

118TH CONGRESS
1ST SESSION

S. 1225

To amend the Internal Revenue Code of 1986 to provide for the indexing of certain assets for purposes of determining gain or loss.

IN THE SENATE OF THE UNITED STATES

APRIL 20, 2023

Mr. CRUZ (for himself, Mr. BRAUN, and Mr. HAGERTY) 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 provide for the indexing of certain assets for purposes of determining gain or loss.

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 “Capital Gains Inflation
5 Relief Act of 2023”.

6 **SEC. 2. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**
7 **DETERMINING GAIN OR LOSS.**

8 (a) IN GENERAL.—Part II of subchapter O of chap-
9 ter 1 of the Internal Revenue Code of 1986 (relating to
10 basis rules of general application) is amended by redesi-

1 nating section 1023 as section 1024 and by inserting after
2 section 1022 the following new section:

3 **“SEC. 1023. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
4 **OF DETERMINING GAIN OR LOSS.**

5 “(a) GENERAL RULE.—

6 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
7 JUSTED BASIS.—Solely for purposes of determining
8 gain or loss on the sale or other disposition by a tax-
9 payer (other than a corporation) of an indexed asset
10 which has been held for more than 3 years, the in-
11 dexed basis of the asset shall be substituted for its
12 adjusted basis.

13 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
14 The deductions for depreciation, depletion, and am-
15 ortization shall be determined without regard to the
16 application of paragraph (1) to the taxpayer or any
17 other person.

18 “(3) WRITTEN DOCUMENTATION REQUIRE-
19 MENT.—Paragraph (1) shall apply only with respect
20 to indexed assets for which the taxpayer has written
21 documentation of the original purchase price paid or
22 incurred by the taxpayer to acquire such asset.

23 “(b) INDEXED ASSET.—

24 “(1) IN GENERAL.—For purposes of this sec-
25 tion, the term ‘indexed asset’ means—

1 “(A) any common stock in a C corporation
2 (other than a foreign corporation),

3 “(B) any digital asset, or

4 “(C) any tangible property,

5 which is a capital asset or property used in the trade
6 or business (as defined in section 1231(b)).

7 “(2) STOCK IN CERTAIN FOREIGN CORPORA-
8 TIONS INCLUDED.—For purposes of this section—

9 “(A) IN GENERAL.—The term ‘indexed
10 asset’ includes common stock in a foreign cor-
11 poration which is regularly traded on an estab-
12 lished securities market.

13 “(B) EXCEPTION.—Subparagraph (A)
14 shall not apply to—

15 “(i) stock of a foreign investment
16 company,

17 “(ii) stock in a passive foreign invest-
18 ment company (as defined in section
19 1297),

20 “(iii) stock in a foreign corporation
21 held by a United States person who meets
22 the requirements of section 1248(a)(2),
23 and

24 “(iv) stock in a foreign personal hold-
25 ing company.

1 “(C) TREATMENT OF AMERICAN DEPOSI-
 2 TORY RECEIPTS.—An American depository re-
 3 ceipt for common stock in a foreign corporation
 4 shall be treated as common stock in such cor-
 5 poration.

6 “(3) DIGITAL ASSET.—For purposes of this sec-
 7 tion, the term ‘digital asset’ means any natively elec-
 8 tronic asset which—

9 “(A) is recorded on a cryptographically se-
 10 cured distributed ledger, and

11 “(B) is designed to confer only economic
 12 or access rights.

13 “(c) INDEXED BASIS.—For purposes of this sec-
 14 tion—

15 “(1) GENERAL RULE.—The indexed basis for
 16 any asset is—

17 “(A) the adjusted basis of the asset, in-
 18 creased by

19 “(B) the applicable inflation adjustment.

20 “(2) APPLICABLE INFLATION ADJUSTMENT.—

21 The applicable inflation adjustment for any asset is
 22 an amount equal to—

23 “(A) the adjusted basis of the asset, multi-
 24 plied by

25 “(B) the percentage (if any) by which—

1 “(i) the gross domestic product
2 deflator for the last calendar quarter end-
3 ing before the asset is disposed of, exceeds

4 “(ii) the gross domestic product
5 deflator for the last calendar quarter end-
6 ing before the asset was acquired by the
7 taxpayer.

8 The percentage under subparagraph (B) shall be
9 rounded to the nearest $\frac{1}{10}$ of 1 percentage point.

10 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

11 The gross domestic product deflator for any cal-
12 endar quarter is the implicit price deflator for the
13 gross domestic product for such quarter (as shown
14 in the last revision thereof released by the Secretary
15 of Commerce before the close of the following cal-
16 endar quarter).

17 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-
18 MINISHED RISK OF LOSS; TREATMENT OF SHORT
19 SALES.—

20 “(1) IN GENERAL.—If the taxpayer (or a re-
21 lated person) enters into any transaction which sub-
22 stantially reduces the risk of loss from holding any
23 asset, such asset shall not be treated as an indexed
24 asset for the period of such reduced risk.

25 “(2) SHORT SALES.—

1 “(A) IN GENERAL.—In the case of a short
 2 sale of an indexed asset with a short sale period
 3 in excess of 3 years, for purposes of this title,
 4 the amount realized shall be an amount equal
 5 to the amount realized (determined without re-
 6 gard to this paragraph) increased by the appli-
 7 cable inflation adjustment. In applying sub-
 8 section (c)(2) for purposes of the preceding sen-
 9 tence, the date on which the property is sold
 10 short shall be treated as the date of acquisition
 11 and the closing date for the sale shall be treat-
 12 ed as the date of disposition.

13 “(B) SHORT SALE PERIOD.—For purposes
 14 of subparagraph (A), the short sale period be-
 15 gins on the day that the property is sold and
 16 ends on the closing date for the sale.

17 “(e) TREATMENT OF REGULATED INVESTMENT
 18 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

19 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

20 “(A) IN GENERAL.—Except as otherwise
 21 provided in this paragraph, the adjustment
 22 under subsection (a) shall be allowed to any
 23 qualified investment entity (including for pur-
 24 poses of determining the earnings and profits of
 25 such entity).

1 “(B) EXCEPTION FOR CORPORATE SHARE-
2 HOLDERS.—Under regulations—

3 “(i) in the case of a distribution by a
4 qualified investment entity (directly or in-
5 directly) to a corporation—

6 “(I) the determination of whether
7 such distribution is a dividend shall be
8 made without regard to this section,
9 and

10 “(II) the amount treated as gain
11 by reason of the receipt of any capital
12 gain dividend shall be increased by the
13 percentage by which the entity’s net
14 capital gain for the taxable year (de-
15 termined without regard to this sec-
16 tion) exceeds the entity’s net capital
17 gain for such year determined with re-
18 gard to this section, and

19 “(ii) there shall be other appropriate
20 adjustments (including deemed distribu-
21 tions) so as to ensure that the benefits of
22 this section are not allowed (directly or in-
23 directly) to corporate shareholders of quali-
24 fied investment entities.

1 For purposes of the preceding sentence, any
2 amount includible in gross income under section
3 852(b)(3)(D) shall be treated as a capital gain
4 dividend and an S corporation shall not be
5 treated as a corporation.

6 “(C) EXCEPTION FOR QUALIFICATION
7 PURPOSES.—This section shall not apply for
8 purposes of sections 851(b) and 856(e).

9 “(D) EXCEPTION FOR CERTAIN TAXES IM-
10 POSED AT ENTITY LEVEL.—

11 “(i) TAX ON FAILURE TO DISTRIBUTE
12 ENTIRE GAIN.—If any amount is subject to
13 tax under section 852(b)(3)(A) for any
14 taxable year, the amount on which tax is
15 imposed under such section shall be in-
16 creased by the percentage determined
17 under subparagraph (B)(i)(II). A similar
18 rule shall apply in the case of any amount
19 subject to tax under paragraph (2) or (3)
20 of section 857(b) to the extent attributable
21 to the excess of the net capital gain over
22 the deduction for dividends paid deter-
23 mined with reference to capital gain divi-
24 dends only. The first sentence of this
25 clause shall not apply to so much of the

1 amount subject to tax under section
2 852(b)(3)(A) as is designated by the com-
3 pany under section 852(b)(3)(D).

4 “(ii) OTHER TAXES.—This section
5 shall not apply for purposes of determining
6 the amount of any tax imposed by para-
7 graph (4), (5), or (6) of section 857(b).

8 “(2) ADJUSTMENTS TO INTERESTS HELD IN
9 ENTITY.—

10 “(A) REGULATED INVESTMENT COMPA-
11 NIES.—Stock in a regulated investment com-
12 pany (within the meaning of section 851) shall
13 be an indexed asset for any calendar quarter in
14 the same ratio as—

15 “(i) the average of the fair market
16 values of the indexed assets held by such
17 company at the close of each month during
18 such quarter, bears to

19 “(ii) the average of the fair market
20 values of all assets held by such company
21 at the close of each such month.

22 “(B) REAL ESTATE INVESTMENT
23 TRUSTS.—Stock in a real estate investment
24 trust (within the meaning of section 856) shall

1 be an indexed asset for any calendar quarter in
2 the same ratio as—

3 “(i) the fair market value of the in-
4 dexed assets held by such trust at the close
5 of such quarter, bears to

6 “(ii) the fair market value of all as-
7 sets held by such trust at the close of such
8 quarter.

9 “(C) RATIO OF 80 PERCENT OR MORE.—If
10 the ratio for any calendar quarter determined
11 under subparagraph (A) or (B) would (but for
12 this subparagraph) be 80 percent or more, such
13 ratio for such quarter shall be 100 percent.

14 “(D) RATIO OF 20 PERCENT OR LESS.—If
15 the ratio for any calendar quarter determined
16 under subparagraph (A) or (B) would (but for
17 this subparagraph) be 20 percent or less, such
18 ratio for such quarter shall be zero.

19 “(E) LOOK-THRU OF PARTNERSHIPS.—For
20 purposes of this paragraph, a qualified invest-
21 ment entity which holds a partnership interest
22 shall be treated (in lieu of holding a partnership
23 interest) as holding its proportionate share of
24 the assets held by the partnership.

1 “(3) TREATMENT OF RETURN OF CAPITAL DIS-
2 TRIBUTIONS.—Except as otherwise provided by the
3 Secretary, a distribution with respect to stock in a
4 qualified investment entity which is not a dividend
5 and which results in a reduction in the adjusted
6 basis of such stock shall be treated as allocable to
7 stock acquired by the taxpayer in the order in which
8 such stock was acquired.

9 “(4) QUALIFIED INVESTMENT ENTITY.—For
10 purposes of this subsection, the term ‘qualified in-
11 vestment entity’ means—

12 “(A) a regulated investment company
13 (within the meaning of section 851), and

14 “(B) a real estate investment trust (within
15 the meaning of section 856).

16 “(f) OTHER PASS-THRU ENTITIES.—

17 “(1) PARTNERSHIPS.—

18 “(A) IN GENERAL.—In the case of a part-
19 nership, the adjustment made under subsection
20 (a) at the partnership level shall be passed
21 through to the partners.

22 “(B) SPECIAL RULE IN THE CASE OF SEC-
23 TION 754 ELECTIONS.—In the case of a transfer
24 of an interest in a partnership with respect to

1 which the election provided in section 754 is in
2 effect—

3 “(i) the adjustment under section
4 743(b)(1) shall, with respect to the trans-
5 feror partner, be treated as a sale of the
6 partnership assets for purposes of applying
7 this section, and

8 “(ii) with respect to the transferee
9 partner, the partnership’s holding period
10 for purposes of this section in such assets
11 shall be treated as beginning on the date
12 of such adjustment.

13 “(2) S CORPORATIONS.—In the case of an S
14 corporation, the adjustment made under subsection
15 (a) at the corporate level shall be passed through to
16 the shareholders. This section shall not apply for
17 purposes of determining the amount of any tax im-
18 posed by section 1374 or 1375.

19 “(3) COMMON TRUST FUNDS.—In the case of a
20 common trust fund, the adjustment made under sub-
21 section (a) at the trust level shall be passed through
22 to the participants.

23 “(4) INDEXING ADJUSTMENT DISREGARDED IN
24 DETERMINING LOSS ON SALE OF INTEREST IN ENTI-
25 TY.—Notwithstanding the preceding provisions of

1 this subsection, for purposes of determining the
2 amount of any loss on a sale or exchange of an in-
3 terest in a partnership, S corporation, or common
4 trust fund, the adjustment made under subsection
5 (a) shall not be taken into account in determining
6 the adjusted basis of such interest.

7 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

8 “(1) IN GENERAL.—This section shall not apply
9 to any sale or other disposition of property between
10 related persons except to the extent that the basis
11 of such property in the hands of the transferee is a
12 substituted basis.

13 “(2) RELATED PERSONS DEFINED.—For pur-
14 poses of this section, the term ‘related persons’
15 means—

16 “(A) persons bearing a relationship set
17 forth in section 267(b), and

18 “(B) persons treated as single employer
19 under subsection (b) or (c) of section 414.

20 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
21 MENT.—If any person transfers cash, debt, or any other
22 property to another person and the principal purpose of
23 such transfer is to secure or increase an adjustment under
24 subsection (a), the Secretary may disallow part or all of
25 such adjustment or increase.

1 “(i) SPECIAL RULES.—For purposes of this section—

2 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If
3 there is an addition to the adjusted basis of any tan-
4 gible property or of any stock in a corporation dur-
5 ing the taxable year by reason of an improvement to
6 such property or a contribution to capital of such
7 corporation—

8 “(A) such addition shall never be taken
9 into account under subsection (c)(1)(A) if the
10 aggregate amount thereof during the taxable
11 year with respect to such property or stock is
12 less than \$1,000, and

13 “(B) such addition shall be treated as a
14 separate asset acquired at the close of such tax-
15 able year if the aggregate amount thereof dur-
16 ing the taxable year with respect to such prop-
17 erty or stock is \$1,000 or more.

18 A rule similar to the rule of the preceding sentence
19 shall apply to any other portion of an asset to the
20 extent that separate treatment of such portion is ap-
21 propriate to carry out the purposes of this section.

22 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
23 THROUGHOUT HOLDING PERIOD.—The applicable in-
24 flation adjustment shall be appropriately reduced for

1 periods during which the asset was not an indexed
2 asset.

3 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
4 corporation which is not a dividend shall be treated
5 as a disposition.
6

7 “(4) SECTION CANNOT INCREASE ORDINARY
8 LOSS.—To the extent that (but for this paragraph)
9 this section would create or increase a net ordinary
10 loss to which section 1231(a)(2) applies or an ordi-
11 nary loss to which any other provision of this title
12 applies, such provision shall not apply. The taxpayer
13 shall be treated as having a long-term capital loss in
14 an amount equal to the amount of the ordinary loss
15 to which the preceding sentence applies.

16 “(5) ACQUISITION DATE WHERE THERE HAS
17 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
18 WITH RESPECT TO THE TAXPAYER.—If there has
19 been a prior application of subsection (a)(1) to an
20 asset while such asset was held by the taxpayer, the
21 date of acquisition of such asset by the taxpayer
22 shall be treated as not earlier than the date of the
23 most recent such prior application.

1 “(j) REGULATIONS.—The Secretary shall prescribe
2 such regulations as may be necessary or appropriate to
3 carry out the purposes of this section.”.

4 (b) CLERICAL AMENDMENT.—The table of sections
5 for part II of subchapter O of chapter 1 of the Internal
6 Revenue Code of 1986 is amended by striking the item
7 relating to section 1023 and by inserting after the item
8 relating to section 1022 the following new item:

“Sec. 1023. Indexing of certain assets for purposes of determining gain or loss.
“Sec. 1024. Cross references.”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to indexed assets acquired by the
11 taxpayer after December 31, 2023, in taxable years ending
12 after such date.

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