TITLE VI—BUSINESS CONSUMPTION TAX

SEC. 601. SHORT TITLE.

This title may be cited as the ''Competitive American Business Tax''.

SEC. 602. REPEAL OF CORPORATE INCOME TAX; NEW TAX PAID BY CORPORATIONS AND OTHER BUSINESSES.

(a) IN GENERAL.—Subtitle A of the Internal Revenue Code of 1986 is amended by inserting after chapter 6 the following new chapter:

''CHAPTER 7—BUSINESS CONSUMPTION TAX

''SUBCHAPTER A. IMPOSITION OF TAX.

''SUBCHAPTER B. BASIC RULES FOR BUSINESS CONSUMPTION TAX.

''SUBCHAPTER C. CAPITAL CONTRIBUTIONS, MERGERS, ACQUISITIONS, AND DISTRIBUTIONS.

''SUBCHAPTER D. ACCOUNTING METHOD RULES.

''SUBCHAPTER E. LAND AND RENTAL PROPERTY.

''SUBCHAPTER F. INSURANCE AND FINANCIAL PRODUCTS.

''SUBCHAPTER G. FINANCIAL INTERMEDIATION AND FINANCIAL INSTITUTIONS.

''SUBCHAPTER H. TAX-EXEMPT ORGANIZATIONS.

''SUBCHAPTER I. COOPERATIVES.

''SUBCHAPTER J. SOURCING RULES.

''SUBCHAPTER K. IMPORT TAX.

''SUBCHAPTER L. TRANSITION RULES.

''SUBCHAPTER M. RULES FOR ADMINISTRATION, CONSOLIDATED RETURNS.

''SUBCHAPTER N. DEFINITIONS AND RULES OF APPLICATION.

1 **"Subchapter A—Imposition of Tax**

"Sec. 1601. Imposition of tax.
"Sec. 1602. Taxable amount.
"Sec. 1603. Zero rating for exports and interest.
"Sec. 1604. Governmental entities.
"Sec. 1605. Exempt organizations.
"Sec. 1606. Credit against tax.

2 **"SEC. 1601. IMPOSITION OF TAX.**

3 "(a) GENERAL RULE.—A tax is hereby imposed on
4 each taxable transaction.

5 "(b) AMOUNT OF TAX.—Except as otherwise pro-
6 vided in this chapter, the amount of the tax shall be 8.5
7 percent of the taxable amount.

8 "(c) TAXABLE TRANSACTION.—For purposes of this
9 chapter, the term 'taxable transaction' means—

10 "(1) the sale of property in the United States,

11 "(2) the performance of services in the United
12 States, and

13 "(3) the importing of property into the United
14 States,

15 by a taxable person in a business transaction.

16 "(d) BUSINESS TRANSACTION.—

17 "(1) GENERAL RULE.—For purposes of this
18 chapter, the term 'business transaction' means a
19 transaction engaged in by—

20 "(A) a corporation, or

21 "(B) any person (other than a corporation)
22 in connection with a business.

1 "(2) SALES AND LEASES OF REAL PROPERTY;
2 IMPORTS.—For purposes of this chapter—
3 "(A) IN GENERAL.—The term 'business
4 transaction' includes—
5 "(i) any sale or leasing of real prop-
6 erty, and
7 "(ii) any importing of property,
8 whether or not such transaction is described in
9 paragraph (1).
10 "(B) CERTAIN IMPORTED ARTICLES.—
11 Notwithstanding subparagraph (A)(ii), the im-
12 porting of an article which is free of duty under
13 part 2 of schedule 8 of the Tariff Schedules of
14 the United States shall not be treated as a busi-
15 ness transaction unless such transaction is de-
16 scribed in paragraph (1).
17 "(e) TAXABLE PERSON.—
18 "(1) GENERAL RULE.—Except as otherwise
19 provided in this chapter, for purposes of this chap-
20 ter, the term 'taxable person' means a person who
21 engages in a business or in a business transaction.
22 "(2) TREATMENT OF EMPLOYEES, ETC.—For
23 purposes of this chapter, an employee shall not be
24 treated as a taxable person with respect to activities
25 engaged in as an employee.

1 "(f) TRANSACTIONS IN THE UNITED STATES.—
2 "(1) SALES OF PROPERTY.—For purposes of
3 this chapter—
4 "(A) IN GENERAL.—Except as provided in
5 subparagraph (B), the sale of property shall be
6 treated as occurring where delivery takes place.
7 "(B) REAL PROPERTY.—The sale of real
8 property shall be treated as occurring where the
9 real property is located.
10 "(2) PERFORMANCE OF SERVICE.—For pur-
11 poses of this chapter—
12 "(A) IN GENERAL.—Except as otherwise
13 provided in this paragraph, a service shall be
14 treated as occurring where it is performed.
15 "(B) SERVICES PERFORMED INSIDE AND
16 OUTSIDE THE UNITED STATES.—If a service is
17 performed both inside and outside the United
18 States, such service shall be treated as per-
19 formed—
20 "(i) inside the United States, if 50
21 percent or more of such service is per-
22 formed inside the United States, and
23 "(ii) outside the United States, if less
24 than 50 percent of such service is per-
25 formed inside the United States.

1 "(g) RULES RELATING TO OTHER TERMS USED IN
2 SUBSECTION (c).—
3 "(1) EXCHANGES TREATED AS SALES.—For
4 purposes of this chapter—
5 "(A) an exchange of property for property
6 or services shall be treated as a sale of prop-
7 erty, and
8 "(B) an exchange of services for property
9 or services shall be treated as the performance
10 of services.
11 "(2) CERTAIN TRANSFERS TO EMPLOYEES
12 TREATED AS SALES.—For purposes of this chapter,
13 the transfer of property to an employee as com-
14 pensation (other than a transfer of a type for which
15 no amount is includible in the gross income of em-
16 ployees for purposes of chapter 1) shall be treated
17 as the sale of property.
18 "(3) PERFORMANCE OF SERVICES.—For pur-
19 poses of this chapter—
20 "(A) CERTAIN ACTIVITIES TREATED AS
21 PERFORMANCE OF SERVICES.—Activities treat-
22 ed as included in the performance of services
23 shall include (but shall not be limited to)—
24 "(i) permitting the use of property,

"(ii) the granting of a right to the performance of services or to reimbursement (including the granting of warranties, insurance, and similar items), and

"(iii) the making of a covenant not to compete (or similar agreement to refrain from doing something).

"(B) EMPLOYERS AND EMPLOYEES.—

"(i) SERVICES FOR EMPLOYER.—An employee's services for the employee's employer shall not be treated as the performance of services.

"(ii) SERVICES FOR EMPLOYEE.—An employer's services for the employer's employee shall not be treated as the performance of services unless such services are of a type which constitute gross income to the employee for purposes of chapter 1.

"(C) PERFORMANCE OF SERVICES TREATED AS SALE OF SERVICES.—The performance of services shall be treated as the sale of services.

"SEC. 1602. TAXABLE AMOUNT.

"(a) AMOUNT CHARGED CUSTOMER.—For purposes of this chapter, the taxable amount for any transaction for which money is the only consideration shall be the

price charged the purchaser of the property or services by the seller thereof—

"(1) including all invoiced charges for transportation, and other items payable to the seller with respect to this transaction, but

"(2) excluding the tax imposed by section 1601 with respect to this transaction and excluding any State and local sales and use taxes with respect to this transaction.

"(b) EXCHANGES.—For purposes of this chapter, the taxable amount in any exchange of property or services shall be the fair market value of the property or services transferred by the person liable for the tax (determined as if such person had sold the property or services to the other party to the exchange).

"(c) IMPORTS.—For purposes of this chapter, the taxable amount in the case of any import shall be—

"(1) the customs value plus customs duties and any other duties which may be imposed, or

"(2) if there is no such customs value, the fair market value (determined as if the importer had sold the property).

"SEC. 1603. ZERO RATING FOR EXPORTS AND INTEREST.

"The rate of the tax imposed by section 1601 shall be zero with respect to the following:

1 "(1) EXPORTS.—Exports of property.
2 "(2) INTEREST.—Interest.
3 **"SEC. 1604. GOVERNMENTAL ENTITIES.**
4 "(a) ZERO RATING FOR SALES TO GOVERNMENTAL
5 ENTITIES AND EDUCATIONAL ACTIVITIES OF GOVERN-
6 MENTAL ENTITIES.—The rate of the tax imposed by sec-
7 tion 1601 shall be zero with respect to the following:
8 "(1) SALES TO GOVERNMENTAL ENTITIES.—
9 Any sale of property or services to a governmental
10 entity.
11 "(2) EDUCATIONAL ACTIVITIES.—The providing
12 by a governmental entity of property and services in
13 connection with the education of students.
14 "(b) SALES, ETC., BY GOVERNMENTAL ENTITIES
15 TAXABLE ONLY WHERE SEPARATE CHARGE IS MADE.—
16 For purposes of this chapter, the sale of property and the
17 performance of services by a governmental entity shall be
18 a taxable transaction if (and only if) a separate charge
19 of fee is made therefor.
20 "(c) GOVERNMENTAL ENTITY DEFINED.—For pur-
21 poses of this chapter, the term 'governmental entity'
22 means the United States, any State or political subdivision
23 thereof, the District of Columbia, a Commonwealth or pos-
24 session of the United States, or any agency or instrumen-
25 tality of any of the foregoing.

1 **"SEC. 1605. EXEMPT ORGANIZATIONS.**

2 "(a) ZERO RATING FOR SECTION 501(C)(3) ORGANI-
3 ZATIONS; CREDIT ALLOWED FOR ALL PURCHASES.—

4 "(1) ZERO RATING.—The rate of the tax im-
5 posed by section 1601 shall be zero with respect to
6 any taxable transaction engaged in by a section
7 501(c)(3) organization other than as part of an un-
8 related business.

9 "(2) CREDIT ALLOWED FOR ALL PURCHASES.—
10 For purposes of this chapter, a section 501(c)(3) or-
11 ganization shall be treated as engaged in a business
12 with respect to all of its activities.

13 "(b) TAXABLE TRANSACTIONS IN CASE OF OTHER
14 EXEMPT ORGANIZATIONS.—For purposes of this chapter,
15 the sale of property and the performance of services by
16 any exempt organization other than a section 501(c)(3)
17 organization shall be a taxable transaction if (and only
18 if) a charge or fee is made for such services.

19 "(c) DEFINITIONS.—For purposes of this chapter—

20 "(1) SECTION 501(C)(3) ORGANIZATIONS.—The
21 term 'section 501(c)(3) organization' means an orga-
22 nization described in section 501(c)(3) which is ex-
23 empt from tax under section 501(a).

24 "(2) OTHER EXEMPT ORGANIZATION.—The
25 term 'other exempt organization' means any organi-

1 zation (other than a section 501(c)(3) organization)
2 which is exempt from tax under chapter 1.

3 **"SEC. 1606. CREDIT AGAINST TAX.**

4 "(a) GENERAL RULE.—There shall be allowed as a
5 credit against the tax imposed by section 1601 the aggre-
6 gate amount of tax imposed by section 1601 which has
7 been paid by sellers to the taxpayer of property and serv-
8 ices which the taxpayer uses in the business to which the
9 transaction relates.

10 "(b) EXEMPT TRANSACTIONS, ETC.—If—

11 "(1) property or services are used partly in the
12 business and partly for other purposes, or

13 "(2) property or services are used partly for
14 taxable transactions and partly for other trans-
15 actions,

16 the credit shall be allowable only with respect to the prop-
17 erty and services used for taxable transactions in the busi-
18 ness. No credit shall be allowable for any transaction oc-
19 curring when the taxpayer was a nontaxable person.

20 "(c) EXCESS CREDIT TREATED AS OVERPAYMENT.—

21 "(1) IN GENERAL.—If for any taxable period
22 the aggregate amount of the credits allowable by
23 subsection (a) exceeds the aggregate amount of the
24 tax imposed by section 1601 for such period, such

excess shall be treated as an overpayment of the tax imposed by section 1601.

"(2) TIME WHEN OVERPAYMENT ARISES.—Any overpayment under paragraph (1) for any taxable period shall be treated as arising on the later of—

"(A) the due date for the return for such period, or

"(B) the date on which the return is filed.

"Subchapter B—Basic Rules for Business Consumption Tax

"Sec. 1611. Gross profits.
"Sec. 1612. Taxable receipts.
"Sec. 1613. Deductible amounts.
"Sec. 1614. Cost of business purchases.
"Sec. 1615. Business entity and business activity.
"Sec. 1616. Loss carryover deduction.

"SEC. 1611. GROSS PROFITS.

" 'Gross profits' means for a taxable transaction of a business entity the amount by which—

"(1) the taxable receipts of the business entity with respect to the taxable transaction, exceed

"(2) the deductible amounts for the business entity with respect to the taxable transactions.

"SEC. 1612. TAXABLE RECEIPTS.

"(a) IN GENERAL.—'Taxable receipts' means all receipts from the sale of property, use of property, and performance of services in the United States.

1 "(b) GAMES OF CHANCE.—Amounts received for
2 playing games of chance by business entities engaging in
3 the activity of providing such games shall be treated as
4 receipts from the sale of property or services.

5 "(c) IN-KIND RECEIPTS.—The taxable receipts at-
6 tributable to the receipt of property, use of property or
7 services in whole or partial exchange for property, use of
8 property or services equal the fair market value of the
9 services or property received.

10 "(d) TAXES.—Taxable receipts do not include any ex-
11 cise tax, sales tax, custom duty, or other separately stated
12 levy imposed by a Federal, State, or local government re-
13 ceived by a business entity in connection with the sale of
14 property or services or the use of property.

15 "(e) FINANCIAL RECEIPTS.—Except as provided in
16 subchapter G (relating to financial intermediation and fi-
17 nancial institutions), taxable receipts do not include finan-
18 cial receipts (as defined by regulations by the Secretary).

19 **"SEC. 1613. DEDUCTIBLE AMOUNTS.**

20 " 'Deductible amounts' for a business entity in a tax-
21 able transaction include—

22 "(1) the cost of business purchases with respect
23 to the taxable transaction (as determined under sec-
24 tion 1614),

"(2) such entity's loss carryover deduction (as determined under section 1616) , and

"(3) the transition basis deduction (as determined under section 1711).

"SEC. 1614. COST OF BUSINESS PURCHASES.

"(a) BUSINESS PURCHASES.—

"(1) IN GENERAL.—'Business purchases' means the acquisition of—

"(A) property,

"(B) the use of property, or

"(C) services

in the United States for use in a business activity.

"(2) EXAMPLES.—Business purchases include (without limitation) the—

"(A) purchase or rental of real property,

"(B) purchase or rental of capital equipment,

"(C) purchase of supplies and inventory,

"(D) purchase of services from independent contractors,

"(E) purchase of financial intermediation services (as determined in accordance with section 1661),

"(F) imports for use in a business activity, and

1 "(G) premiums for the cost of health in-
2 surance policies for which the service provider,
3 members of his family, or persons designated by
4 him or members of his family are the bene-
5 ficiaries.
6 "(3) EXCLUSIONS.—Business purchases do not
7 include—
8 "(A) payments for use of money or capital,
9 such as interest or dividends (except to the ex-
10 tent that a portion so paid is a fee for financial
11 intermediation services),
12 "(B) premiums for life insurance,
13 "(C) the acquisition of savings assets or
14 other financial instruments.
15 "(D) property acquired outside the United
16 States (but such property shall be taken into
17 account as an import if imported),
18 "(E) services performed outside the United
19 States (unless treated as imported into the
20 United States),
21 "(F) compensation expenses for an indi-
22 vidual (other than amounts paid to an indi-
23 vidual in his capacity as a business entity), or
24 "(G) taxes (except as provided in sub-
25 section (b)(2) relating to product taxes).

1 "(4) COMPENSATION EXPENSES.—'Compensa-
2 tion expenses' means—
3 "(A) wages, salaries or other cash payable
4 for services,
5 "(B) any taxes imposed on the recipient
6 that are withheld by the business entity,
7 "(C) the cost of property purchased to pro-
8 vide employees with compensation (other than
9 property incidental to the provision of fringe
10 benefits that are excluded from income under
11 the individual tax),
12 "(D) the cost of fringe benefits which are
13 includible in an employee's, partner's, or propri-
14 etor's income under section 5 (or are excluded
15 solely because they constitute employee sav-
16 ings), including (without limitation)—
17 "(i) contributions to retirement and
18 severance benefit plans,
19 "(ii) premiums for the cost of life, ac-
20 cident, disability and other insurance poli-
21 cies for which the service provider, mem-
22 bers of his family, or persons designated
23 by him or members of his family are the
24 beneficiaries,

1 "(iii) rental of parking spaces or park-
2 ing fees (unless the parking space is used
3 for a vehicle that is regularly used in a
4 business activity);
5 "(iv) employer paid educational bene-
6 fits;
7 "(v) employer paid housing (other
8 than housing provided for the convenience
9 of the employer); and
10 "(vi) employer paid meals (other than
11 meals provided for the convenience of the
12 employer).
13 "(b) COST OF BUSINESS PURCHASES.—
14 "(1) IN GENERAL.—The 'cost of a business
15 purchase' is the amount paid or to be paid for the
16 business purchase.
17 "(2) TAXES.—
18 "(A) IN GENERAL.—The 'cost of business
19 purchases' includes any product taxes paid with
20 respect to the property or services purchased.
21 "(B) PRODUCT TAX.—'Product tax' means
22 any excise tax, sales or use tax, custom duty, or
23 other separately stated levy imposed by a Fed-
24 eral, State, or local government on the produc-
25 tion, severance or consumption of property or

on the provision of services, whether or not separately stated, and including any such taxes that are technically imposed on the seller of property or services.

"(C) TAXES NOT PRODUCT TAXES.—Product taxes do not include—

"(i) the import tax,

"(ii) state and local property taxes,

"(iii) franchise or income taxes,

"(iv) payroll taxes and self-employment taxes, or

"(v) the business tax.

"(3) IMPORTS.—In the case of an import by a business entity, the cost of the import is the import price for purposes of the import tax. The import tax is not part of the cost of the import.

"(c) PROPERTY AND SERVICES ACQUIRED FOR PROPERTY.—If a business entity receives property or services from a business entity in whole or partial exchange for property or services, the property or services acquired shall be treated as if they were purchased for an amount equal to the fair market value of the services or property received. For purposes of this section, property includes stock and other equity interests in business other than

1 stock or an equity interest in the business entity acquiring
2 the property or services.

3 ''(d) GAMBLING PAYMENTS.—In the case of a busi-
4 ness involving gambling, lotteries, or other games of
5 chance, business purchases include amounts paid to win-
6 ners.

7 ''(e) SAVINGS ASSETS.—'Savings assets' means
8 stocks, bonds, securities, certificates of deposits, invest-
9 ments in partnerships and limited liability companies,
10 shares of mutual funds, life insurance policies, annuities,
11 and other similar savings or investment assets.

12 **''SEC. 1615. BUSINESS ENTITY AND BUSINESS ACTIVITY.**

13 ''(a) BUSINESS ENTITY.—For purposes of the busi-
14 ness tax, 'business entity' means any corporation, unincor-
15 porated association, partnership, limited liability company,
16 proprietorship, independent contractor, individual, or any
17 other person engaging in business activity in the United
18 States. An individual shall be considered a business entity
19 only with respect to the individual's business activities.

20 ''(b) BUSINESS ACTIVITY.—'Business activity' means
21 the sale of property or services, the leasing of property,
22 the development of property or services for subsequent
23 sale or use in producing property or services for subse-
24 quent sale. 'Business activity' does not include casual or
25 occasional sales of property used by an individual (other

1 than in a business activity), such as the sale by an indi-
2 vidual of a vehicle used by the individual.
3 ''(c) EXCEPTION FOR CERTAIN EMPLOYEES.—
4 ''(1) IN GENERAL.—'Business activity' does not
5 include—
6 ''(A) the performance of services by an em-
7 ployee for an employer that is a business entity
8 with respect to the activity in which the em-
9 ployee is engaged, or
10 ''(B) the performance of regular domestic
11 household services (including babysitting,
12 housecleaning, and lawn cutting) by an em-
13 ployee of an employer that is an individual or
14 family.
15 ''(2) EMPLOYEE DEFINED.—For purposes of
16 this subsection, 'employee' includes an individual
17 partner who provides services to a partnership or an
18 individual member who provides services to a limited
19 liability company, or a proprietor with respect to
20 compensation for services from his proprietorship.
21 **''SEC. 1616. LOSS CARRYOVER DEDUCTION.**
22 ''(a) DEDUCTION.—The 'loss carryover deduction' for
23 a taxable period is the lesser of—

"(1) the business entity's gross profits for the taxable period (determined without the loss carryover deduction), or

"(2) the amount of the loss carryover to the taxable period.

"(b) LOSS CARRYOVER.—

"(1) GENERAL RULE.—A loss for any taxable period shall be a loss carryover to the succeeding taxable period.

"(2) LOSS CARRYOVERS TO A TAXABLE PERIOD.—The loss carryover to a taxable period is the sum of the loss carryovers from all prior taxable periods beginning on or after January 1 of the year following the year in which this chapter is enacted.

"(3) REDUCTION OF LOSS CARRYOVERS AS A RESULT OF THE DEDUCTION.—A business entity's loss carryovers shall be reduced each year by the amount of the loss carryover deduction for the year. Loss carryovers shall be reduced in the order that they arose.

"(c) LOSS FOR TAXABLE PERIOD.—A business entity's loss (if any) for the taxable period equals the excess (if any) of—

"(1) the sum of—

1 "(A) the cost of business purchases for the
2 taxable period, and
3 "(B) the transition basis adjustment for
4 the taxable period, over
5 "(2) taxable receipts for the taxable period.
6 "(d) SPECIAL RULES.—
7 "(1) CONSOLIDATED RETURNS.—In the case of
8 a consolidated return, the loss for a taxable period
9 shall be determined on a consolidated group basis.
10 In the case of a deconsolidation, the loss carryovers
11 from the consolidated group shall be allocated in ac-
12 cordance with rules to be prescribed by the Sec-
13 retary.
14 "(2) LOSS CARRYOVERS OF ACQUIRED BUSI-
15 NESS ENTITY.—Any loss arising in the case of the
16 acquisition of a business entity shall be allowed as
17 prescribed by the Secretary.
18 "(e) INTEREST.—Interest shall be allowed on each
19 loss carried forward under this section at a rate deter-
20 mined by the Secretary of the Treasury.

21 **"Subchapter C—Capital Contributions,**
22 **Mergers, Acquisitions, and Distributions**

"Sec. 1621. Contributions to a business entity.
"Sec. 1622. Distributions of property.
"Sec. 1623. Asset acquisitions.
"Sec. 1624. Mergers and stock acquisitions.
"Sec. 1625. Spin-offs, split-offs, etc.
"Sec. 1626. Allocation of certain tax attributes.

1 **"SEC. 1621. CONTRIBUTIONS TO A BUSINESS ENTITY.**

2 ''(a) BY BUSINESS ENTITY.—

3 ''(1) CASH.—If a business entity contributes
4 cash to a business entity of which it is or becomes
5 a partial or full owner, the amount contributed is
6 not a deductible amount to the contributor or a tax-
7 able receipt to the recipient.

8 ''(2) PROPERTY OR SERVICES.—If a business
9 entity contributes property or services to a business
10 entity of which it is or becomes a partial or full
11 owner, the transaction will not result in taxable re-
12 ceipts to the contributor or a deduction for a busi-
13 ness purchase for the recipient and will not con-
14 stitute a sale resulting in taxable receipts to the con-
15 tributor.

16 ''(b) BY INDIVIDUAL.—

17 ''(1) CASH.—If an individual contributes cash
18 to a business entity, the cash received is not a tax-
19 able receipt.

20 ''(2) NEW PROPERTY.—If an individual contrib-
21 utes to a business entity property that the individual
22 purchased for the business entity but which was not
23 used by any person after its purchase, the property
24 shall be considered purchased by such business enti-
25 ty from the person from which the individual pur-
26 chased the property.

1 "(3) PERSONAL USE PROPERTY.—
2 "(A) IN GENERAL.—If an individual con-
3 tributes personal use property to a business en-
4 tity in which the individual has an ownership
5 interest or for which the individual receives an
6 ownership interest, the business entity shall not
7 be permitted to deduct the value of the property
8 received as a business expense. The business
9 entity will have a tax basis in the contributed
10 property equal to the contributor's basis.
11 "(B) PERSONAL USE PROPERTY.—'Per-
12 sonal use property' means any property used by
13 an individual at any time other than in a busi-
14 ness activity.
15 "(4) SERVICES.—If an individual contributes
16 services to a business entity in which the individual
17 has an ownership interest or receives an ownership
18 interest, the business entity shall not be permitted to
19 deduct the value of the services received (or the
20 value of the equity interest provided to the services
21 provider).
22 **"SEC. 1622. DISTRIBUTIONS OF PROPERTY.**
23 "(a) DISTRIBUTIONS OTHER THAN TO CONTROL-
24 LING BUSINESS.—If a business entity distributes all or a
25 portion of its assets to its owners (other than a controlling

1 business entity), the business entity will be treated as if
2 it sold the assets to its owners at fair market value. The
3 fair market value will be determined by the distributing
4 corporation and those determinations, unless unreason-
5 able, will be binding on the recipients.

6 "(b) DISTRIBUTIONS TO A CONTROLLING BUSI-
7 NESS.—If a business entity distributes all or a portion of
8 its assets to a controlling business, the controlling busi-
9 ness will assume the distributing entity's tax attributes
10 with respect to the assets and neither entity will have tax-
11 able receipts or a deduction as a result of the transaction.

12 "(c) DISTRIBUTION OF PERSONAL USE PROP-
13 ERTY.—If personal use property is distributed to the indi-
14 vidual who contributed the personal use property to a busi-
15 ness entity, the fair market value of the property for pur-
16 poses of paragraph (a) shall equal the basis of the prop-
17 erty plus any enhancement in value of the property attrib-
18 utable to business purchases with respect to the property.

19 "(d) CONTROLLING BUSINESS ENTITY.—A business
20 entity is a 'controlling business entity' with respect to an-
21 other business entity if it owns directly or indirectly more
22 than 50 percent of the profits or capital interest in the
23 other business entity.

24 "(e) APPLICATION OF THIS SECTION.—This section
25 applies to both liquidating and nonliquidating distribu-

1 tions. Property shall be treated as distributed if the prop-
2 erty is used for a nonbusiness purpose for more than an
3 insubstantial period of time during a taxable period.

4 **"SEC. 1623. ASSET ACQUISITIONS.**

5 "(a) IN GENERAL.—If a business entity transfers
6 some or all of its assets, the consideration received for
7 such assets shall be allocated among the assets transferred
8 in the same manner as was required by section 1060. If
9 the transferee and transferor agree in writing on the allo-
10 cation of any consideration, or as to the fair market value
11 of any of the assets, such agreement shall be binding on
12 both the transferor and transferee unless the Secretary de-
13 termines that such allocation (or fair market value) is not
14 appropriate.

15 "(b) TAX CONSEQUENCES.—The tax consequences of
16 an asset acquisition shall be determined in accordance
17 with the rules of this chapter and shall be dependent upon
18 allocations made under subsection (a). In general, consid-
19 eration allocable to savings assets, such as stock in an-
20 other business entity, would not be included in taxable re-
21 ceipts of the transferor and would not be a business pur-
22 chase of the purchaser, but consideration allocable to the
23 sale of tangible property and intangible property (other
24 than savings assets) will constitute taxable receipts of the
25 seller and a business purchase of the purchaser.

1 "(c) ELECTION TO TREAT ASSET ACQUISITION AS A
2 STOCK ACQUISITION.—In the case of the sale of substan-
3 tially all of the assets of a business entity or substantially
4 all of the assets of a line of business or a separately stand-
5 ing business of a business entity, the transferee and trans-
6 feror can jointly elect to treat the acquisition as if it were
7 an acquisition of the stock of a business entity holding
8 the assets so transferred. In such case, the rules of section
9 1624 shall apply.
10 "(d) AUTHORITY TO REQUIRE ALLOCATION AGREE-
11 MENT AND NOTICE TO THE SECRETARY.—If the Sec-
12 retary determines that certain types of asset acquisitions
13 have significant possibilities of tax avoidance, the Sec-
14 retary may require—
15 "(1) parties to such types of acquisitions to
16 enter into agreements allocating consideration,
17 "(2) parties to acquisitions involving certain
18 kinds of assets to enter into agreements allocating
19 part of the consideration to those assets, or
20 "(3) parties to certain acquisitions to report in-
21 formation to the Secretary.
22 "(e) ASSET ACQUISITION RULES DO NOT APPLY IF
23 CONSIDERATION INCLUDES EQUITY IN PURCHASER.—
24 "(1) IN GENERAL.—If a business entity issues
25 its own equity or equity in a subsidiary or other con-

1 trolled entity as part of the consideration for the
2 transfer of assets to it, the transaction shall not be
3 treated as an asset acquisition and the rules of sec-
4 tion 1624 shall apply.
5 ''(2) EQUITY.—For purposes of this subsection,
6 equity means—
7 ''(A) stock, in the case of a corporation,
8 ''(B) partnership or similar interest, in the
9 case of a partnership or limited liability com-
10 pany, and
11 ''(C) an ownership interest or interest in
12 profits in the case of any other business entity.
13 **''SEC. 1624. MERGERS AND STOCK ACQUISITIONS.**
14 ''(a) MERGERS.—A merger of one business entity
15 into another or two businesses entities into a third busi-
16 ness entity or any other similar transaction shall have no
17 direct consequences under the business tax. The surviving
18 entity shall assume the tax attributes of the merged cor-
19 porations, including any loss carryovers and credit
20 carryovers.
21 ''(b) STOCK ACQUISITION.—The acquisition of all or
22 substantially all of the ownership interest in one business
23 entity either for cash or in exchange for ownership in the
24 acquiring entity or an entity controlled by the acquired

1 entity shall have no direct consequences under the busi-
2 ness tax.

3 **"SEC. 1625. SPIN-OFFS, SPLIT-OFFS, ETC.**

4 "A spin-off, split-off or split-up of a business entity
5 shall have no direct tax consequences under the business
6 tax.

7 **"SEC. 1626. ALLOCATION OF CERTAIN TAX ATTRIBUTES.**

8 "The Secretary shall prescribe rules for allocation of
9 loss carryovers in cases of substantial shifts of assets from
10 one business entity to another business entity. Under such
11 rules, a portion of a business entity's carryovers may be
12 deemed transferred when assets are transferred.

13 **"Subchapter D—Accounting Method Rules**

"Sec. 1631. General accounting rules.
"Sec. 1632. Use of the cash method of accounting.
"Sec. 1633. Long-Term contracts.
"Sec. 1634. Post-Sale price adjustments and refunds.
"Sec. 1635. Bad debts.
"Sec. 1636. Transition rules.

14 **"SEC. 1631. GENERAL ACCOUNTING RULES.**

15 "(a) IN GENERAL.—Except as provided in section
16 1632, a business entity shall use an accrual method of
17 accounting for purposes of determining the timing of rec-
18 ognition of taxable receipts and deduction of business pur-
19 chases. All business purchases shall be deducted when in-
20 curred (in the case of a business entity using the accrual
21 method of accounting) or when paid (in case of a business
22 entity using the cash method of accounting) without re-

gard to whether the business purchases are for or relate to—

"(1) inventory,

"(2) assets with a useful life of more than one year, or

"(3) property that will be used to produce other property.

"(b) ECONOMIC PERFORMANCE.—For purposes of determining whether an amount has been incurred, the all events test shall not be treated as met any earlier than when economic performance with respect to such item occurs.

"(c) CONSISTENT ACCOUNTING METHODS.—Except as otherwise expressly provided in this chapter, a business entity shall secure the consent of the Secretary before changing the method of accounting by which it determines gross profits. This provision shall not apply to changes required by the adoption of the business tax.

"SEC. 1632. USE OF THE CASH METHOD OF ACCOUNTING.

"(a) IN GENERAL.—A business entity that was permitted to use and used the cash method of accounting under the Internal Revenue Code of 1986 shall be permitted to continue to use the cash method of accounting.

"(b) NEW BUSINESS ENTITIES.—A new business entity shall be permitted to use the cash method of account-

1 ing if permitted to under regulations prescribed by the
2 Secretary.
3 "(c) CHANGE OR EXPANSION OF BUSINESS.—Sub-
4 section (a) shall cease to apply to a business entity that
5 changes or expands its business such that under regula-
6 tions prescribed by the Secretary it is no longer eligible
7 to use the cash method of accounting.
8 "(d) REGULATIONS.—
9 "(1) USE OF CASH METHOD.—The Secretary
10 shall prescribe regulations defining which business
11 entities may use the cash method of accounting. In
12 general, those regulations shall be consistent with
13 the rules under sections 447 and 448, except that all
14 corporations shall be treated as C corporations were
15 treated under those sections. The regulations shall
16 not require a business entity described in subsection
17 (a) to convert to the accrual method prior to Janu-
18 ary 1, 2008.
19 "(2) CHANGE IN ACCOUNTING METHOD.—The
20 Secretary shall prescribe regulations to prevent dou-
21 ble counting of taxable receipts and deductible ex-
22 penses in the case of a change in accounting method.
23 **"SEC. 1633. LONG-TERM CONTRACTS.**
24 "(a) IN GENERAL.—In the case of a long-term con-
25 tract—

1 "(1) CONTRACTOR EXPENSES.—The contractor
2 shall be entitled to deduct its business purchases
3 when paid or incurred.
4 "(2) CONTRACTOR RECEIPTS.—The contractor
5 shall recognize taxable receipts—
6 "(A) in the case of a project in which the
7 acquirer has no ownership interest in the
8 project until delivery—
9 "(i) upon delivery of the project, in
10 the case of an accrual basis contractor, or
11 "(ii) upon the later of delivery of the
12 project or the receipt of payment, in the
13 case of cash-basis contractor.
14 "(B) in the case of a project in which the
15 acquirer obtains an ownership interest as the
16 project is constructed—
17 "(i) when the contractor has the right
18 to payments, in the case of an accrual
19 basis contractor, or
20 "(ii) upon the later of when the con-
21 tractor receives the cash or has the right
22 to payments, in the case of a cash basis
23 contractor.

1 "(3) ACQUIRER EXPENSES.—The acquirer that
2 is a business entity shall be entitled to deduct its
3 costs of the business purchase—
4 "(A) in the case of a cash-basis acquirer,
5 at such time as a cash basis contractor would
6 be required to treat the amounts paid as tax-
7 able receipts, or
8 "(B) in the case of an accrual-basis
9 acquirer, at such time as an accrual basis con-
10 tractor would be required to treat the amounts
11 paid or due as taxable receipts.
12 "(b) RIGHT TO PAYMENTS.—
13 "(1) IN GENERAL.—A contractor shall be treat-
14 ed as having a right to payments with respect to a
15 project at any time to the extent that the contractor
16 would not be required to return payments received
17 (or would be entitled to collect payments not yet re-
18 ceived) if the project were terminated at such time
19 by the contractor.
20 "(2) CONTRACTUAL PROVISIONS.—If a long-
21 term contract includes a procedure for paying the
22 contractor as work is completed (for example, by
23 reason of a draw down from a trust account), the
24 contractual provisions shall generally govern when a
25 contractor has a right to payment.

1 "(3) PERCENTAGE COMPLETION METHOD OF
2 ACCOUNTING.—If a long-term contract does not in-
3 clude a mechanism for paying the contractor as
4 work is completed, the percentage-of-completion
5 method of accounting shall be used to determine the
6 timing of taxable receipts of the contractor and busi-
7 ness purchases of the acquirer.
8 "(c) LONG-TERM CONTRACT.—
9 "(1) IN GENERAL.—'Long-term contract'
10 means—
11 "(A) any contract that covers service or
12 production through parts of two different cal-
13 endar years if the contract includes a formal
14 deposit and draw-down mechanism, and
15 "(B) any contract for the manufacture,
16 building, installation, or construction of prop-
17 erty if such contract is not completed within the
18 taxable period of the contractor in which such
19 contract is entered into.
20 "(2) EXCEPTION.—A contract for the manufac-
21 ture of property shall not be treated as a long-term
22 contract unless such contract involves the manufac-
23 ture of—

"(A) any unique item of a type which is not normally included in the finished goods inventory of the taxpayer, or

"(B) any item which normally requires more than 12 calendar months to complete.

"(d) CONSISTENCY.—The Secretary may require business entities to file statements containing such information with respect to long-term contracts as the Secretary may prescribe to ensure consistency in reporting.

"(e) FOREIGN CONTRACTS.—This section shall not be construed to permit a deduction for a business purchase for the cost of property produced outside the United States pursuant to a long-term contract at any time prior to the import of such property into the United States.

"SEC. 1634. POST-SALE PRICE ADJUSTMENTS AND REFUNDS.

"(a) RECEIPT OF PRICE ADJUSTMENT.—In the case of a post-sale price adjustment attributable to a business purchase which was taken into account in computing gross profits for a prior taxable transaction, the amount of such adjustment shall be treated as a reduction or increase, as the case may be, in the cost of business purchases for the taxable period in which the adjustment is made or incurred.

1 "(b) ISSUANCE OF PRICE ADJUSTMENT.—In the case
2 of a post-sale price adjustment attributable to a sale the
3 receipts from which were taken into account in deter-
4 mining taxable receipts for a prior taxable transaction, the
5 amount of such adjustment shall be treated as a reduction
6 or increase, as the case may be, in taxable receipts for
7 the taxable period in which the adjustment is made or in-
8 curred.

9 "(c) POST-SALE PRICE ADJUSTMENT.—'Post-sale
10 price adjustment' means a refund, rebate, or other price
11 allowance attributable to a sale of property or services or
12 an upward adjustment in price that was not previously
13 taken into account under the business entity's method of
14 accounting.

15 **"SEC. 1635. BAD DEBTS.**

16 "(a) SELLER.—If an amount owed to an accrual
17 basis business entity for property or services sold—

18 "(1) was taken into account as a taxable receipt
19 in a prior taxable period, and

20 "(2) becomes wholly or partially uncollectible
21 during the taxable period, then the seller shall treat
22 the amount as a reduction in taxable receipts for the
23 taxable period in which it becomes wholly or par-
24 tially uncollectible.

1 "(b) NOTICE REQUIREMENT.—No reduction shall be
2 allowed under subsection (a) unless the seller notifies the
3 purchaser of the amount which the seller has treated as
4 wholly or partially uncollectible.

5 "(c) SUBSEQUENT COLLECTION.—If an amount
6 which was treated as uncollectible under subsection (a) is
7 subsequently collected, it shall be treated as a taxable re-
8 ceipt when collected.

9 "(d) PURCHASER.—If a purchaser receives notice
10 under subsection (b) from a seller and the purchaser has
11 treated the amount labeled uncollectible as a business pur-
12 chase in a prior taxable period, then the purchaser shall
13 treat such amount as a reduction in the cost of business
14 purchases in the taxable period to which the notice relates.
15 If the purchaser subsequently repays such amount, the re-
16 payment shall constitute the cost of a business purchase.

17 **"SEC. 1636. TRANSITION RULES.**

18 "(a) NO DOUBLE DEDUCTIONS.—A business entity
19 shall not be entitled to treat as a 'cost of business pur-
20 chase' any amount that the business entity deducted in
21 computing taxable income under the income tax in effect
22 prior the effective date of the business tax.

23 "(b) NO DOUBLE INCLUSION.—A business entity
24 shall not be required to include in taxable receipts any
25 receipt that the business entity took into account in com-

1 puting taxable income under the income tax in effect prior
2 to the effect date of the business tax.
3 "(c) NO LOSS OF DEDUCTION.—An expense which—
4 "(1) a business entity would have been able to
5 deduct as a cost of a business purchase in an ac-
6 counting period before the effective date of the busi-
7 ness tax if the business tax had been in effect in
8 such period, and
9 "(2) the business entity would have been able to
10 deduct as an expense in computing taxable income
11 in a period after the business tax is effective if the
12 income tax had continued in effect, shall be treated
13 as a cost of a business purchase incurred or paid at
14 the time that it would have been paid or incurred
15 under the income tax if the income tax had contin-
16 ued in effect. This subsection shall not apply to any
17 amount which is to be taken into account under sub-
18 chapter N (relating to amortization of transition
19 basis, inventory costs, and safe harbor leases), any
20 amounts which would have been deducted under the
21 income tax through loss carryover deductions, or any
22 deductions deferred by the uniform capitalization
23 rules under section 263A.
24 "(d) ALL TAXABLE RECEIPTS TAXED.—A receipt
25 which—

"(1) a business entity would have been required to treat as a taxable receipt in an accounting period before the effective date of the business tax if the business tax had been in effect in such period, and

"(2) the business entity would have been required to include in gross income in a period after the business tax is effective if the income tax had continued in effect

shall be treated as a taxable receipt at the time that it would have been included in income if the income tax had continued in effect.

"Subchapter E—Land and Rental Property

"Sec. 1641. No deduction for land purchased for nonbusiness use.
"Sec. 1642. Taxable receipts for land held for nonbusiness use.
"Sec. 1643. Certain rental property.

"SEC. 1641. NO DEDUCTION FOR LAND PURCHASED FOR NONBUSINESS USE.

"(a) IN GENERAL.—The acquisition of unimproved land shall not constitute a business purchase if the unimproved land is not acquired to be used in a business activity or if the land is acquired for—

"(1) speculation,

"(2) development (including subdivision), or

"(3) temporary leasing or other use not commensurate with the value of the land,

"(4) indefinite future use in a business activity, or

1 "(5) use in compensating employees.

2 "(b) FUTURE USE IN BUSINESS ACTIVITY.—Unim-
3 proved land will not be considered held for 'indefinite fu-
4 ture use in a business activity' if promptly upon acquisi-
5 tion, the purchaser or the lessee begins construction of im-
6 provements on the land (other than improvements, such
7 as paving or sewage lines, intended for indefinite future
8 development) that will be used in a business activity. Such
9 improvement must be commensurate with the value of the
10 land.

11 "(c) UNIMPROVED LAND.—'Unimproved land'
12 means—

13 "(1) land with no buildings on it,

14 "(2) land with improvements if the value of the
15 improvements is relatively small in comparison to
16 the value of the land and it is anticipated that the
17 improvements will be demolished and not used,

18 "(3) land in excess of the amount reasonably
19 needed for the buildings located on it.

20 "(d) CONVERSION TO BUSINESS USE.—If the acqui-
21 sition of land is not treated as a business purchase by rea-
22 son of subsection (a) and the land is subsequently used
23 in a manner for which it could have been treated as a
24 business purchase, the cost of the land will be treated as
25 a business purchase when the improvements on the land

are placed in service (or in the case of construction for sale, substantially completed and advertised for sale).

"SEC. 1642. TAXABLE RECEIPTS FROM SALE OF LAND HELD FOR NONBUSINESS USE.

"(a) TAX BASIS.—A business entity shall have a tax basis in land equal to the cost of the land if such cost is not deductible by reason of section 1641(a) and the land has not been converted to business use for purposes of section 1641(d).

"(b) TAXABLE RECEIPTS OF A LAND SALE.—The taxable receipts from the sale of land (or portion thereof) in which a business entity has a tax basis by reason of subsection (a) shall be the amount by which the proceeds exceed the basis of such land (or portion thereof).

"SEC. 1643. CERTAIN RENTAL PROPERTY.

"(a) IN GENERAL.—Except as provided in subsection (b), the activity of rental of real estate is a business activity to which the business tax applies.

"(b) RENTAL PROPERTY BECOMES NONRENTAL PROPERTY.—If property which is considered rental property for purposes of subsection (a) in one taxable period ceases to be rental property in the following taxable period, the property (and any associated debt) shall be treated as distributed by the business entity to its owners. Section 1622(a) shall apply to such distribution.

"Subchapter F—Insurance and Financial Products

"Sec. 1651. General rules.
"Sec. 1652. Fees for financial intermediation services.

"SEC. 1651. GENERAL RULES.

"(a) TAXABLE RECEIPTS.—Except in the case of a financial intermediation business, taxable receipts do not include financial receipts (as defined in section 1662).

"(b) BUSINESS PURCHASES.—Except in the case of a financial intermediation business, business purchases do not include the cost of financial instruments or payments for use of money or capital, other than fees for financial intermediation services.

"SEC. 1652. FEES FOR FINANCIAL INTERMEDIATION SERVICES.

"(a) BUSINESS PURCHASE.—Business purchases include explicit fees and implicit fees for financial intermediation services (except to the extent that such fees are for services treated as performed outside the United States and not imported into the United States or for services treated as exported.).

"(b) FINANCIAL INTERMEDIATION SERVICES.—Except as provided in subchapter G, the term 'financial intermediation service' shall be determined in accordance with regulations promulgated by the Secretary.

1 **"Subchapter G—Financial Intermediation**
2 **and Financial Institutions**

"Sec. 1661. Activities constituting a financial intermediation business.
"Sec. 1662. General rule for taxation.
"Sec. 1663. Special rule for banks.
"Sec. 1664. Insurance companies.
"Sec. 1665. Financial pass-through entities.

3 **"SEC. 1661. ACTIVITIES CONSTITUTING A FINANCIAL**
4 **INTERMEDIATION BUSINESS.**

5 "(a) FINANCIAL INTERMEDIATION BUSINESS.—The
6 providing of financial intermediation services shall be con-
7 sidered a business activity. The gross profit of a business
8 entity providing financial intermediation services shall be
9 determined by taking into account the rules of this sub-
10 chapter.

11 "(b) SEPARATE BUSINESS ACTIVITY.—The provision
12 of financial intermediation services for unrelated persons
13 shall be considered a separate business activity and a busi-
14 ness shall be considered a separate entity with respect to
15 such activity. An entity engaging in such business is re-
16 ferred to in this chapter as a 'financial intermediation
17 business'.

18 "(c) DEFINITIONS.—

19 "(1) FINANCIAL INTERMEDIATION SERVICES.—
20 'Financial intermediation services' include—

21 "(A) lending services,

22 "(B) insurance services,

1 "(C) market-making and dealer services,
2 and
3 "(D) any other service provided as busi-
4 ness activity in which a person acts as an inter-
5 mediary in—
6 "(i) the transfer of property, services,
7 or financial assets, liabilities, risks or in-
8 struments (or income or expense derived
9 therefrom) between two or more persons,
10 or
11 "(ii) the pooling of economic risk
12 among other persons
13 and derives all or a portion of such person's
14 gross receipts from streams of income or ex-
15 pense, discounts, or other financial flows associ-
16 ated with the matter with respect to which such
17 person is acting as an intermediary.
18 "(2) LENDING SERVICES.—'Lending services'
19 means the regular making of loans and providing
20 credit to, or taking deposits from customers, but
21 does not include an installment or delayed payment
22 arrangement provided by a seller of property or serv-
23 ices under which additional charges or fees are im-
24 posed by the seller for the late payment.

1 "(3) MARKET-MAKING OR DEALER SERVICES.—
2 'Market-making or dealer services' means services
3 provided by a person who—
4 "(A) regularly purchases financial instru-
5 ments from or sells financial instruments to
6 customers in the ordinary course of a trade or
7 business,
8 "(B) regularly offers to enter into, assume,
9 offset, assign, or otherwise terminate positions
10 in financial instruments with customers in the
11 ordinary course of a trade or business.
12 **"SEC. 1662. GENERAL RULE FOR TAXATION.**
13 "(a) IN GENERAL.—In the case of a financial inter-
14 mediation business, gross profits shall be computed by—
15 "(1) substituting financial receipts for taxable
16 receipts, and
17 "(2) including financial expenses as business
18 purchases.
19 "(b) DEFINITIONS.—
20 "(1) FINANCIAL RECEIPTS.—'Financial re-
21 ceipts' means all receipts other than amounts re-
22 ceived as contributions to capital.
23 "(2) FINANCIAL EXPENSES.—'Financial ex-
24 penses' include—

1 "(A) payments for principal and interest
2 that is properly allocable to the provision of fi-
3 nancial intermediation services,
4 "(B) the cost of and payments under fi-
5 nancial instruments (other than financial in-
6 struments in the person subject to the tax im-
7 posed under this chapter and any person re-
8 lated to such person),
9 "(C) claims and cash surrender values paid
10 in connection with insurance or reinsurance
11 services, and
12 "(D) amounts paid for reinsurance.
13 "(3) FINANCIAL INSTRUMENT.—'Financial in-
14 strument' means any—
15 "(A) share of stock in a corporation,
16 "(B) equity ownership in any widely held
17 or publicly traded partnership, trust, or other
18 business entity,
19 "(C) note, bond, debenture, or other evi-
20 dence of indebtedness,
21 "(D) interest rate, currency, or equity no-
22 tional principal contract,
23 "(E) evidence or interest in, or a derivative
24 financial instrument in, any financial instru-
25 ment described in subparagraph (A), (B), (C),

or (D), or any currency, including any option, forward contract, short position, and any similar financial instrument in such a financial instrument or currency, and

"(F) a position which—

"(i) is not a financial instrument described in subparagraph (A), (B), (C), (D) or (E),

"(ii) is a hedge with respect to such a financial instrument, and

"(iii) is clearly identified in the dealer's records as being described in this subparagraph before the close of the day on which it was acquired or entered into.

"(c) INTERNATIONAL MATTERS.—For purposes of this section in the case of a financial intermediation business with activity in and outside the United States—

"(1) INCLUSION REGARDLESS OF SOURCE.—

"(A) Financial receipts shall be determined without regard to whether they are received for property or service provided in or outside the United States, except that financial receipts do not include amounts that—

"(i) are not taxable receipts (as determined without regard to this section), but

"(ii) would have been taxable receipts (as determined without regard to this section) if they had been received for services or property in the United States.

"(B) Financial expenses shall be determined without regard to whether they are received for property or services acquired in or outside the United States.

"(2) ALLOCATION.—Under regulations prescribed by the Secretary, gross profits (as determined without regard to this paragraph) shall be reduced by the amount of financial intermediation gross profit attributable to financial intermediation activity provided outside the United States.

"(3) GROSS PROFIT ATTRIBUTABLE TO FINANCIAL INTERMEDIATION ACTIVITY.—'Gross profits attributable to financial intermediation activity' means the excess of—

"(A) gross profits as determined under this section (but without regard to paragraph (2)), over

"(B) gross profits as determined without regard to this subchapter.

1 **"SEC. 1663. SPECIAL RULES FOR BANKS.**

2 "(a) IN GENERAL.—In the case of a bank, gross prof-
3 its shall be determined in accordance with section 1662,
4 except that—

5 "(1) FINANCIAL RECEIPTS.—Financial receipts
6 shall include only—

7 "(A) taxable receipts (as determined with-
8 out regard to this subchapter),

9 "(B) interest on loans made or acquired by
10 the bank,

11 "(C) gain on the sale of loans,

12 "(D) discount points received, and

13 "(E) any explicit fees for financial or fidu-
14 ciary services not included in subparagraphs
15 (A) through (E).

16 "(2) FINANCIAL EXPENSES.—Financial ex-
17 penses shall include only—

18 "(A) interest paid to depositors and on
19 other funds borrowed by the bank, and

20 "(B) reasonable additions to reserves for
21 bad debts.

22 "(3) FORECLOSURE PROPERTY.—Gross profits
23 shall properly take into account proceeds from the
24 operation or sale of foreclosure property.

25 "(b) BANK.—

1 "(1) IN GENERAL.—'Bank' means a bank or
2 trust company incorporated and doing business
3 under the laws of the United States, the District of
4 Columbia, or any State, a substantial part of the
5 business of which consists of receiving deposits and
6 making loans and discounts, or of exercising fidu-
7 ciary powers similar to those exercised by national
8 banks under the authority of the Comptroller of the
9 Currency, and which is subject by law to supervision
10 and examination by State or Federal authority hav-
11 ing supervision over banking institutions or credit
12 unions. Such term includes domestic building and
13 loan associations and credit unions.
14 "(2) OTHER ACTIVITIES.—If a bank is engaged
15 in significant amounts of activities other than those
16 described in paragraph (1), the bank shall be consid-
17 ered as a separate business entity with respect to
18 such other activity.

19 **"SEC. 1664. INSURANCE COMPANIES.**

20 "(a) IN GENERAL.—In the case of companies pro-
21 viding insurance services, gross profits shall be determined
22 in accordance with section 1662, except—
23 "(1) subsection (c) of section 1662 (relating to
24 international operations) shall not apply, and

1 "(2) the rules of subchapter J (sourcing rules)
2 shall apply to determine financial receipts and finan-
3 cial expenses.

4 "(b) RESULT INCONSISTENT WITH STATUTORY IN-
5 TENT.—If an insurance company determines that the ap-
6 plication of subsection (a) produces results inconsistent
7 with the territorial approach of the business tax, it may
8 apply to the Secretary for permission to apply section
9 1662(c) in lieu of subsection (a).

10 **"SEC. 1665. FINANCIAL PASS-THROUGH ENTITIES.**

11 "(a) IN GENERAL.—In the case of a financial pass-
12 thru entity, gross profits shall be determined in accord-
13 ance with section 1662, except—

14 "(1) financial receipts shall include contribu-
15 tions to capital,

16 "(2) financial expenses shall include—

17 "(A) distributions to persons holding inter-
18 ests in the pass-thru entity,

19 "(B) investments in related entities (in-
20 cluding wholly owned entities) engaging in real
21 estate investment.

22 "(b) PASS-THRU ENTITY.—'Pass-thru entity' means
23 a business entity that is intended to serve as a conduit.
24 The Secretary shall prescribe regulations defining pass-
25 thru entity.

1 **"Subchapter H—Tax-Exempt Organizations**

"Sec. 1671. Exemption for governmental entities.
"Sec. 1672. Taxable activity of governmental entities.
"Sec. 1673. Tax-exempt organizations.
"Sec. 1674. Special rules for (c)(3) organizations.
"Sec. 1675. Tax on unrelated business activity.
"Sec. 1676. Unrelated business activity.

2 **"SEC. 1671. EXEMPTION FOR GOVERNMENTAL ENTITIES.**

3 "(a) STATES.—Except as provided in section 1672,
4 a state, political subdivision thereof and the District of
5 Columbia shall be exempt from taxation under this chap-
6 ter on any gross profits derived from the exercise of any
7 essential governmental function.

8 "(b) POSSESSIONS.—The government of any posses-
9 sion of the United States shall be exempt from taxation
10 under this chapter on any gross profits earned by the pos-
11 session.

12 **"SEC. 1672. TAX-EXEMPT ORGANIZATIONS.**

13 "(a) EXEMPTION FROM TAXATION.—An organiza-
14 tion described in subsection (c) or (d) of section 501 and
15 exempt from tax under section 501(a) shall be exempt
16 from taxation under this chapter.

17 "(b) TAX ON UNRELATED BUSINESS ACTIVITY.—An
18 organization exempt from taxation under subsection (a)
19 shall be subject to tax to the extent provided in sections
20 1675 and 1676, but shall be considered a tax-exempt orga-
21 nization for purposes of any law that refers to tax-exempt
22 organizations.

"SEC. 1673. TAX ON UNRELATED BUSINESS ACTIVITY.

"(a) IN GENERAL.—Each organization described in subsection (b) shall be subject to the Business Consumption Tax under section 1601 on its gross profits from its unrelated business activity.

"(b) ORGANIZATIONS SUBJECT TO TAX.—This section shall apply to—

"(1) organizations exempt from the business tax under section 1672, other than instrumentalities of the United States, and

"(2) colleges and universities which are instrumentalities of any government and corporations owned by one or more such colleges or universities.

"SEC. 1674. UNRELATED BUSINESS ACTIVITY.

"(a) IN GENERAL.—'Unrelated business activity' means any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501, except that such term does not include any trade or business—

"(1) in which substantially all the work in carrying on such trade or business is performed for the organization without compensation; or

1 ''(2) which is carried on, in the case of an orga-
2 nization described in section 501(c)(3) or in the case
3 of a college or university described in section
4 1673(b), by the organization primarily for the con-
5 venience of its members, students, patients, officers,
6 or employees, which is the selling by the organiza-
7 tion of items of work-related clothes and equipment
8 and items normally sold through vending machines,
9 through food dispensing facilities, or by snack bars,
10 for the convenience of its members at their usual
11 places of employment; or
12 ''(3) which is the selling of merchandise, sub-
13 stantially all of which has been received by the orga-
14 nization as gifts or contributions.
15 ''(b) ADVERTISING, ETC., ACTIVITIES.—For purposes
16 of this section, 'trade or business' includes any activity
17 which is carried on for the production of income from the
18 sale of goods or the performance of services. For purposes
19 of the preceding sentence, an activity does not lose identity
20 as a trade or business merely because it is carried on with-
21 in a larger aggregate of similar activities or within a larger
22 complex of other endeavors which may, or may not, be
23 related to the exempt purposes of the organization. Where
24 an activity carried on for profit constitutes an unrelated
25 trade or business, no part of such trade or business shall

be excluded from such classification merely because it does not result in profit.

"(c) TRADE OR BUSINESS.—

"(1) CERTAIN BUSINESS ACTIVITIES.—An activity shall not be considered a 'trade or business' solely because the activity is a business activity (such as certain passive rental activity) that would be subject to the business tax if conducted by a business entity other than a tax-exempt organization.

"(2) REGULATIONS.—The Secretary shall prescribe regulations defining a 'trade or business.' Such regulations shall be consistent with the provisions under sections 511 through 513, except to the extent such provisions are inconsistent with other principles of the business tax.

"(3) TRADE SHOWS.—The conduct of trade shows and conventions shall not be excluded from the definition of trade or business.

"Subchapter I—Cooperatives

"Sec. 1681. Patronage dividends of cooperatives.

"SEC. 1681. PATRONAGE DIVIDENDS OF COOPERATIVES.

"(a) PATRONAGE DIVIDENDS PAID BY SUPPLY COOPERATIVES.—A qualified patronage dividend paid by a supply cooperative to a patron shall be treated as if it is

1 a refund of a portion of the amounts paid by the patron
2 for goods, services, or use of capital.
3 ''(b) PATRONAGE DIVIDENDS PAID BY MARKETING
4 COOPERATIVES.—A qualified patronage dividend paid to
5 a patron by a marketing cooperative shall be treated as
6 an upward price adjustment in the amount received by the
7 patron for its goods marketed by the cooperative.
8 ''(c) DIVIDEND TREATMENT.—Only the portion of a
9 patronage dividend that is not a qualified patronage divi-
10 dend shall be treated as a dividend under this chapter.
11 ''(d) REGULATIONS.—The Secretary shall prescribe
12 regulations for the application of this section. The regula-
13 tions shall generally be consistent with subchapter T of
14 chapter 1 except to the extent that such rules are incon-
15 sistent with provisions of this chapter.

16 **''Subchapter J—Sourcing Rules**

''Sec. 1691. Exports of property or services.
''Sec. 1692. Imports of property or services.
''Sec. 1693. Import or export of services.
''Sec. 1694. International transportation services.
''Sec. 1695. International communications.
''Sec. 1696. Insurance.
''Sec. 1697. Banking services.

17 **''SEC. 1691. EXPORTS OF PROPERTY OR SERVICES.**

18 ''(a) GENERAL RULE.—Taxable receipts do not in-
19 clude amounts received by the exporter thereof for prop-
20 erty or services exported from the United States for use
21 or consumption outside the United States.

"(b) EXPORT THROUGH NONBUSINESS ENTITY.—For purposes of subsection (a), if property or services are sold to a governmental entity or a tax-exempt organization for export and are exported other than in an activity of such entity which is subject to the business tax, then the seller of such property or services is deemed to be the exporter thereof.

"SEC. 1692. IMPORTS OF PROPERTY OR SERVICES.

"(a) IN GENERAL.—The import of property or services for consumption in the United States shall constitute a business purchase if such property or service is to be used in a business activity in the United States. Property being held for sale or retail by a business entity that is in the business of selling goods shall be considered held for 'use in a business activity'.

"(b) AMOUNT OF BUSINESS PURCHASE.—

"(1) IN GENERAL.—The cost of business purchases with respect to the import of property or services for use or consumption in the United States is the customs value, price or other amount used for purposes of determining the import tax under section 1701 or section 1702.

"(2) IMPORT TAX.—The cost of business purchases does not include any import tax paid. No deduction shall be allowed with respect to property or

service imported by a business entity unless the import tax is paid with respect to such import.

"SEC. 1693. IMPORT OR EXPORT OF SERVICES.

"(a) IN GENERAL.—Except as otherwise provided in this subchapter or in rules prescribed under subchapter G (relating to financial intermediation business), services shall not be treated as imported or exported from the location in which they are performed.

"(b) IMPORT OF SERVICES.—A business entity shall be treated as importing a service if—

"(1) the entire benefit of the service will be realized in the United States, and

"(2) the benefit will be realized in connection with the United States business activities of the business entity.

"(c) EXPORT OF SERVICES.—A business will be treated as exporting a service if—

"(1) the entire benefit of the service will be realized outside of the United States, and

"(2) the benefit will be realized solely in connection with the activities of the purchaser occurring outside the United States.

"(d) SERVICES ACQUIRED FROM SERVICE PROVIDER THAT PROVIDES SERVICES IN AND OUTSIDE THE UNITED STATES.—

1 "(1) IN GENERAL.—If a business entity ac-
2 quires services from a service provider that provides
3 services both in and outside the United States and
4 the service provider shows on the invoice where the
5 services are provided—
6 "(A) the business entity shall treat the
7 services as provided where stated on the invoice,
8 and
9 "(B) the service provider shall treat as tax-
10 able receipts any services listed as provided in
11 the United States.
12 "(2) NO INVOICE.—If a business entity acquires
13 services from a service provider that provides serv-
14 ices both in and outside the United States and the
15 service provider does not show on an invoice where
16 such services are provided—
17 "(A) the business entity shall treat the
18 services as if provided in the location to which
19 payment is sent, and
20 "(B) the service provider shall treat as tax-
21 able receipts any payments received in the
22 United States.
23 **"SEC. 1694. INTERNATIONAL TRANSPORTATION SERVICES.**
24 "(a) TRANSPORTATION OF PROPERTY.—
25 "(1) TAXABLE RECEIPTS.—

1 "(A) EXPORTS.—Taxable receipts do not
2 include receipts from the transportation of
3 property exported from the United States.
4 "(B) IMPORTS.—Taxable receipts include
5 receipts from transportation of property im-
6 ported into the United States only if such costs
7 are not taken into account in determining the
8 import tax.
9 "(C) PRESUMPTIONS.—The Secretary shall
10 prescribe regulations describing situations in
11 which a transporter of property must presume
12 that no import tax has been paid on the cost of
13 its services.
14 "(2) BUSINESS PURCHASES.—
15 "(A) EXPORTS.—Business purchases do
16 not include amounts paid or incurred for the
17 cost of transportation of property exported from
18 the United States.
19 "(B) IMPORTS.—Amounts paid or incurred
20 for transportation of goods imported into the
21 United States, shall constitute a cost of busi-
22 ness purchase only to the extent that they are
23 taken into account in determining the customs
24 value for purposes of section 1701(a) (relating
25 to the import tax).

1 "(b) TRANSPORTATION OF PASSENGERS.—
2 "(1) TAXABLE RECEIPTS.—Taxable receipts—
3 "(A) include receipts from the transpor-
4 tation of passengers from the United States to
5 a destination outside the United States, but
6 "(B) do not include receipts from the
7 transportation of passengers from outside the
8 United States to a destination in the United
9 States.
10 "(2) BUSINESS PURCHASES.—Business pur-
11 chases—
12 "(A) include amounts paid or incurred in
13 a business activity for the transportation of
14 passengers from the United States to a destina-
15 tion outside the United States, but
16 "(B) do not include amounts paid or in-
17 curred for transportation of passengers from
18 outside the United States to a destination in
19 the United States.
20 "(3) SIMPLIFYING RULES.—The Secretary may
21 provide rules that simplify this subsection, including
22 rules under which—
23 "(A) half of receipts attributable to trans-
24 portation to or from the United States are
25 treated as taxable receipts,

"(B) half of the cost for business trips to and from the United States are treated as business purchases, and

"(C) all transportation expenses of a business entity that has no regular business outside the United States are treated as business purchases.

"SEC. 1695. INTERNATIONAL COMMUNICATIONS.

"(a) IN GENERAL.—For purposes of section 1692, communications services shall be treated as provided at the point of origin of the communications and shall not be treated as imported or exported.

"(b) COMMUNICATIONS SERVICES.—Communications services include—

"(1) telephone communications services,

"(2) courier services (except in the case of transportation of property that is imported or exported),

"(3) satellite transmission services,

"(4) telegraph services,

"(5) facsimile transmission services, and

"(6) other similar services.

"SEC. 1696. INSURANCE.

"(a) IN GENERAL.—Insurance services will be treated as provided at the location of the insurance company

1 providing the services. Except as the Secretary may pre-
2 scribe by regulations, insurance companies will be treated
3 as providing services at the location to which insurance
4 payments are made.

5 ''(b) INSURED RISKS IN THE UNITED STATES.—If
6 insurance services are provided outside the United States
7 and the insured risk is located in the United States—

8 ''(1) the insurance service shall be treated as
9 imported,

10 ''(2) the insurance premiums shall be subject to
11 the import tax, and

12 ''(3) payments of insurance benefits shall not be
13 treated as imported.

14 ''(c) INSURED RISK OUTSIDE THE UNITED
15 STATES.—If insurance services are provided inside the
16 United States and the insured risk is located outside the
17 United States—

18 ''(1) insurance services shall be treated as ex-
19 ported,

20 ''(2) payments of insurance benefits shall be
21 treated as payments for services outside the United
22 States, and shall not be deducted as business pur-
23 chases.

24 ''(d) INSURANCE SERVICES.—Insurance services
25 means the provision of insurance and services related to

insurance other than insurance that is treated as a savings asset.

"SEC. 1697. BANKING SERVICES.

"The Secretary shall prescribe regulations on the location of banking services and the extent to which such services are to be treated as imported or exported.

"Subchapter K—Import Tax

"Sec. 1701. Imposition of tax on property.
"Sec. 1702. Imposition of tax on import of services.
"Sec. 1703. General rules for the import tax.

"SEC. 1701. IMPOSITION OF TAX ON PROPERTY.

"(a) GENERAL RULE.—There is hereby imposed a tax equal to 8.5 percent of the customs value of all property entered into the United States for consumption, use or warehousing.

"(b) LIABILITY FOR TAX.—The tax imposed on the import of property by subsection (a) shall be paid by the person entering the property into the United States for consumption, use or warehousing. Such tax shall be due and payable at the time of import.

"(c) IMPORTS OF PREVIOUSLY EXPORTED PROPERTY.—In the case of any article that is classified under a heading or subheading of subchapter I or II of chapter 98 of the Tariff Schedules of the United States, the tax under this section shall be imposed only on that portion of the customs value of such article that is dutiable under such heading or subheading.

"(d) IMPORTS FOR PERSONAL CONSUMPTION.—The import tax imposed by this section shall not apply to any article entered into the United States duty free under subchapters I through VII of chapter 98 of the Tariff Schedules of the United States.

"SEC. 1702. IMPOSITION OF TAX ON IMPORT OF SERVICES.

"(a) GENERAL RULE.—There is hereby imposed a tax equal to 8.5 percent of the cost of all services treated as imported into the United States during the taxable period of the service recipient.

"(b) LIABILITY FOR THE TAX.—The tax on the import of services imposed by subsection (a) shall be paid by the person who receives the imported services. The tax shall be payable as if it were an addition to the business tax imposed by section 1601.

"(c) IMPORTED SERVICES.—For purposes of this section, services shall be treated as imported if they are treated as imported under section 1693 (general rules on import of services) or section 1696 (related to insurance).

"SEC. 1703. GENERAL RULES FOR THE IMPORT TAX.

" 'Import tax' means the tax imposed by section 1701 on the import of property and the tax imposed by section 1702 on the import of services.

"Subchapter L—Transition Rules

"Sec. 1711. Amortization of transition basis.

"SEC. 1711. AMORTIZATION OF TRANSITION BASIS.

"(a) TRANSITION BASIS DEDUCTION.—The 'transition basis deduction' for a taxable period is the sum of the amortization allowance determined under this section for the taxable period.

"(b) TREATMENT OF INTEREST FLOWS.—Interest flows between non-financial businesses shall be treated as under current law, phased out over 5 years.

"(c) AMORTIZATION RULES.—The amortization allowance to all property placed in service before the effective date of this section shall be the lesser of—

"(1) the amortization period under current law remaining on such date, or

"(2) a 5-year ratable period beginning on such date.

"Subchapter M—Rules for Administration, Consolidated Returns

"Sec. 1721. Returns, due dates, etc.
"Sec. 1722. Consolidated returns.
"Sec. 1723. Seller liable for tax.
"Sec. 1724. Tax invoices.
"Sec. 1725. Time for filing return and claiming credit; deposits of tax.
"Sec. 1726. Secretary to be notified of certain events.
"Sec. 1727. Regulations.

"SEC. 1721. RETURNS, DUE DATES, ETC.

"(a) IN GENERAL.—Until subtitle F is amended to reflect the adoption of this chapter, the rules of subtitle F relating to C corporations shall apply to business entities with respect to—

1 ''(1) returns and records;
2 ''(2) time and place for paying tax;
3 ''(3) assessment of taxes;
4 ''(4) collections and liens;
5 ''(5) abatements, credits, and refunds;
6 ''(6) interest on underpayments and overpay-
7 ments;
8 ''(7) additions to tax and penalties;
9 ''(8) closing agreements and compromises;
10 ''(9) crimes;
11 ''(10) judicial proceedings;
12 ''(11) discovery of liability and enforcement;
13 and
14 ''(12) estimated taxes.
15 ''(b) INDIVIDUALS ENGAGING IN BUSINESS ACTIVI-
16 TIES.—Under rules prescribed by the Secretary, individ-
17 uals engaging in business activities on their own or with
18 their spouses shall be permitted to file their business tax
19 returns with their individual tax returns and shall be sub-
20 ject to estimated tax rules for individual income tax re-
21 turns.
22 **''SEC. 1722. CONSOLIDATED RETURNS.**
23 ''(a) IN GENERAL.—Business entities may file con-
24 solidated returns of business tax if they would have been
25 permitted to file consolidated returns under section 1501

1 and such section were applied by treating each business
2 entity as a corporation and its owners or partners as
3 shareholders.

4 ''(b) FINANCIAL INSTITUTIONS.—Financial inter-
5 mediation businesses may be included in consolidated re-
6 turns, but each financial intermediation business must
7 compute its gross profits separately.

8 ''(c) INTERCOMPANY TRANSACTIONS.—In computing
9 the gross profits of a consolidated group, intercompany
10 transactions can be taken into account, or at the election
11 of the filer, be disregarded (except in the case of trans-
12 actions with financial intermediation businesses).

13 **''SEC. 1723. SELLER LIABLE FOR TAX.**

14 ''The person selling the property or services shall be
15 liable for the tax imposed by section 1601.

16 **''SEC. 1724. TAX INVOICES.**

17 ''(a) SELLER MUST GIVE PURCHASER TAX IN-
18 VOICE.—Any taxable person engaging in a taxable trans-
19 action shall give the purchaser a tax invoice with respect
20 to such transaction if the seller has reason to believe that
21 the purchaser is a taxable person.

22 ''(b) CONTENT OF INVOICE.—The tax invoice re-
23 quired by subsection (a) with respect to any transaction
24 shall set forth—

1 "(1) the name and identification number of the
2 seller,
3 "(2) the name of the purchaser,
4 "(3) the amount of the tax imposed by section
5 1601, and
6 "(4) such other information as may be pre-
7 scribed by regulations.
8 "(c) NO CREDIT WITHOUT INVOICE.—
9 "(1) IN GENERAL.—Except as provided in para-
10 graphs (2) and (3), a purchaser may claim a credit
11 with respect to a transaction only if the purchaser—
12 "(A) has received from the seller and has
13 in the purchaser's possession a tax invoice
14 which meets the requirements of subsection (b),
15 and
16 "(B) is named as the purchaser in such in-
17 voice.
18 "(2) EMPLOYEES OR OTHER AGENTS NAMED IN
19 INVOICES.—To the extent provided in regulations,
20 the naming of an employee or other agent of the
21 purchaser shall be treated as the naming of the pur-
22 chaser.
23 "(3) WAIVER OF INVOICE REQUIREMENT IN
24 CERTAIN CASES.—To the extent provided in regula-
25 tions, paragraph (1) shall not apply—

"(A) where the purchaser without fault on the purchaser's part fails to receive or fails to have in the purchaser's possession a tax invoice,

"(B) to a taxable transaction (or category of transactions) where—

"(i) the amount involved is de minimis, or

"(ii) the information required by subsection (b) can be reliably established by sampling or by another method and can be adequately documented.

"(d) TIME FOR FURNISHING INVOICE.—Any invoice required to be furnished by subsection (a) with respect to any transaction shall be furnished not later than 15 business days after the tax point for such transaction.

"SEC. 1725. TIME FOR FILING RETURN AND CLAIMING CREDIT; DEPOSITS OF TAX.

"(a) FILING RETURN.—Before the first day of the second calendar month beginning after the close of each taxable period, each taxable person shall file a return of the tax imposed by section 1601 on taxable transactions having a tax point within such taxable period.

"(b) CREDIT ALLOWED FOR TAXABLE PERIOD IN WHICH PURCHASER RECEIVES INVOICE.—

1 "(1) IN GENERAL.—Except as provided in para-
2 graph (2), a credit allowable by section 1606 with
3 respect to a transaction may be allowed only for the
4 first taxable period by the close of which the tax-
5 payer—
6 "(A) has paid or accrued amounts properly
7 allocable to the tax imposed by section 1601
8 with respect to such transaction, and
9 "(B) has a tax invoice (or equivalent) with
10 respect to such transaction.
11 "(2) USE FOR LATER PERIOD.—Under regula-
12 tions, a credit allowable by section 1606 may be al-
13 lowed for a period after the period set forth in para-
14 graph (1).
15 "(c) TAXABLE PERIOD.—For purposes of this chap-
16 ter—
17 "(1) IN GENERAL.—The term 'taxable period'
18 means a calendar quarter.
19 "(2) EXCEPTION.—
20 "(A) ELECTION OF 1-MONTH PERIOD.—If
21 the taxpayer so elects, the term 'taxable period'
22 means a calendar month.
23 "(B) OTHER PERIODS.—To the extent pro-
24 vided in regulations, the term 'taxable period'

1 includes a period, other than a calendar quarter
2 or month, selected by the taxpayer.
3 "(d) TAX POINT.—For purposes of this chapter—
4 "(1) CHAPTER 1 RULES WITH RESPECT TO
5 SELLER GOVERN.—Except as provided in paragraph
6 (2), the tax point for any sale of property or services
7 is the earlier of—
8 "(A) the time (or times) when any income
9 from the sale should be treated by the seller as
10 received or accrued (or any loss should be taken
11 into account by the seller) for purposes of chap-
12 ter 1, or
13 "(B) the time (or times) when the seller
14 receives payment for the sale.
15 "(2) IMPORTS.—In the case of the importing of
16 property, the tax point is when the property is en-
17 tered, or withdrawn from warehouse, for consump-
18 tion in the United States.
19 "(e) MONTHLY DEPOSITS REQUIRED.—To the extent
20 provided in regulations, monthly deposits may be required
21 of the estimated liability for any taxable period for the
22 tax imposed by section 1601.

"SEC. 1726. SECRETARY TO BE NOTIFIED OF CERTAIN EVENTS.

''To the extent provided in regulations, each person engaged in a business shall notify the Secretary (at such time or times as may be prescribed by such regulations) of any change in the form in which a business is conducted or any other change which might affect the liability for the tax imposed by section 1601 or the amount of such tax or any credit against such tax, or otherwise affect the administration of such tax in the case of such person.

"SEC. 1727. REGULATIONS.

''The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this chapter.

"Subchapter N—Definitions and Rules of Application

''Sec. 1731. Definitions.
''Sec. 1732. Rules of application.

"SEC. 1731. DEFINITIONS.

''If a term that is used but not defined in this chapter or in section 7701 is defined in chapter 1, the definition in chapter 1 shall apply except if manifestly incompatible with the intent of the provision in which the term is used.

"SEC. 1732. RULES OF APPLICATION.

"(a) DEFINITIONS.—Any definition included in this chapter shall apply for all purposes of this chapter unless—

"(1) such definition is limited to the purposes of a particular chapter, section, or subsection, or

"(2) the definition clearly would not be applicable in a particular context.

"(b) INTERPRETATIONS CONSISTENT WITH INTERNAL REVENUE CODE OF 1986.—Terms not defined in this chapter, chapter 1 or section 7701, but defined elsewhere in this title, shall be interpreted in a manner consistent with this title, except to the extent such interpretation would be inconsistent with the principles and purposes of this chapter.".

(b) The amendments made by this section shall be effective on January 1, 2009, except to the extent otherwise specifically provided in the text of such amendments.

SEC. 603. REPEAL OF CHAPTER 6.

Chapter 6 of the Code (relating to consolidated returns) is repealed as of January 1, 2008.

SEC. 604. REVISIONS TO THE CODE.

Not later than January 1, 2009, the Secretary shall submit to Congress proposed changes in the Internal Revenue Code of 1986 that—

(1) revise subtitles C through J of such Code to fully reflect the amendments to subtitle A of such Code made by this title and the repeal of subtitle B of such Code,

(2) include statutory definitions or rules in cases where the Secretary concludes that the definitions or rules cannot or should not be addressed by regulation,

(3) revise chapter 2 of such Code (relating to the self-employment tax) to conform to changes made by this title, and

(4) revise chapter 3 of such Code (relating to withholding on nonresident aliens and foreign corporations) to reflect changes made by this title.

SEC. 605. APPLICATION OF SUBTITLE F.

Until such time as subtitle F of the Internal Revenue Code of 1986 is amended to reflect the amendments made by this title, the provisions of such subtitle F shall be treated as generally applying to chapter 7 of subtitle A of such Code—

(1) without regard to specific cross references,

(2) without regard to provisions relating to partnerships, and

(3) as if the business tax under such chapter 7 were the corporate income tax and all business enti-

ties were corporations (except for purposes of collection, in which case the owners of noncorporate entities shall be obligated for taxes owned by the entities to the same extent as they would if the entity owed the tax prior to the amendment of the Code).

SEC. 606. EFFECTIVE DATES.

(a) IN GENERAL.—Except as otherwise provided in this title, the amendments made by this title shall be effective on and after January 1, 2009, with respect to tax years beginning on such date.

(b) SPECIAL RULES FOR BUSINESSES WITH 52–53 WEEK YEAR.—If a business uses a 52–53 week taxable period the amendments made by this title shall apply to the business with respect to its tax year beginning in the last week in December except with respect to any transactions occurring during 2008 that were structured to take advantage of the application of this title to such business at a time when this title did not apply to other businesses or to individuals.

TITLE VII—BUDGET ENFORCEMENT

SEC. 701. SHORT TITLE; TABLE OF CONTENTS; DEFINITIONS.

(a) SHORT TITLE.—This title may be cited as the ''Budget Control Act of 2008.''