

103^D CONGRESS
2^D SESSION

H. R. 5023

To amend the Internal Revenue Code of 1986 to reduce the lowest rate of income tax imposed on taxpayers other than corporations from 15 percent to 12.5 percent, to provide for a carryover basis of property acquired from a decedent, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 12, 1994

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

A BILL

To amend the Internal Revenue Code of 1986 to reduce the lowest rate of income tax imposed on taxpayers other than corporations from 15 percent to 12.5 percent, to provide for a carryover basis of property acquired from a decedent, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Citizens’ Tax Relief
5 Act of 1994”.

1 **SEC. 2. REDUCTION OF LOWEST RATE OF INCOME TAX IM-**
2 **POSED ON TAXPAYERS OTHER THAN COR-**
3 **PORATIONS.**

4 (a) IN GENERAL.—Each of the tables contained in
5 subsections (a), (b), (c), (d), and (e) of section 1 of the
6 Internal Revenue Code of 1986 is amended by striking
7 “15%” and inserting “12.5%”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 subsection (a) shall apply to taxable years beginning after
10 December 31, 1994.

11 (c) SECTION 15 NOT TO APPLY.—The amendment
12 made by subsection (a) shall not be treated as a change
13 in the rate of a tax imposed by chapter 1 of the Internal
14 Revenue Code of 1986 for purposes of section 15 of such
15 Code.

16 **SEC. 3. REPEAL OF INCREASE IN BASIS OF PROPERTY AC-**
17 **QUIRED FROM A DECEDENT.**

18 (a) IN GENERAL.—Section 1014 of the Internal Rev-
19 enue Code of 1986 (relating to basis of property acquired
20 from a decedent) is hereby repealed.

21 (b) BASIS TO BE DETERMINED UNDER RULES AP-
22 PPLICABLE TO GIFTS.—Section 1015 of such Code (relat-
23 ing to basis of property acquired by gifts and transfers
24 in trusts) is amended by adding at the end the following
25 new subsection:

1 “(f) PROPERTY ACQUIRED FROM OR PASSING FROM
2 A DECEDENT.—

3 “(1) IN GENERAL.—Property acquired from a
4 decedent dying after December 31, 1994, or passed
5 from such a decedent shall be treated for purposes
6 of subsection (a) as acquired by gift for purposes of
7 this section.

8 “(2) PROPERTY ACQUIRED FROM A DECE-
9 DENT.—Section 1014(b) (as in effect on the day be-
10 fore the date of the enactment of the Citizens’ Tax
11 Relief Act of 1994) shall apply for purposes of
12 whether property is considered to have been acquired
13 from or to have passed from the decedent.

14 “(3) INCREASE IN BASIS FOR ESTATE TAX
15 PAID.—

16 “(A) IN GENERAL.—The basis of any
17 property which this subsection applies shall be
18 the basis determined under subsection (a) in-
19 creased by the portion of the aggregate death
20 tax adjustment which is allocated to the prop-
21 erty pursuant to this paragraph.

22 “(B) LIMITATION.—The death tax adjust-
23 ment for any property shall not exceed—

24 “(i) the net appreciation in such prop-
25 erty, multiplied by

1 “(ii) the Federal marginal estate tax
2 rate.

3 “(C) NET APPRECIATION.—For purposes
4 of this paragraph, the net appreciation in value
5 of any property is the amount by which—

6 “(i) the fair market value of such
7 property, exceeds

8 “(ii) the initial basis of such property
9 increased by the minimum basis adjust-
10 ment of such property.

11 “(4) AGGREGATE DEATH TAX ADJUSTMENT.—
12 In the case of any estate—

13 “(A) IN GENERAL.—The aggregate death
14 tax adjustment is the product of—

15 “(i) the aggregate net appreciation of
16 all properties which have net appreciation,
17 and

18 “(ii) the Federal marginal estate tax
19 rate.

20 “(B) LIMITATION.—The amount taken
21 into account under subparagraph (A)(i) shall
22 not exceed the taxable estate.

23 “(C) FEDERAL MARGINAL ESTATE TAX
24 RATE.—The term ‘Federal marginal estate tax

1 rate' means the highest rate in the rate sched-
2 ule set forth in section 2001(c)—

3 “(i) which is used in determining the
4 tentative tax under section 2001(b)(1) with
5 respect to the estate of the decedent, and

6 “(ii) the amount subject to which is at
7 least \$50,000.

8 In no event shall the Federal marginal estate
9 tax rate be less than 30 percent.

10 “(5) ALLOCATION RULES.—The executor shall
11 allocate the adjustments under this subsection
12 among the properties on the return of the tax im-
13 posed by chapter 11.”.

14 (c) CONFORMING AMENDMENTS.—

15 (1) The table of sections for part II of sub-
16 chapter O of chapter 1 of such Code is amended by
17 striking the item relating to section 1014.

18 (2) The heading of section 1015 of such Code
19 is amended to read as follows:

20 **“SEC. 1015. BASIS OF PROPERTY ACQUIRED BY GIFT, FROM**
21 **A DECEDENT, OR TRANSFERRED IN TRUST.”.**

22 (3) The table of sections for part II of sub-
23 chapter O of chapter 1 of such Code is amended by
24 striking the item relating to section 1015 and insert-
25 ing the following new item:

“Sec. 1015. Basis of property acquired by gift, from a decedent, or transferred in trust.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to decedents dying after December
3 31, 1994.

4 **SEC. 4. PHASEIN OF CAPITAL GAINS TAX ON INHERITED**
5 **PROPERTY.**

6 (a) IN GENERAL.—Subsection (h) of section 1 of the
7 Internal Revenue Code of 1986 (relating to maximum cap-
8 ital gains rate) is amended to read as follows:

9 “(h) MAXIMUM CAPITAL GAINS RATE.—

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

13 “(A) a tax computed at the rates and in
14 the same manner as if this subsection had not
15 been enacted on the greater of—

16 “(i) taxable income reduced by the
17 amount of the net capital gain, or

18 “(ii) the amount of taxable income
19 taxed at a rate below 28 percent, plus

20 “(B) a tax equal to the sum of—

21 “(i) the applicable percentage of so
22 much of such net capital gain as is attrib-
23 utable to property acquired by the tax-
24 payer from a decedent dying after Decem-

1 ber 31, 1994 (or passed to the taxpayer
2 from such a decedent), and

3 “(ii) 28 percent of the amount of the
4 taxable income in excess of the sum of the
5 amount determined under subparagraph
6 (A) and the net capital gain described in
7 clause (i) of this subparagraph.

8 “(2) APPLICABLE PERCENTAGE.—For purposes
9 of paragraph (1), the term ‘applicable percentage’
10 means—

11 “(A) 10 percent in the case of taxable
12 years beginning after December 31, 1993, and
13 before January 1, 1996,

14 “(B) 15 percent in the case of taxable
15 years beginning during 1996,

16 “(C) 20 percent in the case of taxable
17 years beginning during 1997, and

18 “(D) 25 percent in the case of taxable
19 years beginning during 1998.

20 “(3) ELECTION TO MARK-TO-MARKET PROP-
21 ERTY ACQUIRED FROM A DECEDENT.—If the tax-
22 payer elects this paragraph with respect to any prop-
23 erty described in paragraph (1)(B)(i), such property
24 shall be treated as sold (for its fair market value as
25 of the first day of the taxpayer year) and any gain

1 or loss shall be treated as received or accrued on
2 such day.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years ending after De-
5 cember 31, 1994.

6 **SEC. 5. ADDITIONAL EXCLUSION OF GAIN ON SALE OF**
7 **PRINCIPAL RESIDENCE ACQUIRED FROM A**
8 **DECEDENT.**

9 (a) IN GENERAL.—Subsection (d) of section 121 of
10 the Internal Revenue Code of 1986 (relating to one-time
11 exclusion of gain from sale of principal residence by indi-
12 vidual who has attained age 55) is amended by adding
13 at the end the following new paragraph:

14 “(10) SPECIAL RULES FOR RESIDENCE AC-
15 QUIRED FROM DECEDENT.—

16 “(A) IN GENERAL.—In the case of a resi-
17 dence which was acquired by the taxpayer from
18 a decedent dying after December 31, 1994, or
19 to whom such residence passed from such a de-
20 cedent (within the meaning of section
21 1015(f)(2))—

22 “(i) subsection (a)(1) shall not apply,
23 and

24 “(ii) the requirement of subsection
25 (a)(2) shall be treated as met if the dece-

1 dent satisfied such requirement as of the
2 date of death or the taxpayer satisfies such
3 requirement.

4 “(B) ADDITIONAL ELECTION.—Any elec-
5 tion under this section with respect to any resi-
6 dence to which subparagraph (A) applies shall
7 not be taken into account in determining
8 whether any other election may be made under
9 this section.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to sales and exchanges after De-
12 cember 31, 1994, in taxable years ending after such date.

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