

109<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# S. 1927

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

OCTOBER 27, 2005

Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, 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; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) **SHORT TITLE.**—This Act may be cited as the  
6 “Fair Flat Tax Act of 2005”.

7 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
8 wise expressly provided, whenever in this Act an amend-  
9 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 for  
 5 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.  
 Sec. 2. Purpose.

#### TITLE I—INDIVIDUAL INCOME TAX REFORMS

Sec. 101. 3 progressive individual income tax rates for all forms of income.  
 Sec. 102. Increase in basic standard deduction.  
 Sec. 103. Refundable credit for State and local income, sales, and real and personal property taxes.  
 Sec. 104. Earned income child credit and earned income credit for childless taxpayers.  
 Sec. 105. Repeal of individual alternative minimum tax.  
 Sec. 106. Termination of various exclusions, exemptions, deductions, and credits.

#### TITLE II—CORPORATE AND BUSINESS INCOME TAX REFORMS

Sec. 201. Corporate flat tax.  
 Sec. 202. Treatment of travel on corporate aircraft.  
 Sec. 203. Termination of various preferential treatments.  
 Sec. 204. Elimination of tax expenditures that subsidize inefficiencies in the health care system.  
 Sec. 205. Pass-through business entity transparency.

#### TITLE III—TECHNICAL AND CONFORMING AMENDMENTS; SUNSET

Sec. 301. Technical and conforming amendments.  
 Sec. 302. Sunset.

### 6 **SEC. 2. PURPOSE.**

7 The purpose of this Act is to amend the Internal Rev-  
 8 enue Code of 1986—

9 (1) to make the Federal individual income tax  
 10 system simpler, fairer, and more transparent by—

11 (A) recognizing the overall Federal, State,  
 12 and local tax burden on individual Americans,

1 especially the regressive nature of State and  
2 local taxes, and providing a Federal income tax  
3 credit for State and local income, sales, and  
4 property taxes,

5 (B) providing for an earned income tax  
6 credit for childless taxpayers and a new earned  
7 income child credit,

8 (C) repealing the individual alternative  
9 minimum tax,

10 (D) increasing the basic standard deduc-  
11 tion and maintaining itemized deductions for  
12 principal residence mortgage interest and chari-  
13 table contributions,

14 (E) reducing the number of exclusions, ex-  
15 emptions, deductions, and credits, and

16 (F) treating all income equally,

17 (2) to make the Federal corporate income tax  
18 rate a flat 35 percent and eliminate special tax pref-  
19 erences that favor particular types of businesses or  
20 activities, and

21 (3) to partially offset the Federal budget deficit  
22 through the increased revenues resulting from these  
23 reforms.

1     **TITLE I—INDIVIDUAL INCOME**  
 2                     **TAX REFORMS**

3     **SEC. 101. 3 PROGRESSIVE INDIVIDUAL INCOME TAX RATES**  
 4                     **FOR ALL FORMS OF INCOME.**

5             (a) MARRIED INDIVIDUALS FILING JOINT RETURNS  
 6 AND SURVIVING SPOUSES.—The table contained in sec-  
 7 tion 1(a) is amended to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$25,000 .....	15% of taxable income.
Over \$25,000 but not over \$120,000.	\$3,750, plus 25% of the excess over \$25,000
Over \$120,000 .....	\$27,500, plus 35% of the excess over \$120,000”.

8             (b) HEADS OF HOUSEHOLDS.—The table contained  
 9 in section 1(b) is amended to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$16,000 .....	15% of taxable income.
Over \$16,000 but not over \$105,000.	\$2,400, plus 25% of the excess over \$16,000
Over \$105,000 .....	\$24,650, plus 35% of the excess over \$105,000”.

10            (c) UNMARRIED INDIVIDUALS (OTHER THAN SUR-  
 11 VIVING SPOUSES AND HEADS OF HOUSEHOLDS).—The  
 12 table contained in section 1(c) is amended to read as fol-  
 13 lows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$15,000 .....	15% of taxable income.
Over \$15,000 but not over \$70,000.	\$2,250, plus 25% of the excess over \$15,000
Over \$70,000 .....	\$16,000, plus 35% of the excess over \$70,000”.

14            (d) MARRIED INDIVIDUALS FILING SEPARATE RE-  
 15 TURNS.—The table contained in section 1(d) is amended  
 16 to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$12,500 .....	15% of taxable income.
Over \$12,500 but not over \$60,000.	\$1,875, plus 25% of the excess over \$12,500
Over \$60,000 .....	\$13,750, plus 35% of the excess over \$60,000”.

1 (e) CONFORMING AMENDMENTS TO INFLATION AD-  
2 JUSTMENT.—Section 1(f) is amended—

3 (1) by striking “1993” in paragraph (1) and in-  
4 serting “2006”,

5 (2) by striking “except as provided in para-  
6 graph (8)” in paragraph (2)(A),

7 (3) by striking “1992” in paragraph (3)(B) and  
8 inserting “2005”,

9 (4) by striking paragraphs (7) and (8), and

10 (5) by striking “PHASEOUT OF MARRIAGE PEN-  
11 ALTY IN 15-PERCENT BRACKET;” in the heading  
12 thereof.

13 (f) REPEAL OF RATE DIFFERENTIAL FOR CAPITAL  
14 GAINS AND DIVIDENDS.—

15 (1) REPEAL OF 2003 RATE REDUCTION.—Sec-  
16 tion 303 of the Jobs and Growth Tax Relief Rec-  
17 onciliation Act of 2003 is amended by striking “De-  
18 cember 3, 2008” and inserting “December 31,  
19 2005”.

20 (2) TERMINATION OF PRE-2003 CAPITAL GAIN  
21 RATE DIFFERENTIAL.—Section 1(h) is amended

1 (after the application of paragraph (1)) by adding at  
2 the end the following new paragraph:

3 “(13) TERMINATION.—This section shall not  
4 apply to taxable years beginning after December 31,  
5 2005.”.

6 (g) ADDITIONAL CONFORMING AMENDMENTS.—

7 (1) Section 1 is amended by striking subsection  
8 (i).

9 (2) The Internal Revenue Code of 1986 is  
10 amended by striking “calendar year 1992” each  
11 place it appears and inserting “calendar year 2005”.

12 (3) Section 1445(e)(1) (after the application of  
13 subsection (g)(1)) is amended by striking “(or, to  
14 the extent provided in regulations, 20 percent)”.

15 (h) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2005.

18 **SEC. 102. INCREASE IN BASIC STANDARD DEDUCTION.**

19 (a) IN GENERAL.—Paragraph (2) of section 63(c)  
20 (defining standard deduction) is amended to read as fol-  
21 lows:

22 “(2) BASIC STANDARD DEDUCTION.—For pur-  
23 poses of paragraph (1), the basic standard deduction  
24 is—

1           “(A) 200 percent of the dollar amount in  
2           effect under subparagraph (C) for the taxable  
3           year in the case of—

4                   “(i) a joint return, or

5                   “(ii) a surviving spouse (as defined in  
6           section 2(a)),

7           “(B) \$26,250 in the case of a head of  
8           household (as defined in section 2(b)), or

9           “(C) \$15,000 in any other case.”.

10       (b) CONFORMING AMENDMENT TO INFLATION AD-  
11 JUSTMENT.—Section 63(c)(4)(B)(i) is amended by strik-  
12 ing “(2)(B), (2)(C), or”.

13       (c) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2005.

16 **SEC. 103. REFUNDABLE CREDIT FOR STATE AND LOCAL IN-**  
17 **COME, SALES, AND REAL AND PERSONAL**  
18 **PROPERTY TAXES.**

19       (a) GENERAL RULE.—Subpart C of part IV of sub-  
20 chapter A of chapter 1 (relating to refundable credits) is  
21 amended by redesignating section 36 as section 37 and  
22 by inserting after section 35 the following new section:

1 **“SEC. 36. CREDIT FOR STATE AND LOCAL INCOME, SALES,**  
 2 **AND REAL AND PERSONAL PROPERTY TAXES.**

3 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 4 dividual, there shall be allowed as a credit against the tax  
 5 imposed by this subtitle for the taxable year an amount  
 6 equal to 10 percent of the qualified State and local taxes  
 7 paid by the taxpayer for such year.

8 “(b) QUALIFIED STATE AND LOCAL TAXES.—For  
 9 purposes of this section, the term ‘qualified State and local  
 10 taxes’ means—

11 “(1) State and local income taxes,

12 “(2) State and local general sales taxes,

13 “(3) State and local real property taxes, and

14 “(4) State and local personal property taxes.

15 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
 16 poses of this section—

17 “(1) STATE OR LOCAL TAXES.—A State or local  
 18 tax includes only a tax imposed by a State, a posses-  
 19 sion of the United States, or a political subdivision  
 20 of any of the foregoing, or by the District of Colum-  
 21 bia.

22 “(2) GENERAL SALES TAXES.—

23 “(A) IN GENERAL.—The term ‘general  
 24 sales tax’ means a tax imposed at one rate with  
 25 respect to the sale at retail of a broad range of  
 26 classes of items.



1           “(B) APPLICATION OF RULES.—Rules  
2           similar to the rules under subparagraphs (C),  
3           (D), (E), (F), (G), and (H) of section 164(b)(5)  
4           shall apply.

5           “(3) PERSONAL PROPERTY TAXES.—The term  
6           ‘personal property tax’ means an ad valorem tax  
7           which is imposed on an annual basis in respect of  
8           personal property.

9           “(4) APPLICATION OF RULES TO PROPERTY  
10          TAXES.—Rules similar to the rules of subsections (c)  
11          and (d) of section 164 shall apply.

12          “(5) NO CREDIT FOR MARRIED INDIVIDUALS  
13          FILING SEPARATE RETURNS.—If the taxpayer is a  
14          married individual (within the meaning of section  
15          7703), this section shall apply only if the taxpayer  
16          and the taxpayer’s spouse file a joint return for the  
17          taxable year.

18          “(6) DENIAL OF CREDIT TO DEPENDENTS.—No  
19          credit shall be allowed under this section to any indi-  
20          vidual with respect to whom a deduction under sec-  
21          tion 151 is allowable to another taxpayer for a tax-  
22          able year beginning in the calendar year in which  
23          such individual’s taxable year begins.

24          “(7) DENIAL OF DOUBLE BENEFIT.—Any  
25          amount taken into account in determining the credit



1 **SEC. 104. EARNED INCOME CHILD CREDIT AND EARNED IN-**  
 2 **COME CREDIT FOR CHILDLESS TAXPAYERS.**

3 (a) IN GENERAL.—Subsection (a) of section 32 (re-  
 4 lating to earned income) is amended to read as follows:

5 “(a) ALLOWANCE OF EARNED INCOME CHILD CRED-  
 6 IT AND EARNED INCOME CREDIT.—

7 “(1) IN GENERAL.—There shall be allowed as a  
 8 credit against the tax imposed by this subtitle for  
 9 the taxable year—

10 “(A) in the case of any eligible individual  
 11 with 1 or more qualifying children, an amount  
 12 equal to the earned income child credit amount,  
 13 and

14 “(B) in the case of any eligible individual  
 15 with no qualifying children, an amount equal to  
 16 the earned income credit amount.

17 “(2) EARNED INCOME CHILD CREDIT  
 18 AMOUNT.—For purposes of this section, the earned  
 19 income child credit amount is equal to the sum of—

20 “(A) the credit percentage of so much of  
 21 the taxpayer’s earned income for the taxable  
 22 year as does not exceed the earned income limit  
 23 amount, plus

24 “(B) the supplemental child credit amount  
 25 determined under subsection (n) for such tax-  
 26 able year.

1           “(3) EARNED INCOME CREDIT AMOUNT.—For  
2 purposes of this section, the earned income credit  
3 amount is equal to the credit percentage of so much  
4 of the taxpayer’s earned income for the taxable year  
5 as does not exceed the earned income limit amount.

6           “(4) LIMITATION.—The amount of the credit  
7 allowable to a taxpayer under paragraph (2)(A) or  
8 (3) for any taxable year shall not exceed the excess  
9 (if any) of—

10                   “(A) the credit percentage of the earned  
11 income amount, over

12                   “(B) the phaseout percentage of so much  
13 of the adjusted gross income (or, if greater, the  
14 earned income) of the taxpayer for the taxable  
15 year as exceeds the phaseout amount.”.

16           (b) SUPPLEMENTAL CHILD CREDIT AMOUNT.—Sec-  
17 tion 32 is amended by adding at the end the following  
18 new subsection:

19           “(n) SUPPLEMENTAL CHILD CREDIT AMOUNT.—

20                   “(1) IN GENERAL.—For purposes of subsection  
21 (a)(2)(B), the supplemental child credit amount for  
22 any taxable year is equal to the lesser of—

23                   “(A) the credit which would be allowed  
24 under section 24 for such taxable year without  
25 regard to the limitation under section 24(b)(3)

1 with respect to any qualifying child as defined  
2 under subsection (c)(3), or

3 “(B) the amount by which the aggregate  
4 amount of credits allowed by subpart A for  
5 such taxable year would increase if the limita-  
6 tion imposed by section 24(b)(3) were increased  
7 by the excess (if any) of—

8 “(i) 15 percent of so much of the tax-  
9 payer’s earned income which is taken into  
10 account in computing taxable income for  
11 the taxable year as exceeds \$10,000, or

12 “(ii) in the case of a taxpayer with 3  
13 or more qualifying children (as so defined),  
14 the excess (if any) of—

15 “(I) the taxpayer’s social security  
16 taxes for the taxable year, over

17 “(II) the credit allowed under  
18 this section for the taxable year.

19 The amount of the credit allowed under this sub-  
20 section shall not be treated as a credit allowed under  
21 subpart A and shall reduce the amount of credit oth-  
22 erwise allowable under section 24(a) without regard  
23 to section 24(b)(3).

24 “(2) SOCIAL SECURITY TAXES.—For purposes  
25 of paragraph (1)—

1           “(A) IN GENERAL.—The term ‘social secu-  
2           rity taxes’ means, with respect to any taxpayer  
3           for any taxable year—

4                   “(i) the amount of the taxes imposed  
5                   by section 3101 and 3201(a) on amounts  
6                   received by the taxpayer during the cal-  
7                   endar year in which the taxable year be-  
8                   gins,

9                   “(ii) 50 percent of the taxes imposed  
10                  by section 1401 on the self-employment in-  
11                  come of the taxpayer for the taxable year,  
12                  and

13                  “(iii) 50 percent of the taxes imposed  
14                  by section 3211(a)(1) on amounts received  
15                  by the taxpayer during the calendar year  
16                  in which the taxable year begins.

17           “(B) COORDINATION WITH SPECIAL RE-  
18           FUND OF SOCIAL SECURITY TAXES.—The term  
19           ‘social security taxes’ shall not include any  
20           taxes to the extent the taxpayer is entitled to  
21           a special refund of such taxes under section  
22           6413(c).

23           “(C) SPECIAL RULE.—Any amounts paid  
24           pursuant to an agreement under section 3121(l)  
25           (relating to agreements entered into by Amer-

1           ican employers with respect to foreign affiliates)  
2           which are equivalent to the taxes referred to in  
3           subparagraph (A)(i) shall be treated as taxes  
4           referred to in such paragraph.

5           “(3) INFLATION ADJUSTMENT.—In the case of  
6           any taxable year beginning in a calendar year after  
7           2005, the \$10,000 amount contained in paragraph  
8           (1)(B) shall be increased by an amount equal to—

9                   “(A) such dollar amount, multiplied by  
10                   “(B) the cost-of-living adjustment deter-  
11           mined under section 1(f)(3) for the calendar  
12           year in which the taxable year begins, deter-  
13           mined by substituting ‘calendar year 2000’ for  
14           ‘calendar year 1992’ in subparagraph (B)  
15           thereof.

16           Any increase determined under the preceding sen-  
17           tence shall be rounded to the nearest multiple of  
18           \$50.”.

19           (c) CONFORMING AMENDMENT.—Section 24(d) is  
20           amended by adding at the end the following new para-  
21           graph:

22                   “(4) TERMINATION.—This subsection shall not  
23           apply with respect to any taxable year beginning  
24           after December 31, 2005.”.

1 (d) CERTAIN TREATMENT OF EARNED INCOME  
2 MADE PERMANENT.—Clause (vi) of section 32(c)(2)(B)  
3 is amended to read as follows:

4 “(vi) a taxpayer may elect to treat  
5 amounts excluded from gross income by  
6 reason of section 112 as earned income.”.

7 (e) REPEAL OF DISQUALIFIED INVESTMENT INCOME  
8 TEST.—Subsection (i) of section 32 is repealed.

9 (f) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to taxable years beginning after  
11 December 31, 2005.

12 **SEC. 105. REPEAL OF INDIVIDUAL ALTERNATIVE MINIMUM**  
13 **TAX.**

14 (a) IN GENERAL.—Section 55(a) (relating to alter-  
15 native minimum tax imposed) is amended by adding at  
16 the end the following new flush sentence:

17 “For purposes of this title, the tentative minimum tax on  
18 any taxpayer other than a corporation for any taxable year  
19 beginning after December 31, 2005, shall be zero.”.

20 (b) MODIFICATION OF LIMITATION ON USE OF  
21 CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—  
22 Subsection (c) of section 53 (relating to credit for prior  
23 year minimum tax liability) is amended to read as follows:

24 “(c) LIMITATION.—



1           “(1) IN GENERAL.—Except as provided in para-  
2 graph (2), the credit allowable under subsection (a)  
3 for any taxable year shall not exceed the excess (if  
4 any) of—

5                   “(A) the regular tax liability of the tax-  
6 payer for such taxable year reduced by the sum  
7 of the credits allowable under subparts A, B, D,  
8 E, and F of this part, over

9                   “(B) the tentative minimum tax for the  
10 taxable year.

11           “(2) TAXABLE YEARS BEGINNING AFTER  
12 2005.—In the case of any taxable year beginning  
13 after 2005, the credit allowable under subsection (a)  
14 to a taxpayer other than a corporation for any tax-  
15 able year shall not exceed 90 percent of the regular  
16 tax liability of the taxpayer for such taxable year re-  
17 duced by the sum of the credits allowable under sub-  
18 parts A, B, D, E, and F of this part.”.

19           (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2005.

1 **SEC. 106. TERMINATION OF VARIOUS EXCLUSIONS, EXEMP-**  
2 **TIONS, DEDUCTIONS, AND CREDITS.**

3 (a) IN GENERAL.—Subchapter C of chapter 90 (re-  
4 lating to provisions affecting more than one subtitle) is  
5 amended by adding at the end the following new section:

6 **“SEC. 7875. TERMINATION OF CERTAIN PROVISIONS.**

7 “The following provisions shall not apply to taxable  
8 years beginning after December 31, 2005:

9 “(1) Section 44 (relating to credit for expendi-  
10 tures to provide access to disabled individuals).

11 “(2) Section 62(a)(2)(D) (relating to deduction  
12 for certain expenses of elementary and secondary  
13 school teachers).

14 “(3) Section 67 (relating to 2-percent floor on  
15 miscellaneous itemized deductions).

16 “(4) Section 74(c) (relating to exclusion of cer-  
17 tain employee achievement awards).

18 “(5) Section 79 (relating to exclusion of group-  
19 term life insurance purchased for employees).

20 “(6) Section 104(a)(1) (relating to exclusion of  
21 workmen’s compensation).

22 “(7) Section 104(a)(2) (relating to exclusion of  
23 damages for physical injuries and sickness).

24 “(8) Section 107 (relating to exclusion of rental  
25 value of parsonages).

1           “(9) Section 119 (relating to exclusion of meals  
2 or lodging furnished for the convenience of the em-  
3 ployer).

4           “(10) Section 125 (relating to exclusion of cafe-  
5 teria plan benefits).

6           “(11) Section 132 (relating to certain fringe  
7 benefits), except with respect to subsection (a)(5)  
8 thereof (relating to exclusion of qualified transpor-  
9 tation fringe).

10           “(12) Section 163(h)(4)(A)(i)(II) (relating to  
11 definition of qualified residence).

12           “(13) Section 165(d) (relating to deduction for  
13 wagering losses).

14           “(14) Section 217 (relating to deduction for  
15 moving expenses).

16           “(15) Section 454 (relating to deferral of tax  
17 on obligations issued at discount).

18           “(16) Section 501(c)(9) (relating to tax-exempt  
19 status of voluntary employees’ beneficiary associa-  
20 tions).

21           “(17) Section 911 (relating to exclusion of  
22 earned income of citizens or residents of the United  
23 States living abroad).

24           “(18) Section 912 (relating to exemption for  
25 certain allowances).”.

1 (b) CONFORMING AMENDMENT.—The table of sec-  
 2 tions for subchapter C of chapter 90 is amended by adding  
 3 at the end the following new item:

“Sec. 7875. Termination of certain provisions.”.

4 **TITLE II—CORPORATE AND**  
 5 **BUSINESS INCOME TAX RE-**  
 6 **FORMS**

7 **SEC. 201. CORPORATE FLAT TAX.**

8 (a) IN GENERAL.—Subsection (b) of section 11 (re-  
 9 lating to tax imposed) is amended to read as follows:

10 “(b) AMOUNT OF TAX.—The amount of tax imposed  
 11 by subsection (a) shall be equal to 35 percent of the tax-  
 12 able income.”.

13 (b) CONFORMING AMENDMENTS.—

14 (1) Section 280C(c)(3)(B)(ii)(II) is amended by  
 15 striking “maximum rate of tax under section  
 16 11(b)(1)” and inserting “rate of tax under section  
 17 11(b)”.

18 (2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii),  
 19 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii),  
 20 1446(b)(2)(B), and 7874(e)(1)(B) are each amended  
 21 by striking “highest rate of tax specified in section  
 22 11(b)(1)” and inserting “rate of tax specified in sec-  
 23 tion 11(b)”.

1           (3) Section 904(b)(3)(D)(ii) is amended by  
2 striking “(determined without regard to the last sen-  
3 tence of section 11(b)(1))”.

4           (4) Section 962 is amended by striking sub-  
5 section (e) and by redesignating subsection (d) as  
6 subsection (e).

7           (5) Section 1201(a) is amended by striking  
8 “(determined without regard to the last 2 sentences  
9 of section 11(b)(1))”.

10          (6) Section 1561(a) is amended—

11           (A) by striking paragraph (1) and by re-  
12 designating paragraphs (2), (3), and (4) as  
13 paragraphs (1), (2), and (3), respectively,

14           (B) by striking “The amounts specified in  
15 paragraph (1), the” and inserting “The”,

16           (C) by striking “paragraph (2)” and in-  
17 serting “paragraph (1)”,

18           (D) by striking “paragraph (3)” both  
19 places it appears and inserting “paragraph  
20 (2)”,

21           (E) by striking “paragraph (4)” and in-  
22 serting “paragraph (3)”, and

23           (F) by striking the fourth sentence.

24          (7) Subsection (b) of section 1561 is amended  
25 to read as follows:

1       “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-  
 2 poration has a short taxable year which does not include  
 3 a December 31 and is a component member of a controlled  
 4 group of corporations with respect to such taxable year,  
 5 then for purposes of this subtitle, the amount to be used  
 6 in computing the accumulated earnings credit under sec-  
 7 tion 535(c)(2) and (3) of such corporation for such taxable  
 8 year shall be the amount specified in subsection (a)(1) di-  
 9 vided by the number of corporations which are component  
 10 members of such group on the last day of such taxable  
 11 year. For purposes of the preceding sentence, section  
 12 1563(b) shall be applied as if such last day were sub-  
 13 stituted for December 31.”.

14       (c) EFFECTIVE DATE.—The amendments made by  
 15 this section shall apply to taxable years beginning after  
 16 December 31, 2005.

17 **SEC. 202. TREATMENT OF TRAVEL ON CORPORATE AIR-**  
 18 **CRAFT.**

19       (a) IN GENERAL.—Section 162 (relating to trade or  
 20 business expenses) is amended by redesignating subsection  
 21 (q) as subsection (r) and b inserting after subsection (p)  
 22 the following new subsection:

23       “(q) TREATMENT OF TRAVEL ON CORPORATE AIR-  
 24 CRAFT.—The rate at which an amount allowable as a de-  
 25 duction under this chapter for the use of an aircraft owned

1 by the taxpayer is determined shall not exceed the rate  
2 at which an amount paid or included in income by an em-  
3 ployee of such taxpayer for the personal use of such air-  
4 craft is determined.”.

5 (b) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2005.

8 **SEC. 203. TERMINATION OF VARIOUS PREFERENTIAL**  
9 **TREATMENTS.**

10 (a) IN GENERAL.—Section 7875, as added by section  
11 106, is amended—

12 (1) by inserting “(or transactions in the case of  
13 sections referred to in paragraphs (21), (22), (23),  
14 (24), and (27))” after “taxable years beginning”,  
15 and

16 (2) by adding at the end the following new  
17 paragraphs:

18 “(19) Section 43 (relating to enhanced oil re-  
19 covery credit).

20 “(20) Section 263(c) (relating to intangible  
21 drilling and development costs in the case of oil and  
22 gas wells and geothermal wells).

23 “(21) Section 382(l)(5) (relating to exception  
24 from net operating loss limitations for corporations  
25 in bankruptcy proceeding).

1           “(22) Section 451(i) (relating to special rules  
2 for sales or dispositions to implement Federal En-  
3 ergy Regulatory Commission or State electric re-  
4 structuring policy).

5           “(23) Section 453A (relating to special rules for  
6 nondealers), but only with respect to the dollar limi-  
7 tation under subsection (b)(1) thereof and sub-  
8 section (b)(3) thereof (relating to exception for per-  
9 sonal use and farm property).

10           “(24) Section 460(e)(1) (relating to special  
11 rules for long-term home construction contracts or  
12 other short-term construction contracts).

13           “(25) Section 613A (relating to percentage de-  
14 pletion in case of oil and gas wells).

15           “(26) Section 616 (relating to development  
16 costs).

17           “(27) Sections 861(a)(6), 862(a)(6), 863(b)(2),  
18 863(b)(3), and 865(b) (relating to inventory prop-  
19 erty sales source rule exception).”.

20           (b) FULL TAX RATE ON NUCLEAR DECOMMISS-  
21 SIONING RESERVE FUND.—Subparagraph (B) of section  
22 468A(e)(2) is amended to read as follows:

23           “(B) RATE OF TAX.—For purposes of sub-  
24 paragraph (A), the rate set forth in this sub-  
25 paragraph is 35 percent.”.



1 (c) DEFERRAL OF ACTIVE INCOME OF CONTROLLED  
2 FOREIGN CORPORATIONS.—Section 952 (relating to sub-  
3 part F income defined) is amended by adding at the end  
4 the following new subsection:

5 “(e) SPECIAL APPLICATION OF SUBPART.—

6 “(1) IN GENERAL.—For taxable years begin-  
7 ning after December 31, 2005, notwithstanding any  
8 other provision of this subpart, the term ‘subpart F  
9 income’ means, in the case of any controlled foreign  
10 corporation, the income of such corporation derived  
11 from any foreign country.

12 “(2) APPLICABLE RULES.—Rules similar to the  
13 rules under the last sentence of subsection (a) and  
14 subsection (d) shall apply to this subsection.”.

15 (d) DEFERRAL OF ACTIVE FINANCING INCOME.—  
16 Section 953(e)(10) is amended—

17 (1) by striking “2006” and inserting “2005”,  
18 and

19 (2) by striking “2007” and inserting “2006”.

20 (e) DEPRECIATION ON EQUIPMENT IN EXCESS OF  
21 ALTERNATIVE DEPRECIATION SYSTEM.—Section  
22 168(g)(1) (relating to alternative depreciation system) is  
23 amended by striking “and” at the end of subparagraph  
24 (D), by adding “and” at the end of subparagraph (E),

1 and by inserting after subparagraph (E) the following new  
2 subparagraph:

3           “(F) notwithstanding subsection (a), any  
4           tangible property placed in service after Decem-  
5           ber 31, 2005,”.

6           (f) EFFECTIVE DATE.—The amendments made by  
7 subsections (b), (c), and (d) shall apply to taxable years  
8 beginning after December 31, 2005.

9 **SEC. 204. ELIMINATION OF TAX EXPENDITURES THAT SUB-**  
10 **SIDIZE INEFFICIENCIES IN THE HEALTH**  
11 **CARE SYSTEM.**

12           Not later than 180 days after the date of the enact-  
13 ment of this Act, the Secretary of the Treasury shall re-  
14 port to the Committee on Finance of the Senate and the  
15 Committee on Ways and Means of the House of Rep-  
16 resentatives recommendations regarding the elimination of  
17 Federal tax incentives which subsidize inefficiencies in the  
18 health care system and if eliminated would result in Fed-  
19 eral budget savings of not less than \$10,000,000,000 an-  
20 nually.

21 **SEC. 205. PASS-THROUGH BUSINESS ENTITY TRANS-**  
22 **PARENCY.**

23           Not later than 90 days after the date of the enact-  
24 ment of this Act, the Secretary of the Treasury shall re-  
25 port to the Committee on Finance of the Senate and the

1 Committee on Ways and Means of the House of Rep-  
2 resentatives regarding the implementation of additional  
3 reporting requirements with respect to any pass-through  
4 entity with the goal of the reduction of tax avoidance  
5 through the use of such entities, In addition, the Secretary  
6 shall develop procedures to share such report data with  
7 State revenue agencies under the disclosure requirements  
8 of section 6103(d) of the Internal Revenue Code of 1986.

9 **TITLE III—TECHNICAL AND CON-**  
10 **FORMING AMENDMENTS;**  
11 **SUNSET**

12 **SEC. 301. TECHNICAL AND CONFORMING AMENDMENTS.**

13 The Secretary of the Treasury or the Secretary's del-  
14 egate shall not later than 90 days after the date of the  
15 enactment of this Act, submit to the Committee on Ways  
16 and Means of the House of Representatives and the Com-  
17 mittee on Finance of the Senate a draft of any technical  
18 and conforming changes in the Internal Revenue Code of  
19 1986 which are necessary to reflect throughout such Code  
20 the purposes of the provisions of, and amendments made  
21 by, this Act.

22 **SEC. 302. SUNSET.**

23 (a) IN GENERAL.—All provisions of, and amend-  
24 ments made by, this Act shall not apply to taxable years  
25 beginning after December 31, 2010.

1       (b) APPLICATION OF CODE.—The Internal Revenue  
2 Code of 1986 shall be applied and administered to taxable  
3 years described in subsection (a) as if the provisions of,  
4 and amendments made by, this Act had never been en-  
5 acted.

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