **SEC. 8. EXPANDED RELIEF FOR NET OPERATING LOSSES.**

9 (a) EXTENDED CARRYBACK; UNLIMITED
10 CARRYFORWARD WITH INTEREST.—Paragraph (1) of sec-
11 tion 172(b) is amended to read as follows:

12 “(1) YEARS TO WHICH LOSS MAY BE CAR-
13 RIED.—

14 “(A) IN GENERAL.—A net operating loss
15 for any taxable year—

16 “(i) shall be a net operating loss
17 carryback to each of the 5 taxable years
18 preceding the taxable year of such loss,
19 and

20 “(ii) shall be a net operating loss car-
21 ryover to the succeeding taxable year and
22 added to the deduction allowable under
23 subsection (a) for such taxable year.

24 “(B) LIMITATION.—A net operating loss
25 may not be carried back to any taxable year

1 ending before January 1, 2015, except that a
2 loss arising in a taxable year beginning in cal-
3 endar year 2015 or calendar year 2016 may be
4 carried back to the two preceding taxable
5 years.”.

6 (b) INTEREST ON CARRYFORWARD.—Section 172(b)
7 is amended by adding at the end the following new para-
8 graph:

9 “(4) INTEREST ON CARRYFORWARD.—The
10 amount of any net operating loss carryover shall,
11 prior to being carried to a succeeding taxable year,
12 be increased by an amount equal to such carryover
13 multiplied by the Federal short-term rate (as defined
14 in section 1274(d)) for the month in which or with
15 which the taxable year ends.”.

16 (c) CONFORMING AMENDMENTS.—

17 (1) Section 172(d)(1) is amended by inserting
18 “(other than by reason of subsection (b)(1)(B))”
19 after “deduction”.

20 (2) Section 172 is amended by striking sub-
21 sections (f), (i), and (j) and redesignating sub-
22 sections (g), (h), and (k) as subsections (f), (g), and
23 (h), respectively.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to net operating losses arising in
3 taxable years beginning after December 31, 2014.

4 **SEC. 9. REPEAL OF CORPORATE AMT AND INDIVIDUAL AMT**
5 **PREFERENCES AND ADJUSTMENTS THAT**
6 **PERTAIN TO CAPITAL COST RECOVERY.**

7 (a) CORPORATE AMT.—Section 55(a)(1)(B) is
8 amended by adding at the end the following flush sen-
9 tence:

10 “For purposes of this title, the tentative min-
11 imum tax of any corporation for any taxable
12 year ending after December 31, 2014, shall be
13 zero.”.

14 (b) INDIVIDUAL AMT.—

15 (1) Section 56 is amended—

16 (A) by striking paragraphs (1), (2), (3),
17 (5), and (6) of subsection (a); and

18 (B) by striking subsection (b)(2).

19 (2) Section 57 is amended—

20 (A) by striking paragraphs (1), (2), (6),
21 and (7) of subsection (a); and

22 (B) by striking subsection (b).

23 (c) EFFECTIVE DATE.—

1 (1) CORPORATE AMT.—The amendments made
2 by subsection (a) shall apply to taxable years ending
3 after December 31, 2014.

4 (2) INDIVIDUAL AMT.—The amendments made
5 by subsection (b) shall apply to amounts paid or in-
6 curred after December 31, 2014.

7 **SEC. 10. REPEAL OF BUSINESS TAX CREDITS.**

8 (a) IN GENERAL.—Subparts D and E (other than
9 sections 49 and 50) of part IV of subchapter A of chapter
10 1 are hereby repealed.

11 (b) SPECIAL RULE FOR CARRYBACK AND
12 CARRYFORWARD OF UNUSED CREDITS.—Any carryback
13 or carryforward that arose under section 39 of the Inter-
14 nal Revenue Code of 1986 (as in effect before the repeal
15 of such section by subsection (a)) shall be allowed under
16 section 38 of such Code (as in effect before the repeal of
17 such section by subsection (a)), in accordance with the
18 terms of such sections (as so in effect).

19 (c) EFFECTIVE DATE.—The repeals made by this
20 section shall apply to amounts paid or incurred on or after
21 January 1, 2015.

1 **SEC. 11. DISALLOWANCE OF INTEREST EXPENSE DEDUC-**
2 **TION, EXCEPT QUALIFIED RESIDENCE INTER-**
3 **EST.**

4 (a) IN GENERAL.—Section 163 is amended by adding
5 at the end the following:

6 (1) in subsection (a) by striking “There” and
7 inserting “Except as provided by subsection (n),
8 there”,

9 (2) by redesignating subsection (n) as sub-
10 section (o), and

11 (3) by inserting after subsection (m) the fol-
12 lowing new subsection:

13 “(n) TERMINATION.—

14 “(1) IN GENERAL.—Except as provided by sub-
15 section (h)(2)(D) and paragraph (2), this section
16 shall not apply to interest paid or accrued after De-
17 cember 31, 2014.

18 “(2) TRANSITION INTEREST DEDUCTION.—

19 “(A) IN GENERAL.—In the case of a tax-
20 payer who is a corporation, there shall be al-
21 lowed as a deduction for a taxable year the sum
22 of the monthly transition interest deductions for
23 the taxable year.

24 “(B) MONTHLY TRANSITION INTEREST DE-
25 Duction.—For purposes of subparagraph
26 (A)—

1 “(i) IN GENERAL.—The monthly tran-
2 sition interest deduction for any month is
3 the transition interest amount multiplied
4 by the applicable percentage for such
5 month.

6 “(ii) APPLICABLE PERCENTAGE DE-
7 FINED.—The term ‘applicable percentage’
8 means, with respect to a month, 100 per-
9 cent reduced (but not below zero) by .833
10 for each month of the transition period oc-
11 curring before the month for which such
12 percentage is determined.

13 “(iii) TRANSITION INTEREST
14 AMOUNT.—The transition interest amount
15 is the deduction allowed to the taxpayer
16 under this section for the last full taxable
17 year ending before January 1, 2015.

18 “(iv) TRANSITION PERIOD.—The term
19 ‘transition period’ means the 120-month
20 period beginning with January 2015.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 subsection (a) shall apply to interest paid or accrued on
23 or after January 1, 2015.

1 **SEC. 12. CASH METHOD OF ACCOUNTING.**

2 (a) IN GENERAL.—Subsection (a) of section 446 is
3 amended to read as follows:

4 “(a) GENERAL RULE.—Taxable income shall be com-
5 puted under the cash receipts and disbursements method
6 of accounting.”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 446 is amended by striking sub-
9 sections (b), (c), and (e).

10 (2) The following sections of the Internal Rev-
11 enue Code of 1986 are repealed:

12 (A) Section 447 (relating to method of ac-
13 counting for corporations engaged in farming).

14 (B) Section 448 (relating to limitation on
15 use of cash method of accounting).

16 (c) EFFECTIVE DATE.—

17 (1) IN GENERAL.—The amendments made by
18 this section shall apply to taxable years beginning
19 after December 31, 2014.

20 (2) CHANGE IN METHOD OF ACCOUNTING.—In
21 the case of any taxpayer required by an amendment
22 made by this section to change its method of ac-
23 counting for its first taxable year beginning after the
24 date of the enactment of this Act—

25 (A) such change shall be treated as initi-
26 ated by the taxpayer;

1 (B) such change shall be treated as made
2 with the consent of the Secretary of the Treas-
3 ury; and

4 (C) the net amount of the adjustments re-
5 quired to be taken into account by the taxpayer
6 under section 481 of the Internal Revenue Code
7 of 1986 shall be taken into account ratably over
8 a period (not greater than 8 taxable years) be-
9 ginning with such first taxable year.



The American Business Competitiveness Act (ABC Act)

BUSINESS TAX RATES

	<u>Current Maximum Rate</u>	<u>Maximum Rate under ABC</u>
C-Corporation	35%	25%
S-Corporation	39.6%	25%
LLC	39.6%	25%
Sole Proprietorship	39.6%	25%
Independent Contractor	39.6%	25%
Partnerships	39.6%	25%
Interest Income	39.6%	20%*

*same as max dividend/capital gains rate

- Repeals AMT —
- Eliminates special loopholes —
- Simplifies the tax code for businesses —
- Moves to territorial system —





Taxation of Business Income **(other than Corporations)**

<u>Tax Bracket</u>	<u>Current Maximum Rate</u>	<u>Maximum Rate under ABC</u>
\$0-\$9,075	10%	10%
\$9,076-\$36,900	15%	15%
\$36,901-\$89,350	25%	25%
\$89,351-\$186,350	28%	25%
\$186,351-\$405,100	33%	25%
\$405,101-\$406,750	35%	25%
\$406,751+	39.6%	25%





The American Business Competitiveness Act (ABC Act)

SECTION-BY-SECTION SUMMARY

Section 1:

- Short Title – American Business Competitiveness Act of 2015

Section 2:

- Congressional Findings

Section 3:

- The bill would impose a maximum 25% tax rate on the net business income of individuals and corporations. The business tax rate would be phased-in over a ten-year period.

Section 4:

- Moves to cash-flow accounting and full-expensing of business costs. Net business income would be considered taxable receipts minus deductible amounts. Compensation expenses, along with the acquisition of property and use of services for business activity, would be considered deductible amounts. Compensation deductions would be phased-in at 80%, increasing 2% each year, until it reaches 100% in ten years. Mergers, acquisitions, and distributions would not incur any tax penalties. Changes the international tax system to a territorial system. Simplifies the treatment of financial institutions under the code.

Section 5:

- Businesses would be able to preserve depreciation deductions for property. Depreciation deductions for property would continue under current schedules.

Section 6:

- Interest income would be taxed at the same rate as dividends and capital gains.

Section 7:

- Eliminates business depreciation and deductions, with the exception of property as indicated in Section 5.

Section 8:

- Allows businesses to carryback net-operating losses 5 years and carry them forward indefinitely.





Section 9:

- Repeals the Alternative Minimum Tax (AMT) for corporations and individuals in regards to their business income.

Section 10:

- Repeals all business tax credits.

Section 11:

- Eliminates interest expense deduction, with the exception of the home mortgage interest deduction, in regards to business activity. Provides a 10-year phase out for the interest deduction.

Section 12:

- Requires all taxpayers, and businesses, to use the cash method of accounting for tax purposes. Income would be reported in the year received, and expenses would be deducted in the year they are paid.



113TH CONGRESS
1ST SESSION

S. 1181

To amend the Internal Revenue Code of 1986 to exempt certain stock of real estate investment trusts from the tax on foreign investments in United States real property interests, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 18, 2013

Mr. MENENDEZ (for himself, Mr. ENZI, Mr. SCHUMER, Mr. BARRASSO, Mr. BEGICH, Mr. BOOZMAN, Mr. BENNET, Mr. CORNYN, Mrs. BOXER, Mr. CRAPO, Ms. CANTWELL, Mr. ISAKSON, Mr. CARDIN, Mr. ROBERTS, Mr. CARPER, Mr. THUNE, Mr. COONS, Mrs. GILLIBRAND, Mrs. HAGAN, Mr. NELSON, Mrs. SHAAHEEN, Ms. STABENOW, Mr. TESTER, and Mr. WYDEN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to exempt certain stock of real estate investment trusts from the tax on foreign investments in United States real property interests, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Real Estate Invest-
5 ment and Jobs Act of 2013”.

1 **SEC. 2. EXCEPTION FROM FIRPTA FOR CERTAIN STOCK OF**
 2 **REAL ESTATE INVESTMENT TRUSTS.**

3 (a) IN GENERAL.—Paragraph (3) of section 897(c)
 4 of the Internal Revenue Code of 1986 is amended—

5 (1) by striking all that precedes “If any class”
 6 and inserting the following:

7 “(3) EXCEPTIONS FOR CERTAIN STOCK.—

8 “(A) EXCEPTION FOR STOCK REGULARLY
 9 TRADED ON ESTABLISHED SECURITIES MAR-
 10 KETS.—”,

11 (2) by inserting before the period the following:
 12 “. In the case of any class of stock of a real estate
 13 investment trust, the preceding sentence shall be ap-
 14 plied by substituting ‘10 percent’ for ‘5 percent’”,
 15 and

16 (3) by adding at the end the following new sub-
 17 paragraph:

18 “(B) EXCEPTION FOR CERTAIN STOCK IN
 19 REAL ESTATE INVESTMENT TRUSTS.—

20 “(i) IN GENERAL.—Stock of a real es-
 21 tate investment trust held by a qualified
 22 shareholder shall not be treated as a
 23 United States real property interest except
 24 to the extent that an investor in the quali-
 25 fied shareholder (other than an investor
 26 that is a qualified shareholder) holds (di-

rectly or indirectly through the qualified shareholder) more than 10 percent of the stock of such real estate investment trust.

“(ii) QUALIFIED SHAREHOLDER.— For purposes of this subparagraph, the term ‘qualified shareholder’ means an entity—

“(I) that is eligible for benefits of a comprehensive income tax treaty with the United States which includes an exchange of information program,

“(II) that is a qualified collective investment vehicle,

“(III) whose principal class of interests is listed and regularly traded on one or more recognized stock exchanges (as defined in such comprehensive income tax treaty), and

“(IV) that maintains records on the identity of each person who, at any time during the qualified shareholder’s taxable year, is the direct owner of more than 10 percent of the class of interest described in clause (III).

1 “(iii) QUALIFIED COLLECTIVE IN-
2 VESTMENT VEHICLE.—For purposes of
3 this subparagraph, the term ‘qualified col-
4 lective investment vehicle’ means an entity
5 that—

6 “(I) would be eligible for a re-
7 duced rate of withholding under such
8 comprehensive income tax treaty with
9 respect to ordinary dividends paid by
10 a real estate investment trust, even if
11 such entity holds more than 10 per-
12 cent of the stock of such real estate
13 investment trust,

14 “(II) would be classified as a
15 United States real property holding
16 corporation (determined without re-
17 gard to this paragraph) at any time
18 during the 5-year period ending on
19 the date of disposition of or distribu-
20 tion with respect to the entity’s inter-
21 ests in a real estate investment trust,
22 or

23 “(III) is designated as such by
24 the Secretary and is either—

1 “(aa) fiscally transparent
2 within the meaning of section
3 894, or

4 “(bb) required to include
5 dividends in its gross income, but
6 is entitled to a deduction for dis-
7 tributions to its investors.”.

8 (b) DISTRIBUTIONS BY REAL ESTATE INVESTMENT
9 TRUSTS.—Paragraph (1) of section 897(h) of the Internal
10 Revenue Code of 1986 is amended—

11 (1) by striking “Any distribution” and inserting
12 the following:

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), any distribution”,

15 (2) by inserting “(10 percent in the case of
16 stock of a real estate investment trust)” after “5
17 percent of such class of stock”,

18 (3) by inserting “, and any distribution to a
19 qualified shareholder (as defined in subsection
20 (c)(3)(B)(ii)) shall not be treated as gain recognized
21 from the sale or exchange of a United States real
22 property interest to the extent that the stock of the
23 real estate investment trust held by such qualified
24 shareholder is not treated as a United States real

1 property interest under subsection (c)(3)(B)” before
 2 the period at the end of the second sentence, and
 3 (4) by adding at the end the following new sub-
 4 paragraph:

5 “(B) SPECIAL RULE.—Subparagraph (A)
 6 shall not apply to distributions which are treat-
 7 ed as a sale or exchange of stock or property
 8 pursuant to section 301(c)(3), 302, or 331.”.

9 (c) DEFINITION.—Paragraph (4) of section 897(h) of
 10 the Internal Revenue Code of 1986 is amended by adding
 11 at the end of subparagraph (B) the following: “In deter-
 12 mining whether a qualified investment entity is domesti-
 13 cally controlled, any stock in the qualified investment enti-
 14 ty held by another qualified investment entity shall be
 15 treated as held by a foreign person unless such other
 16 qualified investment entity is domestically controlled. In
 17 making such a determination, a qualified investment enti-
 18 ty shall be permitted to presume that stock held by a hold-
 19 er of less than 5 percent of a class of stock regularly trad-
 20 ed on an established securities market in the United
 21 States is held by United States persons throughout the
 22 testing period except to the extent that the qualified in-
 23 vestment entity has actual knowledge regarding stock
 24 ownership.”.

1 (d) CONFORMING AMENDMENT.—Subparagraph (C)
2 of section 897(c)(6) of the Internal Revenue Code of 1986
3 is amended—

4 (1) by striking “more than 5 percent” and in-
5 serting “more than 5 or 10 percent, whichever is ap-
6 plicable,” and

7 (2) by striking “substituting ‘5 percent’ for ‘50
8 percent’)” and inserting “substituting ‘5 percent or
9 10 percent, whichever is applicable’ for ‘50 per-
10 cent’”).

11 (e) EFFECTIVE DATES.—

12 (1) IN GENERAL.—The amendments made by
13 subsection (a) shall apply to dispositions on and
14 after the date of the enactment of this Act.

15 (2) DISTRIBUTIONS.—The amendments made
16 by subsection (b) shall apply to any distribution by
17 a real estate investment trust on or after the date
18 of the enactment of this Act which is treated as a
19 deduction for a taxable year of such trust ending
20 after such date.

21 (3) DEFINITIONS.—The amendments made by
22 subsections (c) and (d) shall take effect on the date
23 of the enactment of this Act.

1 **SEC. 3. UNITED STATES REAL PROPERTY INTEREST.**

2 (a) UNITED STATES REAL PROPERTY INTEREST.—
3 Subparagraph (B) of section 897(c)(1) of the Internal
4 Revenue Code of 1986 is amended by striking all that pre-
5 cedes “(i) as of the date of the disposition” and inserting
6 the following:

7 “(B) EXCLUSION FOR INTEREST IN CER-
8 TAIN CORPORATIONS.—The term ‘United States
9 real property interest’ does not include any in-
10 terest in a corporation (other than a qualified
11 investment entity (as defined in subsection
12 (h)(4)(A)(i))) if—”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall take effect on the date of the enactment
15 of this Act.

○

HOW TO MAKE AMERICA A GLOBAL TAX HAVEN

An expert from Ramesh Ponnuru's Bloomberg column dated March 25, 2013.

...[Nunes] suggests a new approach: a "business consumption tax" that treats all businesses the same, whatever their organizational form. Instead of taxing their income, it taxes their cashflow -- income minus expenses, except for interest payments. That way, businesses would no longer write off their investments according to a complicated depreciation schedule. Investments would be tax-free.

Both U.S. and foreign companies would have more reason to invest here, Nunes says. "This would make the U.S. the largest tax haven in human history."

I've run across two objections to Nunes's idea. The first is that it is simply too ambitious to be politically viable: If Congress is having trouble reforming the corporate tax, goes the argument, it won't be able to digest an entirely new approach to taxing business income. What this objection ignores is that the moderately ambitious proposals all face obstacles that are probably insuperable -- obstacles this proposal avoids.

The second objection is that Nunes's proposal would cost the federal government a lot of revenue. A Joint Committee on Taxation estimate of the proposal's budget impact would make it possible to evaluate this claim, but it sounds plausible. If it turns out to be expensive, though, the concept can still work: The tax rate would just have to be higher than the 25 percent that Nunes has tentatively put forward.

Even if the rate were left at the 35 percent that currently applies to corporations, the shift to the new tax would still be a boon for the economy. The statutory rate would be higher than that of other countries, but the number that matters -- the effective tax rate on investments -- would be a very competitive zero, thanks to companies' ability to write off their costs immediately. Eliminating the deduction for interest, meanwhile, would end a destabilizing distortion in the economy: the federal tax code's preference for corporate financing via debt rather than equity. That preference also gives an advantage to established firms that have greater borrowing capacity than startups.

If Congress still finds the Nunes proposal too ambitious to contemplate, it could undertake reform on a much smaller scale. Leave tax rates alone, keep the separate schedules for different types of companies, and just make a trade: Companies would get immediate write-offs on investments and in return lose the interest deduction. That trade would probably leave the government's revenue at roughly the same level. It would certainly be simpler than most other proposals to reform business taxation. And it would encourage more investment and less debt.

U.S. REP. DEVIN NUNES

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AMERICAN BUSINESS COMPETITIVENESS ACT



Congressman
Devin Nunes

The ABC Act

* SIMPLE * FAIR * FLAT *

The **American Business Competitiveness Act (ABC Act)** would establish the most aggressive pro-growth business tax policy in the developed world. If implemented, it would result in massive investments and job creation throughout the United States.

Lower Business Income Tax

All businesses, no matter how they are organized, will be taxed at the same low rate; **25 percent**.

The taxation of non-business income remains unchanged, except that interest income is taxed at the same rate as dividends and capital gains.

Tax Foundation Analysis

Individual And Business Changes Modeled:
Cut Corporate Rate to 25%
Assorted changes in Corporate Tax Base
Revenue Effect due to reduced Profit Shifting
Full Expensing*
Cap Tax Rate on Noncorp Business Income at 25%
Tax Individual Interest Income at Capital Gains Rate**

ECONOMIC AND BUDGET CHANGES VERSUS 2013 LAW

(billions of 2013 dollars except as noted)

GDP	6.80%
GDP (\$ billions)	\$1,107.8
Private business GDP	7.07%
Private business stocks	20.63%
Wage rate	5.72%
Private business hours of work	1.28%
Full-time equivalent jobs (in thousands)	1,228.4

Static federal revenue estimate, GDP assumed constant (\$ billions)	-\$129.0
Dynamic federal revenue estimate after GDP gain or loss (\$ billions)	\$96.2

Weighted Average service price	% Change
Corporate	-11.40%
Noncorporate	-10.87%
All business	-11.24%

Less Complex & Fewer Distortions

The elimination of deductions and credits simplifies the tax code and reduces compliance costs.

- Complex property and inventory rules such as depreciations, amortization and depletion are replaced by full expensing.
- The tax code's pressure on firms to carry debt is removed by eliminating the business interest deduction while lowering the individual income tax on interest income.

International Tax Reform

Territorial tax rules will make U.S. businesses more globally competitive.

Pro-Growth

The ABC Act will allow **100 percent expensing**, meaning firms will deduct their full investment costs from their current year tax liabilities.

- This includes land, buildings and inventory, as well as other tangible or intangible property.
- Expensing that exceeds taxable income can be carried to future tax years with interest or backwards to reduce taxes from prior years.

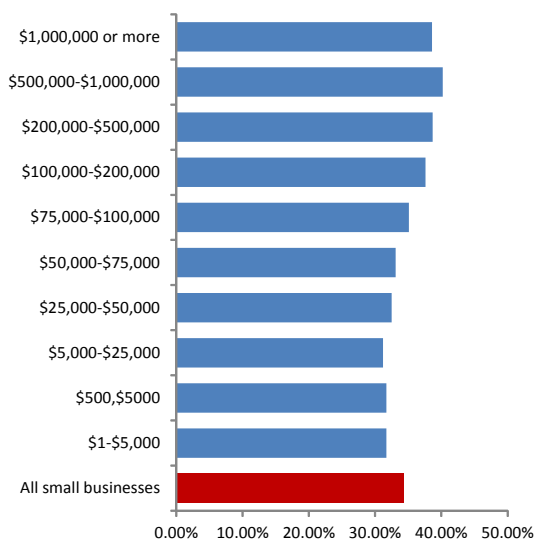
This will create a powerful incentive for businesses of all sizes to invest and grow, generating new jobs across America.

No Loopholes

The ABC Act eliminates all special loopholes. The complex tax code, with its high compliance costs and distorting impact on the economy, is wiped away and replaced with a **simple, fair and flat tax**.

High Rates Are A Large Burden For Small Business

Regardless of income, small businesses face a rate of 30% or higher.



Simple, Fair, Flat & Fiscally Responsible

- The Tax Foundation has analyzed the ABC Act and concluded that it would increase baseline GDP growth by 6.8%.
- Based on analysis by the Joint Committee on Taxation, the ABC Act has been crafted in a way that is both budget neutral and economically transformative.
- Under the ABC Act, businesses can plan for the future based on easy to understand rules that are not subject to constant expiration.

Congressman Nunes is seeking comments on the ABC Act. Contact us at:
ABCtaxplan@mail.house.gov

113TH CONGRESS
2D SESSION

H. R. 1

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 10, 2014

Mr. CAMP introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Tax Reform Act of 2014”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 the item relating to such section in the table of sections
2 for such part).

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to productions commencing after
5 December 31, 2013.

6 **SEC. 3117. REPEAL OF SPECIAL RULES FOR RECOVERIES**
7 **OF DAMAGES OF ANTITRUST VIOLATIONS,**
8 **ETC.**

9 (a) IN GENERAL.—Part VI of subchapter B of chap-
10 ter 1 is amended by striking section 186 (and by striking
11 the item relating to such section in the table of sections
12 for such part).

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2014.

16 **SEC. 3118. TREATMENT OF REFORESTATION EXPENDI-**
17 **TURES.**

18 (a) ELIMINATION OF EXPENSING ELECTION.—Sec-
19 tion 194 is amended by striking subsections (a) and (b),
20 by redesignating subsection (c) and (d) as subsections (b)
21 and (c), respectively, and by inserting before subsection
22 (b) (as so redesignated) the following new subsection:

23 “(a) IN GENERAL.—In the case of a taxpayer’s quali-
24 fied reforestation expenditures for any taxable year—

1 “(1) except as provided in paragraph (2), no
2 deduction shall be allowed for such expenditures,
3 and

4 “(2) the taxpayer shall—

5 “(A) charge such expenditures to capital
6 account, and

7 “(B) be allowed an amortization deduction
8 of such expenditures ratably over the 7-year pe-
9 riod beginning with the midpoint of the taxable
10 year in which such expenditures are paid or in-
11 curred.”.

12 (b) QUALIFIED REFORESTATION EXPENDITURES.—
13 Section 194(b), as redesignated by subsection (a), is
14 amended by striking paragraph (2), by redesignating
15 paragraph (1) as paragraph (2), and by inserting before
16 paragraph (2) (as so redesignated the following new para-
17 graph:

18 “(1) QUALIFIED REFORESTATION EXPENDI-
19 TURES.—The term ‘qualified reforestation expendi-
20 tures’ means, with respect to any taxable year, the
21 reforestation expenditures paid or incurred by the
22 taxpayer during such taxable year with respect to
23 qualified timber property.”.

1 (c) QUALIFIED TIMBER PROPERTY LIMITED TO OR-
 2 NAMENTAL TREES.—Section 194(b)(2), as redesignated
 3 by subsections (a) and (b), is amended to read as follows:

4 “(2) QUALIFIED TIMBER PROPERTY.—The term
 5 ‘qualified timber property’ means a woodlot or other
 6 site located in the United States which—

7 “(A) will contain evergreen trees in signifi-
 8 cant commercial quantities which are reason-
 9 ably expected to be more than 6 years old at
 10 the time severed from the roots, and

11 “(B) is held by the taxpayer for the plant-
 12 ing, cultivating, caring for, and cutting of such
 13 trees for sale for ornamental purposes.”.

14 (d) DETERMINATION OF RECOMPUTED BASIS.—Sec-
 15 tion 1245(b) is amended by striking paragraph (7).

16 (e) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to expenditures paid or incurred
 18 in taxable years beginning after December 31, 2014.

19 **SEC. 3119. 20-YEAR AMORTIZATION OF GOODWILL AND CER-**
 20 **TAIN OTHER INTANGIBLES.**

21 (a) IN GENERAL.—Subsection (a) of section 197 is
 22 amended by striking “15-year period” and inserting “20-
 23 year period”.

1 **SEC. 3132. REPEAL OF SPECIAL RULES FOR GAIN OR LOSS**
2 **ON TIMBER, COAL, OR DOMESTIC IRON ORE.**

3 (a) IN GENERAL.—Subchapter I of chapter 1 is
4 amended by striking part III (and by striking the item
5 relating to such part in the table of parts for such sub-
6 chapter).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 512(b)(5) is amended by striking
9 the last sentence.

10 (2) Section 871(a)(1)(B) is amended by strik-
11 ing “gains described in section 631(b) or (c), and”.

12 (3) Section 871(d)(1)(A) is amended—

13 (A) by striking “, (ii) rents” and inserting
14 “and (ii) rents”, and

15 (B) by striking “, and (iii) gains described
16 in section 631(b) or (c)”.

17 (4)(A) Section 881(a) is amended by striking
18 paragraph (2) and by redesignating paragraphs (3)
19 and (4) as paragraphs (2) and (3), respectively.

20 (B) Section 1442(a) is amended—

21 (i) by striking “881(a)(3) and (4)” and in-
22 serting “881(a)(2) and (3)”,

23 (ii) by striking “881(a)(3),” and inserting
24 “881(a)(2),”, and

25 (iii) by striking “881(a)(4)” and inserting
26 “881(a)(3)”.

1 (5) Section 882(d)(1)(A) is amended—

2 (A) by striking “, (ii) rents” and inserting
3 “and (ii) rents”, and

4 (B) by striking “, and (iii) gains described
5 in section 631(b) or (c)”.

6 (6) Section 1231(b) is amended by striking
7 paragraph (2).

8 (7) Section 1402(a)(3) is amended by inserting
9 “or” at the end of subparagraph (A) and by striking
10 subparagraph (B) and redesignating subparagraph
11 (C) as subparagraph (B).

12 (8) Section 1441 is amended—

13 (A) in subsection (b), by striking “, gains
14 described in section 631(b) or (c)”, and

15 (B) in subsection (c)(5), by striking “gains
16 described in section 631(b) or (c), gains subject
17 to tax under section 871(a)(1)(D),” and insert-
18 ing “gains subject to tax under section
19 871(a)(1)(D)”.

20 (9)(A) Part IX of subchapter B of chapter 1 is
21 amended by striking section 272 (and by striking
22 the item relating to such section in the table of sec-
23 tions for such subpart).

24 (B) Section 1016(a) is amended by striking
25 paragraph (15).

1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as otherwise pro-
3 vided in this subsection, the amendments made by
4 this section shall apply to taxable years beginning
5 after December 31, 2014.

6 (2) BASIS ADJUSTMENTS.—The amendment
7 made by subsection (b)(9)(B) shall apply to deduc-
8 tions determined for taxable years beginning after
9 December 31, 2014.

10 **SEC. 3133. REPEAL OF LIKE-KIND EXCHANGES.**

11 (a) IN GENERAL.—Part III of subchapter O of chap-
12 ter 1 is amended by striking section 1031 (and by striking
13 the item relating to such section in the table of sections
14 for such part).

15 (b) CONFORMING AMENDMENTS.—

16 (1) Section 121(d)(10) is amended by inserting
17 “(as in effect before its repeal by the Tax Reform
18 Act of 2014)” after “section 1031”.

19 (2) Section 197(f)(2)(B)(i) is amended by in-
20 serting “(as in effect before its repeal by the Tax
21 Reform Act of 2014)” after “1031”.

22 (3) Section 453(f) is amended by striking para-
23 graph (6).

24 (4) Section 470(e)(4) is amended—

1 (A) by striking “Sections 1031(a) and” in
2 subparagraph (A) and inserting “Section”,

3 (i) by striking “1031 or” in subparagraph
4 (B), and

5 (ii) by striking “SECTIONS 1031 AND” in
6 the heading thereof and inserting “SECTION”.

7 (5)(A) Section 501(c)(12)(C)(v) is amended by
8 striking “asset exchange or conversion transaction”
9 and inserting “specified involuntary conversion”.

10 (B) Section 501(c)(12)(G) is amended—

11 (i) by striking “asset exchange or conver-
12 sion transaction” and inserting “specified invol-
13 untary conversion”,

14 (ii) by striking “voluntary exchange or”,
15 and

16 (iii) by striking “1031 or”.

17 (6)(A) Section 704(c) is amended by striking
18 paragraph (2) and by redesignating paragraph (3)
19 as paragraph (2).

20 (B) Section 704(c)(2), as so redesignated, is
21 amended by striking “or (2)”.

22 (7) Section 857(e)(2) is amended by striking
23 subparagraph (B) and by redesignating subpara-
24 graphs (C) and (D) as subparagraphs (B) and (C),
25 respectively.

1 (8)(A) Section 1035 is amended by striking
2 subsection (d) and inserting the following new sub-
3 sections:

4 “(d) GAIN FROM EXCHANGES NOT SOLELY IN
5 KIND.—If an exchange would be within the provisions of
6 subsection (a), of section 1036(a), or of section 1037(a),
7 if it were not for the fact that the property received in
8 exchange consists not only of property permitted by such
9 provisions to be received without the recognition of gain,
10 but also of other property or money, then the gain, if any,
11 to the recipient shall be recognized, but in an amount not
12 in excess of the sum of such money and the fair market
13 value of such other property.

14 “(e) LOSS FROM EXCHANGES NOT SOLELY IN
15 KIND.—If an exchange would be within the provisions of
16 subsection (a), of section 1036(a), or of section 1037(a),
17 if it were not for the fact that the property received in
18 exchange consists not only of property permitted by such
19 provisions to be received without the recognition of gain
20 or loss, but also of other property or money, then no loss
21 from the exchange shall be recognized.

22 “(f) BASIS.—If property was acquired on an ex-
23 change described in this section, section 1036(a), or sec-
24 tion 1037(a), then the basis shall be the same as that of
25 the property exchanged, decreased in the amount of any

1 money received by the taxpayer and increased in the
2 amount of gain or decreased in the amount of loss to the
3 taxpayer that was recognized on such exchange. If the
4 property so acquired consisted in part of the type of prop-
5 erty permitted by this section, section 1036(a), or section
6 1037(a), to be received without the recognition of gain or
7 loss, and in part of other property, the basis provided in
8 this subsection shall be allocated between the properties
9 (other than money) received, and for the purpose of the
10 allocation there shall be assigned to such other property
11 an amount equivalent to its fair market value at the date
12 of the exchange. For purposes of this section and section
13 1036(a), where as part of the consideration to the tax-
14 payer another party to the exchange assumed (as deter-
15 mined under section 357(d)) a liability of the taxpayer,
16 such assumption shall be considered as money received by
17 the taxpayer on the exchange.”.

18 (B) Section 1036(c) is amended—

19 (i) in paragraph (1), by striking “sub-
20 sections (b) and (c) of section 1031” and in-
21 serting “subsections (d) and (e) of section
22 1035”, and

23 (ii) in paragraph (2), by striking “sub-
24 section (d) of section 1031” and inserting “sub-
25 section (f) of section 1035”.

1 (C) Section 1037(c) is amended—

2 (i) in paragraph (1), by striking “sub-
3 sections (b) and (c) of section 1031” and in-
4 serting “subsections (d) and (e) of section
5 1035”, and

6 (ii) in paragraph (2), by striking “sub-
7 section (d) of section 1031” and inserting “sub-
8 section (f) of section 1035”.

9 (D) Section 83(g) is amended by striking “sec-
10 tion 1031” and inserting “section 1035”.

11 (E) Section 424(b) is amended by striking “sec-
12 tion 1031” and inserting “section 1035”.

13 (F) Section 424(c)(1)(B) is amended by strik-
14 ing “section 1031” and inserting “section 1035”.

15 (9) Section 1060(c) is amended by striking the
16 second sentence thereof.

17 (10) Section 1245(b)(4) is amended—

18 (A) by striking “LIKE KIND EXCHANGES;
19 INVOLUNTARY” and inserting “INVOLUNTARY”,
20 and

21 (B) by striking “1031 or”.

22 (11) Section 1250(d)(4) is amended—

23 (A) by striking “LIKE KIND EXCHANGES;
24 INVOLUNTARY” and inserting “INVOLUNTARY”,

1 (B) by striking “1031 or” in subparagraph
2 (A), and

3 (C) by striking “1031 or” in subparagraph
4 (E).

5 (12) Section 2032A(e)(14)(C) is amended—

6 (A) in clause (i)(I), by inserting “(as in ef-
7 fect before its repeal by the Tax Reform Act of
8 2014)” after “section 1031”, and

9 (B) in clause (ii)(I), by inserting “(as so in
10 effect)” after “section 1031”.

11 (13) Section 4940(c)(4) is amended by striking
12 subparagraph (D).

13 (c) EFFECTIVE DATE.—

14 (1) IN GENERAL.—The amendments made by
15 this section shall apply to transfers after December
16 31, 2014.

17 (2) EXCEPTION FOR TRANSFERS PURSUANT TO
18 BINDING CONTRACTS.—Notwithstanding paragraph
19 (1), the amendments made by this section shall not
20 apply to any transfer if—

21 (A) such transfer is pursuant to a written
22 binding contract entered into before January 1,
23 2015, and

24 (B) the exchange of which such transfer is
25 a part is completed before January 1, 2017.

1 **SEC. 3134. RESTRICTION ON TRADE OR BUSINESS PROP-**
 2 **ERTY TREATED AS SIMILAR OR RELATED IN**
 3 **SERVICE TO INVOLUNTARILY CONVERTED**
 4 **PROPERTY IN DISASTER AREAS.**

5 (a) CLASS LIFE OF REPLACEMENT PROPERTY NOT
 6 TO EXCEED CONVERTED PROPERTY.—Section
 7 1033(h)(2) is amended by inserting “if the class life of
 8 such tangible property does not exceed the class life of
 9 the property so converted” before the period at the end.

10 (b) EFFECTIVE DATE.—The amendment made by
 11 this section shall apply to disasters declared after Decem-
 12 ber 31, 2014.

13 **SEC. 3135. REPEAL OF ROLLOVER OF PUBLICLY TRADED**
 14 **SECURITIES GAIN INTO SPECIALIZED SMALL**
 15 **BUSINESS INVESTMENT COMPANIES.**

16 (a) IN GENERAL.—Part III of subchapter O of chap-
 17 ter 1 is amended by striking section 1044 (and by striking
 18 the item relating to such section in the table of sections
 19 of such part).

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 45D(c)(2)(A) is amended to read as
 22 follows:

23 “(A) any partnership or corporation which
 24 is licensed by the Small Business Administra-
 25 tion under section 301(d) of the Small Business

1 (A) such change shall be treated as initi-
2 ated by the taxpayer, and

3 (B) such change shall be treated as made
4 with the consent of the Secretary of the Treas-
5 ury.

6 **SEC. 3304. INSTALLMENT SALES.**

7 (a) REPEAL OF EXCEPTIONS TO TREATMENT AS
8 DEALER DISPOSITIONS.—Section 453(l) is amended to
9 read as follows:

10 “(l) DEALER DISPOSITIONS.—For purposes of sub-
11 section (b)(2)(A), the term ‘dealer disposition’ means any
12 of the following dispositions:

13 “(1) PERSONAL PROPERTY.—Any disposition of
14 personal property by a person who regularly sells or
15 otherwise disposes of personal property of the same
16 type on the installment plan.

17 “(2) REAL PROPERTY.—Any disposition of real
18 property which is held by the taxpayer for sale to
19 customers in the ordinary course of the taxpayer’s
20 trade or business.”.

21 (b) MODIFICATION OF RULES FOR NONDEALERS.—

22 (1) REPEAL OF SPECIAL RULE FOR INTEREST
23 PAYMENTS.—Section 453A(b)(2) is amended to read
24 as follows:

1 “(2) INTEREST PAYMENT EXCEPTION FOR OB-
 2 LIGATIONS NOT OUTSTANDING AT CLOSE OF TAX-
 3 ABLE YEAR.—Subsection (a)(1) shall apply to an ob-
 4 ligation described in paragraph (1) arising during
 5 any taxable year only if such obligation is out-
 6 standing as of the close of such taxable year.”.

7 (2) REPEAL OF EXCEPTION FOR FARM PROP-
 8 ERTY.—Section 453A(b)(3) is amended—

9 (A) by striking “from the disposition—”
 10 and all that follows and inserting “from the dis-
 11 position by an individual of personal use prop-
 12 erty (within the meaning of section
 13 1275(b)(3)).”, and

14 (B) by striking “AND FARM” in the head-
 15 ing.

16 (3) REPEAL OF SPECIAL RULE FOR
 17 TIMESHARES AND RESIDENTIAL LOTS.—Section
 18 453A(b) is amended by striking paragraph (4) and
 19 by redesignating paragraph (5) as paragraph (4).

20 (4) CONFORMING AMENDMENT.—Section
 21 453A(c) is amended—

22 (A) by striking “the applicable percentage
 23 of” in paragraph (2)(A), and

1 (B) by striking paragraph (4) and by re-
2 designating paragraphs (5) and (6) as para-
3 graphs (4) and (5), respectively.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to sales and other dispositions
6 after December 31, 2014.

7 **SEC. 3305. REPEAL OF SPECIAL RULE FOR PREPAID SUB-**
8 **SCRIPTION INCOME.**

9 (a) IN GENERAL.—Subpart B of part II of sub-
10 chapter E of chapter 1 is amended by striking section 455
11 (and by striking the item relating to such section in the
12 table of sections for such subpart).

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to payments received after Decem-
15 ber 31, 2014.

16 **SEC. 3306. REPEAL OF SPECIAL RULE FOR PREPAID DUES**
17 **INCOME OF CERTAIN MEMBERSHIP ORGANI-**
18 **ZATIONS.**

19 (a) IN GENERAL.—Subpart B of part II of sub-
20 chapter E of chapter 1 is amended by striking section 456
21 (and by striking the item relating to such section in the
22 table of sections for such subpart).

23 (b) CONFORMING AMENDMENT.—Section 277(b)(2)
24 is amended by inserting “(as in effect before its repeal)”
25 after “section 456(c)”.

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31 2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term “elected taxable year” means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

**SEC. 3312. MODIFICATION OF RULES FOR CAPITALIZATION
AND INCLUSION IN INVENTORY COSTS OF
CERTAIN EXPENSES.**

(a) \$10,000,000 GROSS RECEIPTS EXCEPTION TO
APPLY TO PROPERTY PRODUCED BY THE TAXPAYER.—

1 Section 263A(b) is amended by striking all that follows
2 paragraph (1) and inserting the following new paragraphs:

3 “(2) PROPERTY ACQUIRED FOR RESALE.—Real
4 or personal property described in section 1221(a)(1)
5 which is acquired by the taxpayer for resale.

6 “(3) EXCEPTION FOR TAXPAYER WITH GROSS
7 RECEIPTS OF \$10,000,000 OR LESS.—This section
8 shall not apply to any property produced or acquired
9 by the taxpayer during any taxable year if the aver-
10 age annual gross receipts of the taxpayer (or any
11 predecessor) for the 3-taxable year period ending
12 with the taxable year preceding such taxable year do
13 not exceed \$10,000,000. For purposes of this para-
14 graph, rules similar to the rules of paragraphs (2)
15 and (3) of section 448(b) shall apply.

16 “(4) FILMS, SOUND RECORDINGS, BOOKS,
17 ETC.—For purposes of this subsection, the term
18 ‘tangible personal property’ shall include a film,
19 sound recording, video tape, book, or similar prop-
20 erty.”.

21 (b) REPEAL OF EXCEPTIONS FOR TIMBER AND CER-
22 TAIN ORNAMENTAL TREES.—Section 263A(c) is amended
23 by striking paragraph (5).

1 (c) REPEAL OF EXCEPTION FOR QUALIFIED CRE-
 2 ATIVE EXPENSES.—Section 263A is amended by striking
 3 subsection (h).

4 (d) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by
 6 this section shall apply to taxable years beginning
 7 after December 31, 2014.

8 (2) CHANGE IN METHOD OF ACCOUNTING.—In
 9 the case of any taxpayer required by the amend-
 10 ments made by this section to change its method of
 11 accounting for its first taxable year beginning after
 12 December 31, 2014—

13 (A) such change shall be treated as initi-
 14 ated by the taxpayer, and

15 (B) such change shall be treated as made
 16 with the consent of the Secretary of the Treas-
 17 ury.

18 **SEC. 3313. MODIFICATION OF INCOME FORECAST METHOD.**

19 (a) EXTENSION OF FORECAST PERIOD.—

20 (1) IN GENERAL.—Paragraph (1) of section
 21 167(g) is amended by striking “10th” each place it
 22 appears and inserting “20th”.

23 (2) MODIFICATION OF RECOMPUTATION
 24 YEARS.—Paragraph (4) of section 167(g) is amend-

1 **SEC. 3633. CERTAIN SHORT-LIFE PROPERTY NOT TREATED**
 2 **AS REAL PROPERTY FOR PURPOSES OF REIT**
 3 **PROVISIONS.**

4 (a) IN GENERAL.—Section 856(c)(5) is amended by
 5 adding at the end the following new subparagraph:

6 “(L) REAL PROPERTY.—The term ‘real
 7 property’ shall not include any tangible prop-
 8 erty with a class life of less than 27.5 years.
 9 For purposes of the preceding sentence, class
 10 life of tangible property for any taxable year
 11 shall be the greater of—

12 “(i) the class life of such property in
 13 the hands of the real estate investment
 14 trust, or

15 “(ii) the class life which would be ap-
 16 plicable to such property if such property
 17 was placed in service in the taxable year.”.

18 (b) EFFECTIVE DATE.—The amendment made by
 19 this section shall apply to taxable years beginning after
 20 December 31, 2016.

21 **SEC. 3634. REPEAL OF SPECIAL RULES FOR TIMBER HELD**
 22 **BY REITS.**

23 (a) IN GENERAL.—Section 856(c)(5)(L), as added by
 24 this Act, is amended by inserting “timber or” after “shall
 25 not include”.

26 (b) CONFORMING AMENDMENTS.—

1 (1) Section 856(c)(2) is amended by inserting
2 “and” at the end of subparagraph (G), by striking
3 “and” at the end of subparagraph (H), and by strik-
4 ing subparagraph (I).

5 (2) Section 856(c)(5), as amended by the pre-
6 ceding provisions of this Act, is amended by striking
7 subparagraphs (H) and (I) and by redesignating
8 subparagraphs (J), (K), and (L) as subparagraphs
9 (H), (I) and (J), respectively.

10 (3) Section 856(c), as amended by the pre-
11 ceding provisions of this Act, is amended by striking
12 paragraph (9).

13 (4) Section 857(b)(6) is amended by striking
14 subparagraphs (D), (G), and (H), and by redesign-
15 ating subparagraphs (E) and (F) as subparagraphs
16 (D) and (E), respectively.

17 (5) Section 857(b)(6)(D), as redesignated by
18 paragraph (4), is amended by striking “subpara-
19 graphs (C) and (D)” and inserting “subparagraph
20 (C)”.

21 (6) Section 857(b)(6)(E), as redesignated by
22 paragraph (4), is amended—

23 (A) by striking “subparagraph (C) or (D)”
24 and inserting “subparagraph (C)”, and

1 (B) by striking “subparagraphs (C), (D),
 2 and (E)” and inserting “subparagraphs (C) and
 3 (D)”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to taxable years beginning after
 6 December 31, 2016.

7 **SEC. 3635. LIMITATION ON FIXED PERCENTAGE RENT AND**
 8 **INTEREST EXCEPTIONS FOR REIT INCOME**
 9 **TESTS.**

10 (a) IN GENERAL.—Section 856 is amended by adding
 11 at the end the following new subsection:

12 “(o) LIMITATION ON FIXED PERCENTAGE RENT AND
 13 INTEREST EXCEPTIONS.—

14 “(1) IN GENERAL.—If the fixed percentage rent
 15 and interest income received or accrued by a real es-
 16 tate investment trust from a single C corporation
 17 (other than a taxable REIT subsidiary of such real
 18 estate investment trust) for any taxable year exceeds
 19 either—

20 “(A) 25 percent of the fixed percentage
 21 rent income received or accrued by such real es-
 22 tate investment trust for such taxable year, or

23 “(B) 25 percent of the fixed percentage in-
 24 terest income received or accrued by such real
 25 estate investment trust for such taxable year,

1 (1) conduct a study to determine—

2 (A) how many taxable REIT subsidiaries
3 are in existence and the aggregate amount of
4 taxes paid by such subsidiaries, and

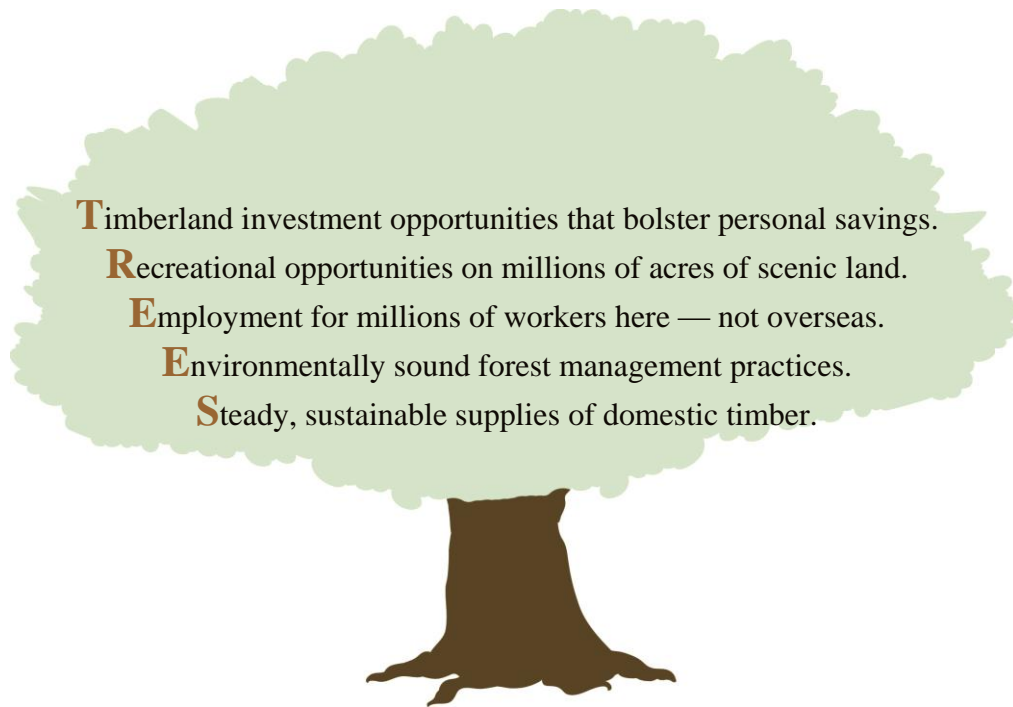
5 (B) the amount by which transactions be-
6 tween a REIT and a taxable REIT subsidiary
7 reduce taxable income of the taxable REIT sub-
8 sidiary (whether or not such transactions are
9 conducted at arms length), and

10 (2) submit a report to the Committee on Ways
11 and Means of the House of Representatives and the
12 Committee on Finance of the Senate describing the
13 results of such study.

14 **SEC. 3647. C CORPORATION ELECTION TO BECOME, OR**
15 **TRANSFER ASSETS TO, A RIC OR REIT.**

16 (a) IN GENERAL.—Part IV of subchapter O of chap-
17 ter 1, as amended by the preceding provisions of this Act,
18 is amended by redesignating section 1062 as section 1063
19 and by inserting after section 1061 the following new sec-
20 tion:

The Timberland REIT Coalition Seeks Your Support in Preserving:



Timberland investment opportunities that bolster personal savings.

Recreational opportunities on millions of acres of scenic land.

Employment for millions of workers here — not overseas.

Environmentally sound forest management practices.

Steady, sustainable supplies of domestic timber.

[STATE] FOREST FACTS

- The forest products industry supports **more than [number] jobs** and contributes **\$[] each year** to the state's economy, according to the [insert cite].
- [Insert additional state-specific economic/jobs data – e.g. More than **800 logging and trucking firms** and **1,300 manufacturers** in Michigan rely on the state's commercial timberlands.]

Along with an overwhelming number of policymakers, we agree it is time to thin out our overgrown tax code and restore robust growth to the U.S. economy. However, much like prudent forest management, thinning of the tax code should be achieved strategically—preserving provisions that spur healthy growth, while eliminating or modifying provisions that no longer make sense or inhibit progress.

The timber tax provisions—including the recognition of timberland as qualifying property for real estate investment trust (REIT) status—are essential to keep private and public capital investing in timber for the long-term benefit of our society. These provisions recognize the unique nature of timber investment and stewardship—a capital intensive, long-term undertaking that sustains a critical building block of our national economy, hundreds of local economies, our environment and countless recreational opportunities.

Without the timberland REIT structure and related timber tax provisions, timberland would likely be converted to other land uses or migrate to other single-tax forms of ownership, but will not revert to C corporation ownership. The significant capital expenses required for forest management and the 20-to-80 year growth cycle for marketable timber do not comport with a double-taxed C corporation structure. This is why virtually all integrated forest product companies have shed most, if not all, of their timberland holdings over the past 30 years.

Repealing the timber tax provisions and terminating the timberland REIT structure will not raise corporate tax revenue, but will instead damage our vital timber industry and the many benefits it provides.

Your Support for Timberland REITs Means Support For:

- **Timberland investment opportunities that bolster personal savings and give ordinary investors their only chance to realize the benefits of forest ownership.**

Timberland Real Estate Investment Trusts (REITs) provide the only investment vehicle for ordinary investors to invest in commercial, diversified and professionally managed timberlands. Congress created REITs in 1960 to enable investors from all walks of life to own professionally managed, income-producing real estate through companies modeled after mutual funds. The evolution of timberland REITs, which first formed 15 years ago, is one of the ways the market is working to achieve Congress's original vision.

In 1988, the Internal Revenue Service formally recognized timberlands and income from the sale of standing timber as qualifying real property eligible for REIT status.¹ Prior to the creation of the first publicly traded timberland REITs, access to the equity investment returns of income-producing timberlands as a core portfolio asset was available only to institutions and wealthy individuals having the financial capacity to directly invest in commercial timberland.

Not only do timberland REITs allow ordinary investors to diversify their portfolio, they also provide access to a significant long-term dividend yield. This access to strong income growth is partly due to the fact that the underlying asset, timber, is a renewable resource that when held for the long term historically has appreciated faster than inflation. During the recent Great Recession, timber investments, including timberland REITs, continued to perform well and pay taxable cash dividends.

Middle-class Americans make up the vast majority of timberland REIT investors through mutual funds and other easily accessible savings and investment vehicles. Institutional investors, who invest on behalf of the majority of U.S. employer-sponsored retirement plans, own an average of 82 percent of the four largest timberland REITs' holdings. The five largest institutional investors for each of these four companies are well-known for offering investment management services to ERISA plan sponsors, including the Vanguard Group, State Street Corp., BlackRock and T. Rowe Price. These are funds invested on behalf of American workers saving for retirement.

In addition, approximately 90 public pension funds hold investments in the four largest timber REITs, including the California Public Employees Retirement System (CalPERS), the New York State Common Retirement Fund and the New York State Teachers Retirement System.

- **Recreational opportunities on millions of acres of scenic land across the United States.**

The American public can—and does—access millions of acres of timberland REIT property and other private commercial timberland for recreational uses, either by permit or lease, and, in many cases, at no cost. Millions of acres of privately owned timberlands are prized grounds for hunting, fishing, camping, bird watching, horseback riding, hiking, photography, and many other cherished American pastimes in the Great Outdoors. These lands significantly supplement state and federal recreational lands and open spaces, providing outdoor enthusiasts with diverse options that are sometimes closer to home and always full of adventure.

There are [insert number] timberland REIT acres providing recreational opportunities for [state's residents].

¹ See PLR 8838016.

- **Employment for millions of workers here — not overseas.**

Timberlands provide a critical, renewable resource — and millions of jobs — here in the U.S. Privately owned timberlands directly support one million U.S. jobs and indirectly support two million more in the wood products and related domestic industries. This translates to \$223 billion in total timber sales and manufacturing shipments, according to a 2013 study analyzing 2010 economic activity.²

Because prices drive the sale of timber in the U.S., eliminating the timber tax provisions and ending the existence of timberland REITs would result in lower productivity and higher prices for U.S. timber, impairing the ability of American wood products and paper manufacturing companies to compete against foreign producers.

Commercial timberlands in [insert state] and the industries they directly support—forestry, logging, wood products, and pulp and paper—accounted for [insert jobs and payroll data if applicable, and any other state-specific economic data.]

- **Environmentally sound and sustainable forestry practices.**

Timberland REITs are good corporate citizens of the communities in which they invest and they are good stewards of the land and the environment. Members of the Timberland REIT Coalition manage their lands in accordance with formally written management plans certified under either the Sustainable Forestry Initiative® or the Forest Stewardship Council®. These timberland owners also engage with conservation groups and others to address long-term conservation goals on a significant scale. Timberland REITs have earned state and global environmental stewardship awards, and a number of timberland REITs are included in the Dow Jones Sustainability Index®, which tracks the financial performance of the leading sustainability-driven companies worldwide.

Publicly traded timberland REITs are accountable to their shareholders and are therefore incentivized to sustainably manage the forests that investors rely on for both short and long-term returns. Sustainable management is good for investors, for clean water, for carbon sequestration, and for future generations.

- **Steady, sustainable supplies of domestic timber.**

*The domestic timber supply currently satisfies only 76 percent of today's demand for wood and paper products in the U.S.*³ Any changes to the tax code that would discourage investments in U.S. timberlands threaten to significantly reduce productivity. A reduction of timberland productivity here at home paired with growing domestic and global demand for wood and paper products will mean more foreign imports, higher prices, and, ultimately, what would effectively amount to offshoring of U.S. timber and manufacturing jobs.

² Wan, Yang. *The Economic Impact of Privately-Owned Forests in the United States*. Forest2Market, June 27, 2013.

³ U.S. Forest Service. *U.S. Forest Resource Facts and Historical Trends*.