

104TH CONGRESS  
2D SESSION

# H. R. 3984

To amend the Internal Revenue Code of 1986 to provide for a child tax credit and a deduction for taxpayers with whom a parent or grandparent resides, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

AUGUST 2, 1996

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

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## A BILL

To amend the Internal Revenue Code of 1986 to provide for a child tax credit and a deduction for taxpayers with whom a parent or grandparent resides, 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 “Kids, Homes, and  
5       Grandparents Act of 1996”.

6       **SEC. 2. CHILD TAX CREDIT.**

7       (a) IN GENERAL.—Subpart A of part IV of sub-  
8       chapter A of chapter 1 of the Internal Revenue Code of

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1 1986 (relating to nonrefundable personal credits) is  
2 amended by inserting after section 22 the following new  
3 section:

4 **“SEC. 23. CHILD TAX CREDIT.**

5       “(a) ALLOWANCE OF CREDIT.—There shall be al-  
6 lowed as a credit against the tax imposed by this chapter  
7 for the taxable year an amount equal to \$500 multiplied  
8 by the number of qualifying children of the taxpayer.

9       “(b) QUALIFYING CHILD.—For purposes of this sec-  
10 tion, the term ‘qualifying child’ means any individual if—

11               “(1) the taxpayer is allowed a deduction under  
12 section 151 with respect to such individual for the  
13 taxable year,

14               “(2) such individual has not attained the age of  
15 18 as of the close of the calendar year in which the  
16 taxable year of the taxpayer begins, and

17               “(3) such individual bears a relationship to the  
18 taxpayer described in section 32(c)(3)(B).”

19       (b) CLERICAL AMENDMENT.—The table of sections  
20 for subpart A of part IV of subchapter A of chapter 1  
21 of such Code is amended by inserting after the item relat-  
22 ing to section 22 the following new item:

“Sec. 23. Child tax credit.”

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

1 **SEC. 3. DEDUCTION IF PARENT OR GRANDPARENT RE-**  
2 **SIDES WITH TAXPAYER.**

3 (a) IN GENERAL.—Part VII of subchapter B of chap-  
4 ter 1 of the Internal Revenue Code of 1986 is amended  
5 by redesignating section 220 as section 221 and by insert-  
6 ing after section 219 the following new section:

7 **“SEC. 220. TAXPAYERS WITH WHOM PARENT OR GRAND-**  
8 **PARENT RESIDES.**

9 “(a) IN GENERAL.—In the case of an individual who  
10 maintains a household which includes as a member one  
11 or more parents or grandparents of such individual who  
12 have as the principal place of their abode the home of such  
13 individual, there shall be allowed as a deduction the prod-  
14 uct of—

15 (1) \$1000, and

16 (2) the number of such parents and grand-  
17 parents.

18 “(b) PARENT OR GRANDPARENT.—For purposes of  
19 subsection (a), the term ‘parent or grandparent’ means,  
20 with respect to any individual, any ancestor of the individ-  
21 ual or of the individual’s spouse or former spouse. For  
22 purposes of the preceding sentence, the term ‘ancestor’ in-  
23 cludes a stepmother or stepfather.”

24 (b) DEDUCTION ALLOWABLE WHETHER OR NOT  
25 TAXPAYER ITEMIZES.—Subsection (a) of section 62 of

1 such Code is amended by inserting after paragraph (15)  
2 the following new paragraph:

3           “(16) TAXPAYERS WITH WHOM PARENT OR  
4 GRANDPARENT RESIDES.—The deduction allowed by  
5 section 220.”

6           (c) CLERICAL AMENDMENT.—The table of sections  
7 for part VII of subchapter B of chapter 1 of such Code  
8 is amended by striking the item relating to section 220  
9 and inserting the following new items:

                  “Sec. 220. Taxpayers with whom parent or grandparent resides.  
                  “Sec. 221. Cross reference.”

10           (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 1996.

13 **SEC. 4. REDUCTION OF TAX ON QUALIFIED PRINCIPAL RES-**  
14 **IDENCE GAIN.**

15           (a) IN GENERAL.—Section 1 of the Internal Revenue  
16 Code of 1986 (relating to tax imposed on individuals) is  
17 amended by adding at the end the following new sub-  
18 section:

19           “(i) REDUCTION IN CAPITAL GAINS RATE APPLIED  
20 TO QUALIFIED PRINCIPAL RESIDENCE GAIN.—

21           “(1) IN GENERAL.—In the case of an individ-  
22 ual, if any taxable income of the taxpayer would be  
23 taxed at a rate in excess of 15 percent (determined  
24 without regard to this subsection) for any taxable

1 year and such taxpayer has qualified principal resi-  
2 dence gain for such taxable year—

3 “(A) subsection (h) shall not apply to such  
4 taxable year, and

5 “(B) the tax imposed by this section for  
6 such taxable year shall not exceed the sum of—

7 “(i) a tax computed at the rates and  
8 in the same manner as if this subsection  
9 had not been enacted on taxable income re-  
10 duced by the amount of the net capital  
11 gain,

12 “(ii) 15 percent of qualified principal  
13 residence gain, and

14 “(iii) the sum of—

15 “(I) 15 percent of the excess (if  
16 any) of the maximum amount of in-  
17 come subject to the 15 percent rate  
18 bracket applicable to the taxpayer  
19 over the amounts taken into account  
20 under clauses (i) and (ii), and

21 “(II) 28 percent of the excess (if  
22 any) of taxable income over the  
23 amounts taken into account under  
24 subclause (I) and clauses (i) and (ii).

1           “(2) QUALIFIED PRINCIPAL RESIDENCE  
2 GAIN.—For purposes of this subsection—

3           “(A) IN GENERAL.—The term ‘qualified  
4 principal residence gain’ means the amount of  
5 gain from the sale or exchange of a qualified  
6 principal residence during the taxable year, re-  
7 duced by—

8           “(i) the amount of gain not included  
9 in gross income pursuant to an election  
10 under section 121 (relating to one-time ex-  
11 clusion of gain from sale of principal resi-  
12 dence by individual who has attained age  
13 55) with respect to such sale or exchange,  
14 and

15           “(ii) the amount of gain not recog-  
16 nized with respect to such sale or exchange  
17 under section 1034 (relating to rollover of  
18 gain on sale of principal residence).

19           “(B) LIMITATION.—In no event may the  
20 qualified principal residence gain exceed the  
21 lesser of—

22           “(i) \$90,000, or

23           “(ii) the net capital gain for the tax-  
24 able year.

1 “(C) QUALIFIED PRINCIPAL RESIDENCE.—

2 The term ‘qualified principal residence’ means a  
3 principal residence (within the meaning of sec-  
4 tion 1034) with respect to which the taxpayer  
5 meets the requirements of 121(a)(2) (deter-  
6 mined after the application of section 121(d)).

7 “(D) PROPERTY USED IN PART AS PRIN-  
8 CIPAL RESIDENCE.—Rules similar to the rules  
9 of section 121(d)(5) shall apply.

10 “(3) COORDINATION WITH INVESTMENT IN-  
11 COME ELECTION.—For purposes of this subsection,  
12 the net capital gain for any taxable year shall be re-  
13 duced (but not below zero) by the amount which the  
14 taxpayer elects to take into account as investment  
15 income for the taxable year under section  
16 163(d)(4)(B)(iii).”

17 (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to gain from sales or exchanges  
19 of principal residences after December 31, 1996, for tax-  
20 able years beginning after such date.

21 **SEC. 5. INDEXED BASIS OF PRIMARY RESIDENCE.**

22 (a) IN GENERAL.—Part II of subchapter O of chap-  
23 ter 1 of the Internal Revenue Code of 1986 (relating to  
24 basis rules of general application) is amended by inserting  
25 after section 1021 the following new section:

1 **“SEC. 1022. ADJUSTED BASIS OF PRINCIPAL RESIDENCE.**

2 “(a) IN GENERAL.—In the case of an individual, the  
3 adjusted basis for determining the gain from the sale or  
4 exchange of the principal residence (within the meaning  
5 of section 1034) of such individual shall be the indexed  
6 basis of such principal residence.

7 “(b) INDEXED BASIS.—For purposes of this section,  
8 the indexed basis of any principal residence is the sum  
9 of—

10 “(1) the adjusted basis (determined without re-  
11 gard to this section) of such residence, and

12 “(2) the applicable inflation adjustment.

13 “(c) APPLICABLE INFLATION ADJUSTMENT.—For  
14 purposes of this section, the term ‘applicable inflation ad-  
15 justment’ means, for any principal residence, an amount  
16 equal to the product of—

17 “(1) the adjusted basis (determined without re-  
18 gard to this section) of such residence, and

19 “(2) the percentage (if any) by which—

20 “(A) the gross domestic product deflator  
21 for the last calendar quarter ending before such  
22 residence is sold or exchanged, exceeds

23 “(B) the gross domestic product deflator  
24 for the last calendar quarter ending before such  
25 residence was acquired by the taxpayer.

1 The percentage under paragraph (2) shall be rounded to  
2 the nearest  $\frac{1}{10}$  of 1 percentage point.

3 “(d) GROSS DOMESTIC PRODUCT DEFLATOR.—For  
4 purposes of this section, the gross domestic product  
5 deflator for any calendar quarter is the implicit price  
6 deflator for the gross domestic product for such quarter  
7 (as shown in the last revision thereof released by the Sec-  
8 retary of Commerce before the close of the following cal-  
9 endar quarter).

10 “(e) TREATMENT OF IMPROVEMENTS TO PROP-  
11 ERTY.—If there is an addition to the adjusted basis of  
12 a principal residence during a taxable year by reason of  
13 an improvement to such residence, and the aggregate  
14 amount thereof during the taxable year with respect to  
15 such residence is \$1,000 or more, such improvement shall  
16 be separately indexed under subsections (b) and (c) as if  
17 the improvement were a separate residence acquired at the  
18 close of such taxable year, in accordance with regulations  
19 prescribed by the Secretary.”

20 (b) CLERICAL AMENDMENT.—The table of sections  
21 for part II of subchapter O of chapter 1 of such Code  
22 is amended by inserting after the item relating to section  
23 1021 the following new item:

“Sec. 1022. Adjusted basis of principal residence.”

24 (c) EFFECTIVE DATE.—The amendments made by  
25 this section shall apply to residences sold or exchanged

- 1 after December 31, 1996, for taxable years beginning
- 2 after such date.

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