

103D CONGRESS
1ST SESSION

H. R. 2434

To provide a tax credit for families, to provide certain tax incentives to encourage investment and increase savings, and to place limitations on the growth of domestic spending.

IN THE HOUSE OF REPRESENTATIVES

JUNE 16, 1993

Mr. GRAMS (for himself, Mr. HUTCHINSON, Mr. ISTOOK, Mr. KNOLLENBERG, Mr. HOEKSTRA, Mr. TALENT, Mr. CRAPO, Mr. MANZULLO, Mr. LEVY, Mr. KIM, Mr. HOKE, Mr. POMBO, Ms. DUNN, Ms. PRYCE of Ohio, Mr. TORKILDSEN, Mr. BACHUS of Alabama, Mr. MCKEON, Mr. BARTLETT of Maryland, Mr. LINDER, Mr. BLUTE, Mr. BAKER of California, Mr. COLLINS of Georgia, Mr. MCINNIS, Mr. INGLIS of South Carolina, Mr. DICK- EY, Mr. SMITH of Michigan, Mrs. FOWLER, Mr. GINGRICH, Mr. ARMEY, Mr. HYDE, Mr. DELAY, Mr. SOLOMON, Mr. DOOLITTLE, Mr. BARTON of Texas, Mr. BURTON of Indiana, Mr. RAMSTAD, Mr. BOEHNER, Mr. COX, Mr. SMITH of Oregon, Mr. PACKARD, Mr. DORNAN, Mr. SANTORUM, Mr. HERGER, Mr. EWING, and Mr. HEFLEY) introduced the following bill; which was referred jointly to the Committees on Ways and Means, Government Operations, and Rules

A BILL

To provide a tax credit for families, to provide certain tax incentives to encourage investment and increase savings, and to place limitations on the growth of domestic spending.

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

1 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

2 (a) SHORT TITLE.—This Act may be cited as the
3 “Putting Jobs and the American Family First Act of
4 1993”.

5 (b) AMENDMENT OF 1986 CODE.—Except as other-
6 wise expressly provided, whenever in this Act an amend-
7 ment or repeal is expressed in terms of an amendment
8 to, or repeal of, a section or other provision, the reference
9 shall be considered to be made to a section or other provi-
10 sion of the Internal Revenue Code of 1986.

11 **TITLE I—FAMILY TAX CREDIT**

12 **SEC. 101. FAMILY TAX CREDIT.**

13 (a) IN GENERAL.—Subpart C of part IV of sub-
14 chapter A of chapter 1 is amended by redesignating sec-
15 tion 35 as section 36 and by inserting after section 34
16 the following new section:

17 **“SEC. 35. FAMILY TAX CREDIT.**

18 “(a) GENERAL RULE.—In the case of an eligible indi-
19 vidual, there shall be allowed as a credit against the tax
20 imposed by this subtitle for the taxable year an amount
21 equal to \$500 multiplied by the number of qualifying chil-
22 dren of the taxpayer who have not attained the age of 18
23 as of the close of the calendar year in which the taxable
24 year of the taxpayer begins.

1 “(b) LIMITATION BASED ON AMOUNT OF TAX.—The
2 credit allowed by subsection (a) for a taxable year shall
3 not exceed the excess (if any) of—

4 “(1) the sum of—

5 “(A) the tax imposed by this subtitle for
6 the taxable year (reduced by the credits allow-
7 able against such tax other than the credits al-
8 lowable under this subpart), and

9 “(B) the taxes imposed by sections 3101
10 and 3111 on wages received by the taxpayer
11 during such taxable year, over

12 “(2) the credit allowable for the taxable year
13 under section 32.

14 “(c) INFLATION ADJUSTMENTS.—

15 “(1) IN GENERAL.—In the case of a taxable
16 year beginning in a calendar year after 1993, the
17 \$500 amount contained in subsection (a) shall be in-
18 creased by an amount equal to—

19 “(A) \$500, multiplied by

20 “(B) the cost-of-living adjustment deter-
21 mined under section 1(f)(3) for the calendar
22 year in which the taxable year begins, by sub-
23 stituting ‘calendar year 1992’ for ‘calendar year
24 1989’ in subparagraph (B) thereof.

1 “(2) ROUNDING.—If any increase determined
2 under paragraph (1) is not a multiple of \$5, such
3 increase shall be rounded to the next higher multiple
4 of \$5.

5 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
6 poses of this section—

7 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
8 individual’ has the meaning given to such term by
9 section 32(c)(1) (determined without regard to sub-
10 paragraph (B) thereof).

11 “(2) QUALIFYING CHILD.—The term ‘qualifying
12 child’ has the meaning given to such term by section
13 32(c)(3) (determined without regard to subpara-
14 graphs (C) and (E) thereof).

15 “(3) CERTAIN OTHER RULES APPLY.—Sub-
16 sections (d) and (e) of section 32 shall apply.”

17 (b) DENIAL OF DOUBLE BENEFIT.—Subparagraph
18 (A) of section 21(b)(1) (defining qualifying individual) is
19 amended by inserting “(other than an individual described
20 in section 30A(a))” after “taxpayer”.

1 (c) CONFORMING AMENDMENT.—The table of sec-
2 tions for such subpart B is amended by adding at the end
3 thereof the following new item:

“Sec. 30A. Family tax credit.”

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 1992.

7 **TITLE II—REDUCING THE COST**
8 **OF CAPITAL BY REDUCING**
9 **CAPITAL GAINS TAX RATES**
10 **AND INDEXING THE BASIS OF**
11 **CERTAIN ASSETS**

12 **SEC. 201. REDUCTION IN INDIVIDUAL CAPITAL GAINS**
13 **RATE.**

14 (a) GENERAL RULE.—Subsection (h) of section 1 (re-
15 lating to maximum capital gains rate) is amended to read
16 as follows:

17 “(h) MAXIMUM CAPITAL GAINS RATE.—

18 “(1) IN GENERAL.—If a taxpayer has a net
19 capital gain for any taxable year, then the tax im-
20 posed by this section shall not exceed the sum of—

21 “(A) a tax computed at the rates and in
22 the same manner as if this subsection had not
23 been enacted on the taxable income reduced by
24 the net capital gain, plus

25 “(B) a tax equal to the sum of—

1 “(i) 7.5 percent of so much of the net
2 capital gain as does not exceed—

3 “(I) the maximum amount of
4 taxable income to which the 15-per-
5 cent rate applies under the table ap-
6 plicable to the taxpayer, reduced by

7 “(II) the taxable income to which
8 subparagraph (A) applies, plus

9 “(ii) 15 percent of the net capital gain
10 in excess of the net capital gain to which
11 clause (i) applies.

12 “(2) TRANSITIONAL RULE.—In the case of a
13 taxable year which includes January 1, 1993, the
14 amount of the net capital gain for purposes of para-
15 graph (1) shall not exceed the net capital gain deter-
16 mined by only taking into account gains and losses
17 properly taken into account for the portion of the
18 taxable year on or after such date.”

19 (b) PHASE-OUT OF PERSONAL EXEMPTIONS AND
20 LIMITATION ON DEDUCTION OF ITEMIZED DEDUCTIONS
21 NOT TO RESULT FROM NET CAPITAL GAIN.—

22 (1)(A) Subparagraphs (A) and (B) of section
23 151(d)(3) (relating to phaseout of exemption
24 amount) are each amended by inserting “modified”
25 before “adjusted gross income”.

1 (B) Paragraph (3) of section 151(d) is amend-
2 ed by redesignating subparagraphs (D) and (E) as
3 subparagraphs (E) and (F), respectively, and by in-
4 serting after subparagraph (C) the following new
5 subparagraph:

6 “(D) MODIFIED ADJUSTED GROSS IN-
7 COME.—For purposes of this paragraph, the
8 term ‘modified adjusted gross income’ means
9 adjusted gross income reduced by net capital
10 gain. In the case of a taxable year which in-
11 cludes January 1, 1993, the amount of the net
12 capital gain for purposes of preceding sentence
13 shall not exceed the net capital gain determined
14 by only taking into account gains and losses
15 properly taken into account for the portion of
16 the taxable year on or after such date.”

17 (2) Subsection (a) of section 68 (relating to
18 overall limitation on itemized deductions) is amend-
19 ed by inserting “(reduced by net capital gain (deter-
20 mined in accordance with the last sentence of section
21 151(d)(3)(D)))” after “adjusted gross income”.

22 (c) TECHNICAL AMENDMENTS.—

23 (1) Paragraph (1) of section 170(e) is amended
24 by striking “the amount of gain” in the material fol-
25 lowing subparagraph (B)(ii) and inserting “16/31

1 (19/34 in the case of a corporation) of the amount
2 of gain”.

3 (2)(A) The second sentence of section
4 7518(g)(6)(A) is amended by striking “28 percent
5 (34 percent in the case of a corporation)” and in-
6 serting “15 percent”.

7 (B) The second sentence of section
8 607(h)(6)(A) of the Merchant Marine Act, 1936, is
9 amended by striking “28 percent (34 percent in the
10 case of a corporation)” and inserting “15 percent”.

11 **SEC. 202. REDUCTION IN CORPORATE CAPITAL GAINS**
12 **RATE.**

13 (a) GENERAL RULE.—Section 1201 (relating to al-
14 ternative tax for corporations) is amended by redesignat-
15 ing subsection (b) as subsection (c), and by striking sub-
16 section (a) and inserting the following:

17 “(a) GENERAL RULE.—If for any taxable year a cor-
18 poration has a net capital gain, then, in lieu of the tax
19 imposed by section 11, 511, or 831(a) (whichever applies),
20 there is hereby imposed a tax (if such tax is less than
21 the tax imposed by such section) which shall consist of
22 the sum of—

23 “(1) a tax computed on the taxable income re-
24 duced by the net capital gain, at the same rates and

1 in the same manner as if this subsection had not
2 been enacted, plus

3 “(2) a tax of 15 percent of the net capital gain.

4 “(b) TRANSITIONAL RULE.—In the case of a taxable
5 year which includes January 1, 1993, the amount of the
6 net capital gain for purposes of subsection (a) shall not
7 exceed the net capital gain determined by only taking into
8 account gains and losses properly taken into account for
9 the portion of the taxable year on or after such date.”

10 (b) TECHNICAL AMENDMENTS.—

11 (1) Clause (iii) of section 852(b)(3)(D) is
12 amended by striking “66 percent” and inserting “85
13 percent”.

14 (2) Paragraphs (1) and (2) of section 1445(e)
15 are each amended by striking “34 percent” and in-
16 serting “15 percent”.

17 **SEC. 203. REDUCTION OF MINIMUM TAX RATE ON CAPITAL**
18 **GAINS.**

19 Subparagraph (A) of section 55(b)(1) (relating to
20 tentative minimum tax) is amended to read as follows:

21 “(A) the sum of—

22 “(i) 15 percent of the lesser of—

23 “(I) the net capital gain (deter-
24 mined with the adjustments provided
25 in this part and (to the extent appli-

1 cable) the limitations of sections
2 1(h)(2) and 1201(b), or

3 “(II) so much of the alternative
4 minimum taxable income for the tax-
5 able year as exceeds the exemption
6 amount, plus

7 “(ii) 20 percent (24 percent in the
8 case of a taxpayer other than a corpora-
9 tion) of the amount (if any) by which the
10 excess referred to in clause (i)(II) exceeds
11 the net capital gain (as so determined), re-
12 duced by”.

13 **SEC. 204. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
14 **OF DETERMINING GAIN OR LOSS.**

15 (a) IN GENERAL.—Part II of subchapter O of chap-
16 ter 1 (relating to basis rules of general application) is
17 amended by inserting after section 1021 the following new
18 section:

19 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
20 **OF DETERMINING GAIN OR LOSS.**

21 “(a) GENERAL RULE.—

22 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
23 JUSTED BASIS.—Except as provided in paragraph
24 (2), if an indexed asset which has been held for
25 more than 1 year is sold or otherwise disposed of,

1 for purposes of this title the indexed basis of the
2 asset shall be substituted for its adjusted basis.

3 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
4 The deduction for depreciation, depletion, and amor-
5 tization shall be determined without regard to the
6 application of paragraph (1) to the taxpayer or any
7 other person.

8 “(b) INDEXED ASSET.—

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

11 “(A) stock in a corporation, and

12 “(B) tangible property (or any interest
13 therein), which is a capital asset of property
14 used in the trade or business (as defined in sec-
15 tion 1231(b)).

16 “(2) CERTAIN PROPERTY EXCLUDED.—For
17 purposes of this section, the term ‘indexed asset’
18 does not include—

19 “(A) CREDITOR’S INTEREST.—Any interest
20 in property which is in the nature of a credi-
21 tor’s interest.

22 “(B) OPTIONS.—Any option or other right
23 to acquire an interest in property.

1 “(C) NET LEASE PROPERTY.—In the case
2 of a lessor, net lease property (within the mean-
3 ing of subsection (h)(1)).

4 “(D) CERTAIN PREFERRED STOCK.—Stock
5 which is fixed and preferred as to dividends and
6 does not participate in corporate growth to any
7 significant extent.

8 “(E) STOCK IN CERTAIN CORPORATIONS.—
9 Stock in—

10 “(i) an S corporation (within the
11 meaning of section 1361),

12 “(ii) a personal holding company (as
13 defined in section 542), and

14 “(iii) a foreign corporation.

15 “(3) EXCEPTION FOR STOCK IN FOREIGN COR-
16 PORATION WHICH IS REGULARLY TRADED ON NA-
17 TIONAL OR REGIONAL EXCHANGE.—Clause (iii) of
18 paragraph (2)(E) shall not apply to stock in a for-
19 eign corporation the stock of which is listed on the
20 New York Stock Exchange, the American Stock Ex-
21 change, or any domestic regional exchange for which
22 quotations are published on a regular basis other
23 than—

1 “(A) stock of a foreign investment com-
2 pany (within the meaning of section 1246(b)),
3 and

4 “(B) stock in a foreign corporation held by
5 a United States person who meets the require-
6 ments of section 1248(a)(2).

7 “(c) INDEXED BASIS.—For purposes of this sec-
8 tion—

9 “(1) INDEXED BASIS.—The indexed basis for
10 any asset is—

11 “(A) the adjusted basis of the asset, multi-
12 plied by

13 “(B) the applicable inflation ratio.

14 “(2) APPLICABLE INFLATION RATIO.—The ap-
15 plicable inflation ratio for any asset is the percent-
16 age arrived at by dividing—

17 “(A) the gross national product deflator
18 for the calendar quarter in which the disposi-
19 tion takes place, by

20 “(B) the gross national product deflator
21 for the calendar quarter in which the asset was
22 acquired by the taxpayer (or, if later, the cal-
23 endar quarter ending December 31, 1992).

24 The applicable inflation ratio shall not be taken into
25 account unless it is greater than 1. The applicable

1 inflation ratio for any asset shall be rounded to the
2 nearest one-tenth of 1 percent.

3 “(3) GROSS NATIONAL PRODUCT DEFLATOR.—
4 The gross national product deflator for any calendar
5 quarter is the implicit price deflator for the gross
6 national product for such quarter (as shown in the
7 first revision thereof).

8 “(4) SECRETARY TO PUBLISH TABLES.—The
9 Secretary shall publish tables specifying the applica-
10 ble inflation ratios for each calendar quarter.

11 “(d) SPECIAL RULES.—For purposes of this sec-
12 tion—

13 “(1) TREATMENT AS SEPARATE ASSET.—In the
14 case of any asset, the following shall be treated as
15 a separate asset:

16 “(A) a substantial improvement to prop-
17 erty,

18 “(B) in the case of stock of a corporation,
19 a substantial contribution to capital, and

20 “(C) any other portion of an asset to the
21 extent that separate treatment of such portion
22 is appropriate to carry out the purposes of this
23 section.

24 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
25 THROUGHOUT HOLDING PERIOD.—

1 “(A) IN GENERAL.—The applicable infla-
2 tion ratio shall be appropriately reduced for cal-
3 endar months at any time during which the
4 asset was not an indexed asset.

5 “(B) CERTAIN SHORT SALES.—For pur-
6 poses of applying subparagraph (A), an asset
7 shall be treated as not an indexed asset for any
8 short sale period during which the taxpayer or
9 the taxpayer’s spouse sells short property sub-
10 stantially identical to the asset. For purposes of
11 the preceding sentence, the short sale period be-
12 gins on the day after the substantially identical
13 property is sold and ends on the closing date
14 for the sale.

15 “(3) TREATMENT OF CERTAIN DISTRIBU-
16 TIONS.—A distribution with respect to stock in a
17 corporation which is not a dividend shall be treated
18 as a disposition.

19 “(4) SECTION CANNOT INCREASE ORDINARY
20 LOSS.—To the extent that (but for this paragraph)
21 this section would create or increase a net ordinary
22 loss to which section 1231(a)(2) applies or an ordi-
23 nary loss to which any other provision of this title
24 applies, such provision shall not apply. The taxpayer
25 shall be treated as having a long-term capital loss in

1 an amount equal to the amount of the ordinary loss
2 to which the preceding sentence applies.

3 “(5) ACQUISITION DATE WHERE THERE HAS
4 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
5 WITH RESPECT TO THE TAXPAYER.—If there has
6 been a prior application of subsection (a)(1) to an
7 asset while such asset was held by the taxpayer, the
8 date of acquisition of such asset by the taxpayer
9 shall be treated as not earlier than the date of the
10 most recent such prior application.

11 “(6) COLLAPSIBLE CORPORATIONS.—The appli-
12 cation of section 341(a) (relating to collapsible
13 corporations) shall be determined without regard to
14 this section.

15 “(e) CERTAIN CONDUIT ENTITIES.—

16 “(1) REGULATED INVESTMENT COMPANIES;
17 REAL ESTATE INVESTMENT TRUSTS; COMMON TRUST
18 FUNDS.—

19 “(A) IN GENERAL.—Stock in a qualified
20 investment entity shall be an indexed asset for
21 any calendar month in the same ratio as the
22 fair market value of the assets held by such en-
23 tity at the close of such month which are in-
24 dexed assets bears to the fair market value of

1 all assets of such entity at the close of such
2 month.

3 “(B) RATIO OF 90 PERCENT OR MORE.—If
4 the ratio for any calendar month determined
5 under subparagraph (A) would (but for this
6 subparagraph) be 90 percent or more, such
7 ratio for such month shall be 100 percent.

8 “(C) RATIO OF 10 PERCENT OR LESS.—If
9 the ratio for any calendar month determined
10 under subparagraph (A) would (but for this
11 subparagraph) be 10 percent or less, such ratio
12 for such month shall be zero.

13 “(D) VALUATION OF ASSETS IN CASE OF
14 REAL ESTATE INVESTMENT TRUSTS.—Nothing
15 in this paragraph shall require a real estate in-
16 vestment trust to value its assets more fre-
17 quently than once each 36 months (except
18 where such trust ceases to exist). The ratio
19 under subparagraph (A) for any calendar
20 month for which there is no valuation shall be
21 the trustee’s good faith judgment as to such
22 valuation.

23 “(E) QUALIFIED INVESTMENT ENTITY.—
24 For purposes of this paragraph, the term
25 ‘qualified investment entity’ means—

1 “(i) a regulated investment company
2 (within the meaning of section 851),

3 “(ii) a real estate investment trust
4 (within the meaning of section 856), and

5 “(iii) a common trust fund (within the
6 meaning of section 584).

7 “(2) PARTNERSHIPS.—In the case of a partner-
8 ship, the adjustment made under subsection (a) at
9 the partnership level shall be passed through to the
10 partners.

11 “(3) SUBCHAPTER S CORPORATIONS.—In the
12 case of an electing small business corporation, the
13 adjustment under subsection (a) at the corporate
14 level shall be passed through to the shareholders.

15 “(f) DISPOSITIONS BETWEEN RELATED PERSONS.—

16 “(1) IN GENERAL.—This section shall not apply
17 to any sale or other disposition of property between
18 related persons except to the extent that the basis
19 of such property in the hands of the transferee is a
20 substituted basis.

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

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

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

3 “(g) TRANSFERS TO INCREASE INDEXING ADJUST-
4 MENT OR DEPRECIATION ALLOWANCE.—If any person
5 transfers cash, debt, or any other property to another per-
6 son and the principal purpose of such transfer is—

7 “(1) to secure or increase an adjustment under
8 subsection (a), or

9 “(2) to increase (by reason of an adjustment
10 under subsection (a)) a deduction for depreciation,
11 depletion, or amortization,

12 the Secretary may disallow part or all of such adjustment
13 or increase.

14 “(h) DEFINITIONS.—For purposes of this section—

15 “(1) NET LEASE PROPERTY DEFINED.—The
16 term ‘net lease property’ means leased real property
17 where—

18 “(A) the term of the lease (taking into ac-
19 count options to renew) was 50 percent or more
20 of the useful life of the property, and

21 “(B) for the period of the lease, the sum
22 of the deductions with respect to such property
23 which are allowable to the lessor solely by rea-
24 son of section 162 (other than rents and reim-
25 bursed amounts with respect to such property)

1 is 15 percent or less of the rental income pro-
2 duced by such property.

3 “(2) STOCK INCLUDES INTEREST IN COMMON
4 TRUST FUND.—The term ‘stock in a corporation’ in-
5 cludes any interest in a common trust fund (as de-
6 fined in section 584(a)).

7 “(i) REGULATIONS.—The Secretary shall prescribe
8 such regulations as may be necessary or appropriate to
9 carry out the purposes of this section.”

10 (b) CLERICAL AMENDMENT.—The table of sections
11 for part II of subchapter O of such chapter 1 is amended
12 by inserting after the item relating to section 1021 the
13 following new item:

“Sec. 1022. Indexing of certain assets for purposes of determining
gain or loss.”

14 (c) ADJUSTMENT TO APPLY FOR PURPOSES OF DE-
15 TERMINING EARNINGS AND PROFITS.—Subsection (f) of
16 section 312 (relating to effect on earnings and profits of
17 gain or loss and of receipt of tax-free distributions) is
18 amended by adding at the end thereof the following new
19 paragraph:

1 “(3) EFFECT ON EARNINGS AND PROFITS OF
2 INDEXED BASIS.—

**For substitution of indexed basis for adjusted
basis in the case of the disposition of certain assets
after December 31, 1992, see section 1022(a)(1).”**

3 **SEC. 205. INDEXING OF LIMITATION ON CAPITAL LOSSES**
4 **OF INDIVIDUALS.**

5 Section 1211 (relating to limitation on capital losses)
6 is amended by adding at the end thereof the following new
7 subsection:

8 “(c) INDEXATION OF LIMITATION ON
9 NONCORPORATE TAXPAYERS.—

10 “(1) IN GENERAL.—In the case of any taxable
11 year beginning in a calendar year after 1992, the
12 \$3,000 and \$1,500 amounts under subsection (b)(1)
13 shall be increased by an amount equal to—

14 “(A) such dollar amount, multiplied by

15 “(B) the applicable inflation adjustment
16 for the calendar year in which the taxable year
17 begins.

18 “(2) APPLICABLE INFLATION ADJUSTMENT.—

19 For purposes of paragraph (1), the applicable infla-
20 tion adjustment for any calendar year is the percent-
21 age (if any) by which—

22 “(A) the gross national product deflator
23 for the last calendar quarter of the preceding
24 calendar year, exceeds

1 “(B) the gross national product deflator
2 for the last calendar quarter of 1991.

3 For purposes of this paragraph, the term ‘gross na-
4 tional product deflator’ has the meaning given such
5 term by section 1022(c)(3).”

6 **SEC. 206. EFFECTIVE DATES.**

7 (a) IN GENERAL.—Except as provided in subsection
8 (b), the amendments made by this title shall apply to sales
9 or exchanges occurring after December 31, 1992, in tax-
10 able years ending after such date.

11 (b) INDEXING OF LOSS LIMITATION.—The amend-
12 ments made by section 205 shall apply to taxable years
13 beginning after December 31, 1992.

14 **TITLE III—NEUTRAL COST**
15 **RECOVERY**

16 **SEC. 301. DEPRECIATION ADJUSTMENT FOR CERTAIN**
17 **PROPERTY PLACED IN SERVICE IN TAXABLE**
18 **YEARS BEGINNING AFTER DECEMBER 31,**
19 **1993.**

20 (a) IN GENERAL.—Section 168 (relating to acceler-
21 ated cost recovery system) is amended by adding at the
22 end thereof the following new subsection:

23 “(j) DEDUCTION ADJUSTMENT TO ALLOW EQUIVA-
24 LENT OF EXPENSING FOR CERTAIN PROPERTY PLACED

1 IN SERVICE IN TAXABLE YEARS BEGINNING AFTER
2 DECEMBER 31, 1993.—

3 “(1) IN GENERAL.—In the case of tangible
4 property placed in service in a taxable year begin-
5 ning after December 31, 1993, the deduction allow-
6 able under this section with respect to such property
7 for any taxable year (after the taxable year during
8 which the property is placed in service) shall be—

9 “(A) the amount so allowable for such tax-
10 able year without regard to this subsection,
11 multiplied by

12 “(B) the applicable neutral cost recovery
13 ratio for such taxable year.

14 For purposes of subparagraph (A), paragraphs (1)
15 and (2) of section 168(b) shall be applied by sub-
16 stituting ‘150 percent’ for ‘200 percent’.

17 “(2) APPLICABLE NEUTRAL COST RECOVERY
18 RATIO.—For purposes of paragraph (1), the applica-
19 ble neutral cost recovery ratio for any taxable year
20 is the number determined by—

21 “(A) dividing—

22 “(i) the gross national product
23 deflator for the calendar quarter ending in
24 such taxable year which corresponds to the

1 calendar quarter during which the property
2 was placed in service by the taxpayer, by
3 “(ii) the gross national product
4 deflator for the calendar quarter during
5 which the property was placed in service by
6 the taxpayer, and

7 “(B) then multiplying the number deter-
8 mined under subparagraph (A) by the number
9 equal to 1.035 to the n th power where ‘ n ’ is the
10 number of full years in the period beginning on
11 the 1st day of the calendar quarter during
12 which the property was placed in service by the
13 taxpayer and ending on the day before the be-
14 ginning of the corresponding calendar quarter
15 ending during such taxable year.

16 The applicable neutral cost recovery ratio shall not
17 be taken into account unless it is greater than 1.

18 The applicable neutral cost recovery ratio shall be
19 rounded to the nearest one-tenth of 1 percent.

20 “(3) GROSS NATIONAL PRODUCT DEFLATOR.—

21 For purposes of paragraph (2), the gross national
22 product deflator for any calendar quarter is the im-
23 plicit price deflator for the gross national product
24 for such quarter (as shown in the first revision
25 thereof).

1 “(4) ELECTION NOT TO HAVE SUBSECTION
2 APPLY.—This subsection shall not apply to any
3 property if the taxpayer elects not to have this sub-
4 section apply to such property. Such an election,
5 once made, shall be irrevocable.”

6 (b) MINIMUM TAX TREATMENT.—Paragraph (1) of
7 section 56(a) is amended by adding at the end thereof the
8 following new subparagraph:

9 “(E) USE OF NEUTRAL COST RECOVERY
10 RATIO.—In the case of tangible property placed
11 in service in a taxable year beginning after De-
12 cember 31, 1993, the deduction allowable under
13 this paragraph with respect to such property
14 for any taxable year (after the taxable year dur-
15 ing which the property is placed in service)
16 shall be—

17 “(i) the amount so allowable for such
18 taxable year without regard to this sub-
19 paragraph, multiplied by

20 “(ii) the applicable neutral cost recov-
21 ery ratio for such taxable year (as deter-
22 mined under section 168(j)).

23 This subparagraph shall not apply to any prop-
24 erty with respect to which there is an election
25 in effect not to have section 168(j) apply.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1993.

4 **SEC. 302. REPEAL OF SPECIAL DEPRECIATION RULES AP-**
5 **PLICABLE UNDER THE ADJUSTED CURRENT**
6 **EARNINGS PROVISIONS OF THE MINIMUM**
7 **TAX.**

8 (a) IN GENERAL.—Subparagraph (A) of section
9 56(g)(4) (relating to adjustments) is amended to read as
10 follows:

11 “(A) DEPRECIATION.—

12 “(i) IN GENERAL.—The depreciation
13 deduction with respect to any property for
14 any taxable year beginning after December
15 31, 1993, shall be the same as the depre-
16 ciation deduction allowable in computing
17 alternative minimum taxable income for
18 such taxable year.

19 “(ii) BASIS RULES.—Notwithstanding
20 subparagraph (I), the adjusted basis of
21 any depreciable property held by the tax-
22 payer as of the beginning of the taxpayer’s
23 first taxable year beginning after Decem-
24 ber 31, 1993, shall be determined as if the
25 provisions of clause (i) had also applied to

1 taxable years beginning in 1990, 1991,
2 1992, or 1993.

3 “(iii) LOST BASIS RECOVERED OVER 5
4 YEARS.—The amount determined under
5 clause (iv) shall be allowed as a deduction
6 ratably over the 60-month period begin-
7 ning with the first month of the taxpayer’s
8 first taxable year beginning after Decem-
9 ber 31, 1993.

10 “(iv) AMOUNT OF LOST BASIS.—The
11 amount determined under this clause is the
12 excess of—

13 “(I) the aggregate adjusted bases
14 of depreciable property held by the
15 taxpayer as of the beginning of the
16 taxpayer’s first taxable year beginning
17 after December 31, 1993, which
18 would have been determined (as of
19 such time) under subparagraph (I)
20 without regard to clause (ii), over

21 “(II) the aggregate adjusted
22 bases of such property (as of such
23 time) as determined under the rules of
24 clause (ii).”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to taxable years beginning after
3 December 31, 1993.

4 **TITLE IV—INCREASING NA-**
5 **TIONAL SAVINGS THROUGH**
6 **INDIVIDUAL RETIREMENT**
7 **PLUS ACCOUNTS, INDEXING**
8 **FOR INFLATION THE INCOME**
9 **THRESHOLDS FOR TAXING**
10 **SOCIAL SECURITY BENEFITS,**
11 **ETC.**

12 **SEC. 401. ESTABLISHMENT OF INDIVIDUAL RETIREMENT**
13 **PLUS ACCOUNTS.**

14 (a) IN GENERAL.—Subpart A of part I of subchapter
15 D of chapter 1 (relating to pension, profit-sharing, stock
16 bonus plans, etc.) is amended by inserting after section
17 408 the following new section:

18 **“SEC. 408A. INDIVIDUAL RETIREMENT PLUS ACCOUNTS.**

19 “(a) GENERAL RULE.—Except as provided in this
20 section, an individual retirement plus account shall be
21 treated for purposes of this title in the same manner as
22 an individual retirement plan.

23 “(b) INDIVIDUAL RETIREMENT PLUS ACCOUNT.—
24 For purposes of this title, the term ‘individual retirement
25 plus account’ means an individual retirement plan which

1 is designated at the time of the establishment of the plan
2 as an individual retirement plus account. Such designation
3 shall be made in such manner as the Secretary may pre-
4 scribe.

5 “(c) CONTRIBUTION RULES.—

6 “(1) NO DEDUCTION ALLOWED.—No deduction
7 shall be allowed under section 219 for a contribution
8 to an individual retirement plus account.

9 “(2) CONTRIBUTION LIMIT.—

10 “(A) IN GENERAL.—Except in the case of
11 rollover contributions, the aggregate amount
12 which may be accepted as contributions to an
13 individual retirement plus account shall not be
14 greater than the excess (if any) of—

15 “(i) the nondeductible limit with re-
16 spect to the individual for the taxable year
17 under section 408(o) (after application of
18 subparagraph (B)(ii) thereof), over

19 “(ii) the designated nondeductible
20 contributions made by the individual for
21 such taxable year to 1 or more individual
22 retirement plans.

23 “(B) \$1,000 INCREASE AFTER 1994.—

24 “(i) IN GENERAL.—In the case of any
25 taxable year beginning after December 31,

1 1994, the amount determined under sub-
2 paragraph (A)(i) (without regard to this
3 subparagraph) shall be increased by
4 \$1,000.

5 “(ii) ADJUSTMENT FOR INFLATION.—
6 In the case of any taxable year beginning
7 in a calendar year after 1996, the \$1,000
8 amount in clause (i) shall be increased by
9 an amount equal to—

10 “(I) such dollar amount, multi-
11 plied by

12 “(II) the cost-of-living adjust-
13 ment under section 1(f)(3) for the cal-
14 endar year in which the taxable year
15 begins, determined by substituting
16 ‘calendar year 1995’ for ‘calendar
17 year 1989’ in subparagraph (B) there-
18 of.

19 “(iii) ROUNDING.—If any amount as
20 adjusted under clause (ii) is not a multiple
21 of \$50, such amount shall be rounded to
22 the nearest multiple of \$50 (or, if such
23 amount is a multiple of \$25, such amount
24 shall be rounded to the next highest mul-
25 tiple of \$50).

1 “(C) SPECIAL RULE FOR MARRIED INDI-
2 VIDUALS.—The nondeductible limits under sub-
3 paragraph (A) for an individual and for such
4 individual’s spouse shall be an amount equal to
5 the excess (if any) of—

6 “(i) \$2,000, over

7 “(ii) the sum of the amount allowed
8 as a deduction under section 219 for con-
9 tributions on behalf of such individual or
10 such spouse, plus the amount determined
11 under subparagraph (A)(ii) with respect to
12 each.

13 In no event shall the sum of such limits exceed
14 an amount equal to the sum of the compensa-
15 tion includible in the individual’s and spouse’s
16 gross income for the taxable year, reduced by
17 the sum of the amounts determined under
18 clause (ii).

19 “(3) CONTRIBUTIONS AFTER AGE 70¹/₂.—Con-
20 tributions may be made by an individual to an indi-
21 vidual retirement plus account after such individual
22 has attained the age of 70¹/₂.

23 “(4) LIMITATIONS ON ROLLOVER CONTRIBU-
24 TIONS.—No rollover contributions may be made to
25 an individual retirement plus account unless such

1 rollover contribution is a contribution of a distribu-
2 tion or payment out of—

3 “(A) another individual retirement plus ac-
4 count, or

5 “(B) an individual retirement plan which is
6 not allocable to any amount transferred to such
7 plan which represented any portion of the bal-
8 ance to the credit of an employee in a qualified
9 trust (or any income allocable to such portion).

10 “(d) DISTRIBUTION RULES.—For purposes of this
11 title—

12 “(1) IN GENERAL.—Except in the case of a
13 qualified distribution, the rules of paragraphs (1)
14 and (2) of section 408(d) shall apply to any distribu-
15 tion from an individual retirement plus account.

16 “(2) TREATMENT OF QUALIFIED DISTRIBUTION.—In the case of a qualified distribution from
17 an individual retirement plus account—
18

19 “(A) the amount of such distribution shall
20 not be includible in gross income; and

21 “(B) section 72(t) shall not apply.

22 “(3) QUALIFIED DISTRIBUTION.—For purposes
23 of this subsection—

24 “(A) IN GENERAL.—The term ‘qualified
25 distribution’ means any distribution—

1 “(i) made on or after the date on
2 which the individual attains age 59½,

3 “(ii) made to a beneficiary (or to the
4 estate of an individual) on or after the
5 death of the individual,

6 “(iii) attributable to the employee’s
7 being disabled (within the meaning of sec-
8 tion 72(m)(7)), or

9 “(iv) which is a qualified special pur-
10 pose distribution (within the meaning of
11 subsection (e)).

12 “(B) DISTRIBUTIONS WITHIN 5 YEARS.—
13 No distribution shall be treated as a qualified
14 distribution if—

15 “(i) it is made within the 5-taxable
16 year period beginning with the 1st taxable
17 year in which the individual made a con-
18 tribution to an individual retirement plus
19 account, or

20 “(ii) in the case of a distribution
21 properly allocable to a rollover contribution
22 (or income allocable thereto), it is made
23 within 5 years of the date on which such
24 rollover contribution was made.

1 “(4) SPECIAL RULES RELATING TO ROLLOVERS
2 FROM REGULAR INDIVIDUAL RETIREMENT AC-
3 COUNTS.—

4 “(A) IN GENERAL.—Except as provided in
5 this paragraph, any amount paid or distributed
6 out of an individual retirement plan on or be-
7 fore the earlier of—

8 “(i) the date on which the individual
9 attains age 55, or

10 “(ii) January 1, 1994,

11 shall not be included in gross income (and sec-
12 tion 72(t) shall not apply to such amount) if
13 the individual receiving such amount transfers,
14 within 60 days of receipt, the entire amount re-
15 ceived to an individual retirement plus account.

16 “(B) TREATMENT OF TAX-FAVORED
17 AMOUNTS.—

18 “(i) IN GENERAL.—Notwithstanding
19 subparagraph (A), there shall be included
20 in gross income (but section 72(t) shall not
21 apply to) the portion of any amount trans-
22 ferred which bears the same ratio to such
23 amount as—

24 “(I) the aggregate amount of
25 contributions to individual retirement

1 plans with respect to which a deduc-
2 tion was allowable under section 219,
3 bears to

4 “(II) the aggregate balance of
5 such plans.

6 “(ii) TIME FOR INCLUSION.—Any
7 amount described in clause (i) shall be in-
8 cluded in gross income ratably over the 4-
9 taxable year period beginning with the tax-
10 able year in which the amount was paid or
11 distributed out of the individual retirement
12 plan.

13 “(e) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of this section—

14 “(1) IN GENERAL.—The term ‘qualified special
15 purpose distribution’ means—

16 “(A) a qualified first-time homebuyer dis-
17 tribution, or

18 “(B) an applicable medical or educational
19 distribution.

20 “(2) 25 PERCENT ACCOUNT LIMIT.—A distribu-
21 tion shall not be treated as a qualified special pur-
22 pose distribution to the extent it exceeds the amount
23 (if any) by which—

24 “(A) 25 percent of the sum of—

1 “(i) the aggregate balance of individ-
2 ual retirement plus accounts established on
3 behalf of an individual, plus

4 “(ii) the aggregate amounts previously
5 treated as qualified special purpose dis-
6 tributions, exceeds

7 “(B) the amount determined under sub-
8 paragraph (A)(ii).

9 “(3) DISTRIBUTIONS USED TO PURCHASE A
10 HOME BY FIRST-TIME HOMEBUYER.—For purposes
11 of paragraph (1)—

12 “(A) IN GENERAL.—The term ‘qualified
13 first-time homebuyer distribution’ means any
14 payment or distribution received by a first-time
15 homebuyer from an individual retirement plan
16 to the extent such payment or distribution is
17 used by the individual before the close of the
18 60th day after the day on which such payment
19 or distribution is received to pay qualified ac-
20 quisition costs with respect to a principal resi-
21 dence for such individual.

22 “(B) BASIS REDUCTION.—The basis of any
23 principal residence described in subparagraph
24 (A) shall be reduced by any amount excluded

1 from the gross income of such first-time home-
2 buyer by reason of this section.

3 “(C) RECOGNITION OF GAIN AS ORDINARY
4 INCOME.—

5 “(i) IN GENERAL.—Notwithstanding
6 any other provision of this subtitle, except
7 as provided in clause (ii)—

8 “(I) gain (if any) on the sale or
9 exchange of a principal residence to
10 which subparagraph (A) applies shall,
11 to the extent of the amount excluded
12 from gross income under this section,
13 be treated as ordinary income by such
14 individual, and

15 “(II) section 72(t) shall apply to
16 such amount.

17 “(ii) EXCEPTION.—Clause (i) shall
18 not apply to any taxable year to the extent
19 of any amount which, before the due date
20 (without extensions) for filing the return
21 for such year, the taxpayer contributes to
22 an individual retirement plus account.
23 Such amount shall not be taken into ac-
24 count for purposes of any provision of this
25 title relating to excess contributions.

1 “(iii) COORDINATION WITH OTHER
2 PROVISIONS.—In the event all or part of
3 the gain referred to in clause (i) is treated
4 as ordinary income under any other provi-
5 sion of this subtitle, such provision shall be
6 applied before clause (i).

7 “(D) SPECIAL RULE WHERE DELAY IN AC-
8 QUISSION.—If—

9 “(i) any amount is paid or distributed
10 from an individual retirement plus account
11 to an individual for purposes of being used
12 as provided in subparagraph (A), and

13 “(ii) by reason of a delay in the acqui-
14 sition of the residence, such amount cannot
15 be so used,

16 the amount so paid or distributed may be paid
17 into an individual retirement plus account as
18 provided in section 408(d)(3)(A)(i) without re-
19 gard to section 408(d)(3)(B), and, if so paid
20 into such other plan, such amount shall not be
21 taken into account in determining whether sec-
22 tion 408(d)(3)(A)(i) applies to any other
23 amount.

24 “(E) DEFINITIONS.—For purposes of this
25 paragraph—

1 “(i) QUALIFIED ACQUISITION
2 COSTS.—The term ‘qualified acquisition
3 costs’ means the costs of acquiring, con-
4 structing, or reconstructing a residence.
5 Such term includes any usual or reason-
6 able settlement, financing, or other closing
7 costs.

8 “(ii) FIRST-TIME HOMEBUYER.—The
9 term ‘first-time homebuyer’ means any in-
10 dividual if such individual (and if married,
11 such individual’s spouse) had no present
12 ownership interest in a principal residence
13 during the 3-year period ending on the
14 date of acquisition of the principal resi-
15 dence to which this paragraph applies.

16 “(iii) PRINCIPAL RESIDENCE.—The
17 term ‘principal residence’ has the same
18 meaning as when used in section 1034.

19 “(iv) DATE OF ACQUISITION.—The
20 term ‘date of acquisition’ means the date—

21 “(I) on which a binding contract
22 to acquire the principal residence to
23 which subparagraph (A) applies is en-
24 tered into, or

1 “(II) on which construction or re-
2 construction of such a principal resi-
3 dence is commenced.

4 “(4) APPLICABLE MEDICAL DISTRIBUTIONS.—
5 For purposes of paragraph (1), the term ‘applicable
6 medical distributions’ means any distributions made
7 to an individual (not otherwise taken into account
8 under this subsection) to the extent such distribu-
9 tions do not exceed the amount allowable as a de-
10 duction under section 213 for amounts paid during
11 the taxable year for medical care (without regard to
12 whether the individual itemized deductions for the
13 taxable year).

14 “(5) DISTRIBUTIONS FROM INDIVIDUAL RE-
15 TIREMENT PLUS ACCOUNTS FOR EDUCATIONAL EX-
16 PENSES.—

17 “(A) IN GENERAL.—For purposes of para-
18 graph (1), the term ‘applicable educational dis-
19 tributions’ means distributions to an individual
20 to the extent that the amount of such distribu-
21 tions (not otherwise treated as qualified special
22 purpose distributions, determined after applica-
23 tion of paragraph (4)) does not exceed the
24 qualified higher education expenses of the indi-
25 vidual for the taxable year.

1 “(B) QUALIFIED HIGHER EDUCATION EX-
2 PENSES.—For purposes of subparagraph (A)—

3 “(i) IN GENERAL.—The term ‘quali-
4 fied higher education expenses’ means tui-
5 tion, fees, books, supplies, and equipment
6 required for the enrollment or attendance
7 of—

8 “(I) the taxpayer,

9 “(II) the taxpayer’s spouse, or

10 “(III) the taxpayer’s child (as de-
11 fined in section 151(c)(3)) or grand-
12 child,

13 at an eligible educational institution (as
14 defined in section 135(c)(3)).

15 “(ii) COORDINATION WITH SAVINGS
16 BOND PROVISIONS.—The amount of quali-
17 fied higher education expenses for any tax-
18 able year shall be reduced by any amount
19 excludable from gross income under section
20 135.

21 “(f) ROLLOVER CONTRIBUTIONS.—For purposes of
22 this section, the term ‘rollover contributions’ means con-
23 tributions described in sections 402(a)(5), 402(a)(7),
24 403(a)(4), 403(b)(8), and 408(d)(3).

1 “(g) DETERMINATIONS.—For purposes of this sec-
 2 tion, any determinations with respect to aggregate con-
 3 tributions to, or the balance of, individual retirement plus
 4 accounts shall be made as of the close of the calendar year
 5 preceding the calendar year in which the taxable year
 6 begins.”

7 (b) CONFORMING AMENDMENT.—The table of sec-
 8 tions for subpart A of part I of subchapter D of chapter
 9 1 is amended by inserting after the item relating to section
 10 408 the following new item:

“Sec. 408A. Individual retirement plus accounts.”

11 (c) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply to taxable years beginning after
 13 December 31, 1992.

14 **SEC. 402. INFLATION ADJUSTMENT OF INCOME THRESH-**
 15 **OLDS FOR TAXATION OF SOCIAL SECURITY**
 16 **BENEFITS; INCOME FROM INDIVIDUAL RE-**
 17 **TIREMENT PLANS EXCLUDED.**

18 (a) ADJUSTMENT OF INCOME THRESHOLDS FOR IN-
 19 FLATION.—Section 86 (relating to social security and tier
 20 1 railroad retirement benefits) is amended by adding at
 21 the end thereof the following new subsection:

22 “(g) ADJUSTMENT OF INCOME THRESHOLDS FOR IN-
 23 FLATION.—

24 “(1) IN GENERAL.—In the case of any taxable
 25 year beginning in a calendar year after 1996, the

1 \$25,000 and \$32,000 amounts contained in sub-
2 section (c) shall be increased by an amount equal
3 to—

4 “(A) such dollar amount, multiplied by

5 “(B) the cost-of-living adjustment under
6 section 1(f)(3) for the calendar year in which
7 the taxable year begins, determined by sub-
8 stituting ‘calendar year 1995’ for ‘calendar year
9 1989’ in subparagraph (B) thereof.

10 “(2) ROUNDING.—If any amount as adjusted
11 under paragraph (1) is not a multiple of \$50, such
12 amount shall be rounded to the nearest multiple of
13 \$50 (or, if such amount is a multiple of \$25, such
14 amount shall be rounded to the next highest multiple
15 of \$50).”

16 (b) INCOME FROM INDIVIDUAL RETIREMENT PLANS
17 EXCLUDED.—Paragraph (2) of section 86(b) is amended
18 by striking “and” at the end of subparagraph (A), by
19 striking the period at the end of subparagraph (B) and
20 inserting “, and”, and by adding at the end thereof the
21 following new subparagraph:

22 “(C) decreased by the portion of such in-
23 come which is attributable to a distribution or
24 payment from an individual retirement plan.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1996.

4 **SEC. 403. INFLATION ADJUSTMENT OF MAXIMUM AMOUNT**
5 **OF IRA DEDUCTION.**

6 (a) IN GENERAL.—Section 219 (relating to retire-
7 ment savings) is amended by redesignating subsection (h)
8 as subsection (i) and by inserting after subsection (g) the
9 following new subsection:

10 “(h) ADJUSTMENT OF MAXIMUM DEDUCTION FOR
11 INFLATION.—

12 “(1) IN GENERAL.—In the case of any taxable
13 year beginning in a calendar year after 1996, each
14 applicable dollar amount shall be increased by an
15 amount equal to—

16 “(A) such dollar amount, multiplied by

17 “(B) the cost-of-living adjustment under
18 section 1(f)(3) for the calendar year in which
19 the taxable year begins, determined by sub-
20 stituting ‘calendar year 1995’ for ‘calendar year
21 1989’ in subparagraph (B) thereof.

22 “(2) APPLICABLE DOLLAR AMOUNT.—For pur-
23 poses of paragraph (1), the term ‘applicable dollar
24 amount’ means—

1 “(A) the \$2,000 amount in subsections
2 (b)(1)(A) and (c)(2) of this section, in sub-
3 sections (a)(1), (b), and (j) of section 408, and
4 in section 408A(c)(2)(C), and

5 “(B) the \$2,250 amount in subsection
6 (c)(2) of this section and in section 408(d)(5).

7 “(3) ROUNDING.—If any amount as adjusted
8 under paragraph (1) is not a multiple of \$50, such
9 amount shall be rounded to the nearest multiple of
10 \$50 (or, if such amount is a multiple of \$25, such
11 amount shall be rounded to the next highest multiple
12 of \$50).”

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 1996.

16 **TITLE V—CAP ON FEDERAL**
17 **SPENDING AND ESTABLISH-**
18 **MENT OF COMMISSION TO RE-**
19 **DUCE FEDERAL SPENDING**

20 **SEC. 501. ESTABLISHMENT.**

21 There is established a commission to be known as the
22 “Commission on Reduction of Federal Spending” (herein-
23 after referred to as the “Commission”).

24 **SEC. 502. DUTIES OF COMMISSION.**

25 The Commission is authorized and directed to—

1 (1) review all Federal spending, including enti-
2 tlement programs, in order to identify and rec-
3 ommend specific reductions in any Federal project,
4 program, or activity to assure that aggregate Fed-
5 eral spending does not grow at a rate in excess of
6 2 percent per annum through fiscal year 1998; and

7 (2)(A) not later than 6 months after the adop-
8 tion of this resolution, report to the House of Rep-
9 resentatives and to the Senate, by bill, any changes
10 in law necessary to carry out paragraph (1); and

11 (B) if either House of Congress rejects the bill
12 referred to in paragraph (2), report to the House of
13 Representatives and the Senate within 10 legislative
14 days of that rejection another bill containing any
15 changes in law necessary to carry out paragraph (1).

16 **SEC. 503. MEMBERSHIP.**

17 (a) NUMBER AND APPOINTMENT.—The Commission
18 shall be composed of 20 Members of the House of Rep-
19 resentatives appointed by the Speaker, of whom 10 shall
20 be members of the minority party appointed after con-
21 sultation with the minority leader of the House and 20
22 Senators appointed by the President pro tempore of the
23 Senate, of whom 10 shall be members of the minority
24 party, appointed after consultation with the minority lead-
25 er of the Senate. The appointments shall be made within

1 30 days after the adoption of this resolution and shall be
2 for the duration of the One Hundred Third Congress.

3 (b) QUORUM.—Twenty-one members of the Commis-
4 sion shall constitute a quorum but a lesser number may
5 hold hearings.

6 (c) CHAIRPERSON; VICE CHAIRPERSON.—The Chair-
7 person and Vice Chairperson of the Commission shall be
8 elected by the members.

9 (d) MEETINGS.—The Commission shall meet at the
10 call of the Chairperson or a majority of its members.

11 **SEC. 504. DIRECTOR AND STAFF OF COMMISSION.**

12 (a) DIRECTOR.—The Commission shall have a Direc-
13 tor who shall be appointed by the Chairperson. The Direc-
14 tor shall be paid at the rate of basic pay payable for level
15 V of the Executive Schedule.

16 (b) STAFF.—The Commission may appoint and fix
17 the pay of additional personnel as it considers appropriate.

18 **SEC. 505. POWERS OF COMMISSION.**

19 The Commission may, for the purpose of carrying out
20 this resolution, hold hearings, sit and act at times and
21 places, take testimony, and receive evidence as the Com-
22 mission considers appropriate.

23 **SEC. 506. TERMINATION.**

24 The Commission shall terminate at the close of the
25 One Hundred Fourth Congress.

1 **SEC. 507. PAYMENT OF EXPENSES.**

2 One-half of the expenses of the Commission shall be
3 paid from the contingent fund of the House of Representa-
4 tives and one-half from the contingent fund of the Senate.

5 **SEC. 508. CONSIDERATION OF COMMISSION'S PROPOSAL.**

6 (a) Upon the reporting of a bill by the Commission
7 in either House of Congress, the bill shall be placed on
8 the appropriate calendar of that House.

9 (b) A vote on final passage of the bill shall be taken
10 in that House on or before the close of the 7th legislative
11 day of that House after the date the bill is reported to
12 that House. If the bill is agreed to, the Clerk of the House
13 of Representatives (in the case of a bill agreed to in the
14 House of Representatives) or the Secretary of the Senate
15 (in the case of a bill agreed to in the Senate) shall cause
16 the bill to be engrossed, certified, and transmitted to the
17 other House of Congress within one calendar day after the
18 bill is agreed to.

19 (c)(1) A bill transmitted to the House of Representa-
20 tives or the Senate pursuant to subsection (b) shall be
21 placed upon the appropriate calendar.

22 (2) A vote on final passage of a bill transmitted to
23 that House shall be taken on or before the close of the
24 7th legislative day in that House after the date on which
25 the bill is transmitted. If the bill is agreed to in that
26 House, the Clerk of the House of Representatives (in the

1 case of a bill agreed to in the House of Representatives)
2 or the Secretary of the Senate (in the case of a bill agreed
3 to in the Senate) shall cause the engrossed bill to be re-
4 turned to the House.

5 (d)(1) A motion in the House of Representatives to
6 proceed to the consideration of a bill under this section
7 shall be highly privileged and not debatable. An amend-
8 ment to the motion shall not be in order, nor shall it be
9 in order to move to reconsider the vote by which the mo-
10 tion is agreed to or disagreed to.

11 (2) Debate in the House of Representatives on a bill
12 under this section shall not exceed 4 hours, which shall
13 be divided equally between those favoring and those oppos-
14 ing the bill. A motion further to limit debate shall not be
15 debatable. It shall not be in order to move to recommit
16 a bill under this section or to move to reconsider the vote
17 by which the bill is agreed to or disagreed to.

18 (3) Appeals from decisions of the Chair relating to
19 the application of the Rules of the House of Representa-
20 tives to the procedure relating to a bill under this section
21 shall be decided without debate.

22 (4) Except to the extent specifically provided in the
23 preceding provisions of this section, consideration of a bill
24 under this section shall be governed by the Rules of the
25 House of Representatives.

1 (e)(1) A motion in the Senate to proceed to the con-
2 sideration of a bill under this section shall be privileged
3 and not debatable. An amendment to the motion shall not
4 be in order, nor shall it be in order to move to reconsider
5 the vote by which the motion is agreed to or disagreed
6 to.

7 (2) Debate in the Senate on a bill under this section,
8 and all debatable motions and appeals in connection there-
9 with, shall not exceed 10 hours. The time shall be equally
10 divided between, and controlled by, the majority leader
11 and the minority leader or their designees.

12 (3) Debate in the Senate on any debatable motion
13 or appeal in connection with a bill under this section shall
14 be limited to not more than 1 hour, to be equally divided
15 between, and controlled by, the mover and the manager
16 of the bill, except that in the event the manager of the
17 bill is in favor of any such motion or appeal, the time in
18 opposition thereto, shall be controlled by the minority
19 leader or his designee. Such leaders, or either of them,
20 may, from time under their control on the passage of a
21 bill, allot additional time to any Senator during the consid-
22 eration of any debatable motion or appeal.

23 (4) A motion in the Senate to further limit debate
24 on a bill under this section is not debatable. A motion to
25 recommit a bill under this section is not in order.

1 (f) No amendment to a bill considered under this sec-
2 tion shall be in order in either the House of Representa-
3 tives or the Senate. No motion to suspend the application
4 of this subsection shall be in order in either House, nor
5 shall it be in order in either House to suspend the applica-
6 tion of this subsection by unanimous consent.

7 (g) For purposes of this resolution, the term “legisla-
8 tive day” means, with respect to either House of Congress,
9 any calendar day during which that House is in session.

10 **SEC. 509. ADVISORY COUNCIL.**

11 (a) There is established an advisory council to assist
12 the Commission in carrying out its duties.

13 (b) The advisory council shall be composed of 150
14 private citizens appointed as follows:

15 (1) Twenty individuals shall be selected ran-
16 domly by the Director of the Internal Revenue Serv-
17 ice from among individual taxpayers who are willing
18 to serve.

19 (2) Thirty-four individuals shall be appointed
20 by the Speaker of the House of Representatives.

21 (3) Thirty-two individuals shall be appointed by
22 the minority party leader of the House of Represent-
23 atives.

24 (4) Thirty-two individuals shall be appointed by
25 the majority party leader of the Senate.

1 (5) Thirty-two individuals shall be appointed by
2 the minority party leader of the Senate.

3 (c) Members of the advisory council shall receive trav-
4 el expenses, including per diem in lieu of subsistence, in
5 accordance with sections 5702 and 5703 of title 5, United
6 States Code.

7 (d) The advisory council shall terminate at the close
8 of the One Hundred Fourth Congress.

9 **SEC. 510. AMENDMENTS TO THE BALANCED BUDGET AND**
10 **EMERGENCY DEFICIT CONTROL ACT OF 1985**
11 **TO LIMIT FEDERAL SPENDING.**

12 The Balanced Budget and Emergency Deficit Control
13 Act of 1985 is amended by adding after section 252 the
14 following new section:

15 **“SEC. 252A. LIMITATIONS ON DIRECT SPENDING.**

16 “(a) ENFORCEMENT.—The purpose of this section is
17 to assure that any increase in the annual amount of total
18 Federal spending exceeding the amount resulting from an
19 annual rate of inflation of 2 percent will trigger an offset-
20 ting sequestration.

21 “(b) SEQUESTRATION.—Within 15 calendar days
22 after Congress adjourns to end a session and on the same
23 day as a sequestration (if any) under sections 251 and
24 252, and prior to any sequestration under section 253,
25 there shall be a sequestration to offset the amount of any

1 excess Federal spending in that fiscal year. The amount
 2 of excess Federal spending for a fiscal year shall be the
 3 amount by which OMB projects total Federal spending for
 4 that year to exceed the direct spending limit for that year
 5 set forth in the following table:

Fiscal Year	Outlay limits (in billions of dollars)
1994	1472.3
1995	1501.8
1996	1531.8
1997	1562.4
1998	1593.7

6 “(c) ELIMINATING EXCESS FEDERAL SPENDING.—
 7 The amount required to be sequestered in a fiscal year
 8 under subsection (b) shall be obtained from all non-exempt
 9 accounts. Each non-exempt account shall be reduced by
 10 the uniform percentage necessary to make the required re-
 11 duction in Federal spending. The uniform reduction re-
 12 quired shall be made without application of the exemp-
 13 tions, limitations, and special rules set forth in sections
 14 255 and 256, except for the following: section 255(a) (with
 15 respect to social security benefits), 255(c) and prior legal
 16 obligations of the Government in sections 255(g)(1) and
 17 255(g)(2), 256(g), 256(h), and 256(l).

18 “(d) REPORTS.—The requirements of section 254 for
 19 reports and orders that are applicable to section 252 shall
 20 also apply to this section except that such reports and or-

1 ders for this section shall refer to and apply the require-
2 ments, calculations and sequestrations of this section.

3 “(e) RECONCILIATION PROCESS TO AVOID SEQUES-
4 TRATION.—Whenever an update report for this section in-
5 dicates that a sequester would be necessary to eliminate
6 excess Federal spending, the special reconciliation process
7 set forth in section 258C shall apply for consideration of
8 alternatives to the order envisioned by such report.

9 “(f) TRIGGER.—This section shall only be effective
10 if the recommendations of the Commission on Reduction
11 of Federal Spending are not enacted into law.”

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