Amendment to the Amendment in the Nature of a Substitute to H.R. 1 Offered by Mr. Brady of Texas

The amendment makes improvements to the amendment in the nature of a substitute relating to the maximum rate on business income of individuals, preserves the adoption tax credit, improves the program integrity of the Child Tax Credit, improves the consolidation of education savings rules, preserves the above-the-line deduction for moving expenses of a member of the Armed Forces on active duty, preserves the current law effective tax rates on C corporation dividends subject to the dividends received deduction, improves the bill’s interest expense rules with respect to accrued interest on floor plan financing indebtedness, modifies the treatment of S corporation conversions into C corporations, modifies the tax treatment of research and experimentation expenditures, modifies the treatment of expenses in contingent fee cases, modifies the computation of life insurance tax reserves, modifies the treatment of qualified equity grants, preserves the current law treatment of nonqualified deferred compensation, modifies the transition rules on the treatment of deferred foreign income, improves the excise tax on investment income of private colleges and universities, and modifies rules with respect to political statements made by certain tax-exempt entities.
AMENDMENT TO THE AMENDMENT IN THE
NATURE OF A SUBSTITUTE TO H.R. 1
OFFERED BY MR. BRADY OF TEXAS

Page 8, line 25, strike “subsection (b)” and insert “subsections (b) and (e)(3)”,

Page 16, strike lines 6 and 7, and insert the following:

“(B) in the case of a married individual fil-
ing a separate return, an amount equal to $\frac{1}{2}$
of the amount in effect for the taxable year
under subparagraph (A), and
“(C) in the case of any other individual,
$1,000,000.”.

Page 46, after line 3, insert the following:

“(g) REDUCED RATE FOR SMALL BUSINESSES WITH
NET ACTIVE BUSINESS INCOME.—
“(1) IN GENERAL.—The tax imposed by section
1 shall be reduced by 3 percent of the excess (if any)
of—
“(A) the least of—
“(i) qualified active business income,
“(ii) taxable income reduced by net capital gain (as defined in section 1(h)(11)(A)), or
“(iii) the 9-percent bracket threshold amount, over
“(B) the excess (if any) of taxable income over the applicable threshold amount.

“(2) PHASE-IN OF RATE REDUCTION.—In the case of any taxable year beginning before January 1, 2022, paragraph (1) shall be applied by substituting for ‘3 percent’—
“(A) in the case of any taxable year beginning after December 31, 2017, and before January 1, 2020, ‘1 percent’, and
“(B) in the case of any taxable year beginning after December 31, 2019, and before January 1, 2022, ‘2 percent’.

“(3) QUALIFIED ACTIVE BUSINESS INCOME.—For purposes of this subsection, the term ‘qualified active business income’ means the excess (if any) of—
“(A) any net business income derived from any active business activity, over
“(B) any net business loss derived from any active business activity.
''(4) 9-PERCENT BRACKET THRESHOLD AMOUNT.—For purposes of this subsection, the term ‘9-percent bracket threshold amount’ means—

“(A) in the case of a joint return or surviving spouse, $75,000,

“(B) in the case of an individual who is the head of a household (as defined in section 2(b)), ¾ of the amount in effect for the taxable year under subparagraph (A), and

“(C) in the case of any other individual, ½ of the amount in effect for the taxable year under subparagraph (A).

“(5) APPLICABLE THRESHOLD AMOUNT.—For purposes of this subsection, the term ‘applicable threshold amount’ means—

“(A) in the case of a joint return or surviving spouse, $150,000,

“(B) in the case of an individual who is the head of a household (as defined in section 2(b)), ¾ of the amount in effect for the taxable year under subparagraph (A), and

“(C) in the case of any other individual, ½ of the amount in effect for the taxable year under subparagraph (A).
“(6) ESTATES AND TRUSTS.—Paragraph (1) shall not apply to any estate or trust.

“(7) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2018, the dollar amounts in paragraphs (4)(A) and (5)(A) shall each be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under subsection (e)(2)(A) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2017’ for ‘calendar year 2016’ in clause (ii) thereof.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.”.

Page 46, line 4, strike “(g)” and insert “(h)”.

Page 46, line 17, strike “(h)” and insert “(i)”.

Page 47, strike line 25, and all that follows through page 50, line 10.

Page 50, line 11, strike “(d)” and insert “(c)”.

Page 50, line 15, strike “(e)” and insert “(d)”.

Page 50, line 18, strike “(f)” and insert “(e)”.
Page 62, line 15, strike the space before “section 1(f)(3)”.

Page 64, after line 15, insert the following:

(38) Section 219(b)(5)(C)(i)(II) is amended by striking “section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof” and inserting “section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2007’ for ‘calendar year 2016’ in clause (ii) thereof”.

(39) Section 219(g)(8)(B) is amended by striking “section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2005’ for ‘calendar year 1992’ in subparagraph (B) thereof” and inserting “section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2005’ for ‘calendar year 2016’ in clause (ii) thereof”.

Page 69, strike the text between lines 14 and 15, and insert the following:

“Sec. 24. Child and family tax credit.”.
Page 72, strike lines 15 through 18.

Page 72, line 19, strike “(c)” and insert “(b)”.

Page 72, line 25, strike “(d)” and insert “(c)”.

Page 73, line 13, strike “(e)” and insert “(d)”.

Page 73, line 18, strike “SUBSECTION (c)” and insert “SUBSECTION (b)”.

Page 73, line 21, strike “SUBSECTION (d)” and insert “SUBSECTION (e)”.

Page 74, strike line 2 and all that follows through page 75, line 4, and insert the following:

(a) IDENTIFICATION REQUIREMENTS FOR CHILD AND FAMILY TAX CREDIT.—

(1) IN GENERAL.—Section 24(e) is amended to read as follows:

“(e) IDENTIFICATION REQUIREMENTS.—

“(1) REQUIREMENTS FOR QUALIFYING CHILD.—No credit shall be allowed under this section to a taxpayer with respect to any qualifying child unless the taxpayer includes the name and social security number of such qualifying child on the return of tax for the taxable year. The preceding sentence shall not prevent a qualifying child from
being treated as a dependent described in subsection (a)(2).

“(2) OTHER IDENTIFICATION REQUIREMENTS.—No credit shall be allowed under this section with respect to any individual unless the taxpayer identification number of such individual is included on the return of tax for the taxable year and such identifying number was issued before the due date for filing the return for the taxable year.

“(3) SOCIAL SECURITY NUMBER.—For purposes of this subsection, the term ‘social security number’ means a social security number issued by the Social Security Administration (but only if the social security number is issued to a citizen of the United States or pursuant to subclause (I) (or that portion of subclause (III) that relates to subclause (I)) of section 205(c)(2)(B)(i) of the Social Security Act)).”.

Page 75, starting line 10, strike “required under section 24(d)(5) (relating to refundable portion of child tax credit)”.

Page 75, line 12, insert a comma after “TIN”.

Page 75, strike lines 15 through 18.
Page 96, strike lines 6 through 8, and insert the following:

(c) CONFORMING AMENDMENTS RELATED TO SECTION 222.—

(1) Section 62(a) is amended by striking paragraph (18).

(2) Section 74(d)(2)(B) is amended by striking “222,”.

(3) Section 86(b)(2)(A) is amended by striking “222,”.

(4) Section 219(g)(3)(A)(ii) is amended by striking “222,”.

Page 97, after line 15, insert the following:

(f) CONFORMING AMENDMENTS RELATED TO SECTION 135.—

(1) Section 74(d)(2)(B) is amended by striking “135,”.

(2) Section 86(b)(2)(A) is amended by striking “135,”.

(3) Section 219(g)(3)(A)(ii) is amended by striking “135,”.

Page 97, line 16, strike “(f)” and insert “(g)”.

Page 97, after line 24, insert the following:
SEC. 1205. ROLLOVERS BETWEEN QUALIFIED TUITION PROGRAMS AND QUALIFIED ABLE PROGRAMS.

(a) Rollovers From Qualified Tuition Programs to Qualified ABLE Programs.—Section 529(c)(3)(C)(i) is amended by striking “or” at the end of subclause (I), by striking the period at the end of subclause (II) and inserting “, or”, and by adding at the end the following new subclause:

“(III) to an ABLE account (as defined in section 529A(e)(6)) of the designated beneficiary or a member of the family of the designated beneficiary.

Subclause (III) shall not apply to so much of a distribution which, when added to all other contributions made to the ABLE account for the taxable year, exceeds the limitation under section 529A(b)(2)(B).”.

(b) Effective Date.—The amendments made by this section shall apply to distributions after December 31, 2017.

Page 101, strike lines 21 through 24 and insert the following:

(B) Section 163(h) is amended by striking subparagraphs (E) and (F) in paragraph (4).
Page 102, starting line 7, strike “Rules similar” and all that follows through “the preceding sentence.” on line 9.

Page 102, starting line 19, strike “, and the second sentence of paragraph (4)(A)(i),”.

Page 111, line 7, strike “table of section” and insert “table of sections”.

Page 120, line 23, strike “table of section” and insert “table of sections”.

Page 124, line 7, strike “table of section” and insert “table of sections”.

Page 124, after line 8, insert the following:

(b) RETENTION OF MOVING EXPENSES FOR MEMBERS OF ARMED FORCES.—Section 134(b) is amended by adding at the end the following new paragraph:

“(7) MOVING EXPENSES.—The term ‘qualified military benefit’ includes any benefit described in section 217(g) (as in effect before the enactment of the Tax Cuts And Jobs Act).”.

Page 124, line 9, strike “(b)” and insert “(c)”.

Page 124, line 22, strike “(c)” and insert “(d)”. 

Page 137, strike lines 1 through 3.
Page 137, line 4, strike “(2)” and insert “(1)”. Page 137, line 7, strike “(as)” and all that follows through “paragraph (1))” on line 8.


“(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) of such calendar year by substituting ‘calendar year 2011’ for ‘calendar year 2016’ in clause (ii) thereof.”.

Page 171, line 5, strike “2023” and insert “2024”.

(c) **Reduction in Dividend Received Deductions to Reflect Lower Corporate Income Tax Rates.**—

(1) **Dividends received by corporations.**—

(A) **In general.**—Section 243(a)(1) is amended by striking “70 percent” and inserting “50 percent”.

(B) **Dividends from 20-percent owned corporations.**—Section 243(c)(1) is amended—

(i) by striking “80 percent” and inserting “65 percent”, and

(ii) by striking “70 percent” and inserting “50 percent”.

(C) **Conforming amendment.**—The heading for section 243(c) is amended by striking “Retention of 80-percent Dividend Received Deduction” and inserting “Increased Percentage”.

(2) Dividends received from FSC.—Section 245(e)(1)(B) is amended—

(A) by striking “70 percent” and inserting “50 percent”, and

(B) by striking “80 percent” and inserting “65 percent”.

(3) Limitation on aggregate amount of deductions.—Section 246(b)(3) is amended—

(A) by striking “80 percent” in subparagraph (A) and inserting “65 percent”, and

(B) by striking “70 percent” in subparagraph (B) and inserting “50 percent”.

(4) Reduction in deduction where portfolio stock is debt-financed.—Section 246A(a)(1) is amended—

(A) by striking “70 percent” and inserting “50 percent”, and

(B) by striking “80 percent” and inserting “65 percent”.

(5) Income from sources within the United States.—Section 861(a)(2) is amended—

(A) by striking “100/70th” and inserting “100/50th” in subparagraph (B), and

(B) in the flush sentence at the end—
(i) by striking “100/80th” and inserting “100/65th”, and

(ii) by striking “100/70th” and inserting “100/50th”.

Page 190, line 14, strike “(c)” and insert “(d)”.

Page 190, line 23, strike “(d)” and insert “(e)”.

Page 196, strike lines 9 through 14, and insert the following:

“(G) Exception for property of certain businesses not subject to limitation on interest expense.—The term ‘qualified property’ shall not include any property used in—

“(i) a trade or business described in subparagraph (B) or (C) of section 163(j)(7), or

“(ii) a trade or business that has had floor plan financing indebtedness (as defined in paragraph (9) of section 163(j)), if the floor plan financing interest related to such indebtedness was taken into account under paragraph (1)(C) of such section.”.

Page 215, after line 3, insert the following:
SEC. 3204. MODIFICATION OF TREATMENT OF S CORPORATION CONVERSIONS TO C CORPORATIONS.

(a) Adjustments Attributable to Conversion From S Corporation to C Corporation.—Section 481 is amended by adding at the end the following new subsection:

“(d) Adjustments Attributable to Conversion From S Corporation to C Corporation.—

“(1) In general.—In the case of an eligible terminated S corporation, any increase in tax under this chapter of by reason of an adjustment required by subsection (a)(2), and which is attributable to such corporation’s revocation described in paragraph (2)(A)(ii), shall be taken into account ratably during the 6-taxable year period beginning with the year of change.

“(2) Eligible terminated S corporation.—For purposes of this subsection, the term ‘eligible terminated S corporation’ means any C corporation—

“(A) which—

“(i) was an S corporation on the day before the date of the enactment of the Tax Cuts and Jobs Act, and

“(ii) during the 2-year period beginning on the date of such enactment makes
a revocation of its election under section 1362(a), and

“(B) the owners of the stock of which, determined on the date such revocation is made, are the same owners (and in identical proportions) as on the date of such enactment.”.

(b) CASH DISTRIBUTIONS FOLLOWING POST-TERMINATION TRANSITION PERIOD FROM S CORPORATION STATUS.—Section 1371 is amended by adding at the end the following new subsection:

“(f) CASH DISTRIBUTIONS FOLLOWING POST-TERMINATION TRANSITION PERIOD.—In the case of a distribution of money by an eligible terminated S corporation (as defined in section 481(d)), the accumulated adjustments account shall be allocated to such distribution, and the distribution shall be chargeable to accumulated earnings and profits, in the same ratio as the amount of such accumulated adjustments account bears to the amount of such accumulated earnings and profits.”.

Page 215, line 15, strike “plus”.

Page 215, line 17, strike the period at the end and insert “, plus”.

Page 215, after line 17, insert the following:
“(C) the floor plan financing interest of such taxpayer for such taxable year.”.

Page 217, line 2, after “of the partnership” insert “, reduced by floor plan financing interest,”

Page 219, after line 12, insert the following

“(9) FLOOR PLAN FINANCING INTEREST DEFINED.—For purposes of this subsection:

“(A) IN GENERAL.—The term ‘floor plan financing interest’ means interest paid or accrued on floor plan financing indebtedness.

“(B) FLOOR PLAN FINANCING INDEBTEDNESS.—The term ‘floor plan financing indebtedness’ means indebtedness—

“(i) used to finance the acquisition of motor vehicles held for sale to retail customers, and

“(ii) secured by the inventory so acquired.

“(C) MOTOR VEHICLE.—The term ‘motor vehicle’ means a motor vehicle that is any of the following:

“(i) An automobile.

“(ii) A truck.

“(iii) A recreational vehicle.
“(iv) A motorcycle.

“(v) A boat.

“(vi) Farm machinery or equipment.

“(vii) Construction machinery or equipment.”.


Page 248, after line 3, insert the following:

SEC. 3315. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) IN GENERAL.—Section 174 is amended to read as follows:

“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

“(a) IN GENERAL.—In the case of a taxpayer’s specified research or experimental expenditures for any taxable year—

“(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

“(2) the taxpayer shall—

“(A) charge such expenditures to capital account, and
“(B) be allowed an amortization deduction of such expenditures ratably over the 5-year period (15-year period in the case of any specified research or experimental expenditures which are attributable to foreign research (within the meaning of section 41(d)(4)(F))) beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.

“(b) Specified Research or Experimental Expenditures.—For purposes of this section, the term ‘specified research or experimental expenditures’ means, with respect to any taxable year, research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer’s trade or business.

“(c) Special Rules.—

“(1) Land and Other Property.—This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section
167, and allowances under section 611, shall be considered as expenditures.

“(2) EXPLORATION EXPENDITURES.—This section shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

“(3) SOFTWARE DEVELOPMENT.—For purposes of this section, any amount paid or incurred in connection with the development of any software shall be treated as a research or experimental expenditure.

“(d) TREATMENT UPON DISPOSITION, RETIREMENT, OR ABANDONMENT.—If any property with respect to which specified research or experimental expenditures are paid or incurred is disposed, retired, or abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.”.

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by
striking the item relating to section 174 and inserting the following new item:

“Sec. 174. Amortization of research and experimental expenditures.”.

(c) Effective Date.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2022.

SEC. 3316. UNIFORM TREATMENT OF EXPENSES IN CONTINGENCY FEE CASES.

(a) In General.—Section 162 is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

“(q) Expenses in Contingency Fee Cases.—No deduction shall be allowed under subsection (a) to a taxpayer for any expense—

“(1) paid or incurred in the course of the trade or business of practicing law, and

“(2) resulting from a case for which the taxpayer is compensated primarily on a contingent basis,

until such time as such contingency is resolved.”.

(b) Effective Date.—The amendment made by this section shall apply to expenses and costs paid or incurred in taxable years beginning after the date of the enactment of this Act.
Page 280, strike line 1, and all that follows through page 285, line 4, and insert the following:

SEC. 3703. SURTAX ON LIFE INSURANCE COMPANY TAXABLE INCOME.

(a) IN GENERAL.—Section 801(a)(1) is amended—

(1) by striking “consist of a tax” and insert “consist of the sum of—

“(A) a tax”, and

(2) by striking the period at the end and inserting “, and”, and

(3) by adding at the end the following new sub-

paragraph:

“(B) a tax equal to 8 percent of the life insurance company taxable income.”.

Page 286, strike lines 4 through 25.

Page 292, strike line 12 and all that follows through page 293, line 9.

Page 293, strike line 11, and all that follows through page 301, line 10.

Page 303, line 3, insert “or principal financial officer” after “principal executive officer”.

Page 309, after line 21, insert the following:
SEC. 3805. MODIFICATION OF TREATMENT OF QUALIFIED EQUITY GRANTS.

(a) Section 83(i) of the Internal Revenue Code of 1986, as added by section 3804, is amended by adding at the end the following new paragraph:

“(7) Restricted stock units.—This section (other than this subsection), including any election under subsection (b), shall not apply to restricted stock units.”.

(b) The amendments made by this section shall take effect as if included in the provisions of section 3804 of this Act to which they relate.
Page 330, line 19, strike “5” and insert “7”.

Page 331, line 4, strike “12” and insert “14”.

Page 331, line 9, strike “5” and insert “7”.

Page 331, line 9, strike “12” and insert “14”.

Page 331, line 11, strike “5” and insert “7”.

Page 331, line 12, strike “5” and insert “7”.

Page 331, line 17, strike “5” and insert “7”.

Page 332, line 6, strike “12” and insert “14”.

Page 332, line 7, strike “12” and insert “14”.

Page 332, line 11, strike “12” and insert “14”.

Page 332, line 12, strike “5” and insert “7”.

Page 343, line 17, strike “85.7” and insert “80”.

Page 343, line 23, strike “65.7” and insert “60”.

Page 354, line 1, strike “section” and insert “sections”.

Page 397, strike line 9 and all that follows through page 398, line 10, and insert the following:

1 “(1) IN GENERAL.—In the case of any specified
2 amount paid or incurred by a domestic corporation
3 to a foreign corporation which is a member of the
same international financial reporting group as such domestic corporation and which has elected to be subject to the provisions of this subsection—

“(A) such amount shall be taken into account (other than for purposes of sections 245, 245A, and 881) as if—

“(i) such foreign corporation were engaged in a trade or business within the United States,

“(ii) such foreign corporation had a permanent establishment in the United States during the taxable year, and

“(iii) such payment were effectively connected with the conduct of a trade or business within the United States and were attributable to such permanent establishment,

“(B) for purposes of subsection (c)(1)(A), no deduction shall be allowed with respect to such amount and such subsection shall be applied without regard to such amount, and

“(C) there shall be allowed as a deduction the deemed expenses with respect such amount.”.
Page 403, strike line 20 and all that follows through page 404, line 18, and insert the following:

“(8) FOREIGN TAX CREDIT ALLOWED.—The credit allowed under section 906(a) with respect to amounts taken into account in income under paragraph (1)(A) shall be limited to 80 percent of the amount of taxes paid or accrued and determined without regard to section 906(b)(1).

“(9) ELECTION.—Any election under paragraph (1)—

“(A) shall be made at such time and in such form and manner as the Secretary may provide, and

“(B) shall apply for the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.”.

Page 410, after line 20, insert the following:

(b) TREATMENT OF CERTAIN REFERENCES.—Section 119(e) of division A of the Tax Relief and Health Care Act of 2006 is amended by adding at the end the following: “References in this subsection to section 199 of the Internal Revenue Code of 1986 shall be treated as
references to such section as in effect before its repeal by the Tax Cuts and Jobs Act.”.

Page 410, line 21, strike “(b)” and insert “(c)”.

Page 418, after line 22, insert the following:

“(d) ASSETS AND NET INVESTMENT INCOME OF RELATED ORGANIZATIONS.—

“(1) IN GENERAL.—For purposes of subsections (b)(1)(C) and (e), the assets and net investment income of any related organization shall be treated as the assets and net investment income of the eligible educational institution.

“(2) RELATED ORGANIZATION.—For purposes of this subsection, the term ‘related organization’ means, with respect to an eligible educational institution, any organization which—

“(A) controls, or is controlled by, such institution,

“(B) is controlled by one or more persons that control such institution, or

“(C) is a supported organization (as defined in section 509(f)(3)), or an organization described in section 509(a)(3), during the taxable year with respect to such institution.”.
Page 423, line 3, strike “CHURCHES” and insert “501(c)(3) ORGANIZATIONS”.

Page 423, line 5, strike “RELIGIOUS SERVICES AND”.

Page 423, starting line 10, strike “CHURCHES, INTEGRATED AUXILIARIES, ETC” and insert “ORGANIZATIONS DESCRIBED IN SUBSECTION (e)(3)”.

Page 423, starting line 14, strike “described in section 508(c)(1)(A)”.

Page 423, line 16, strike “religious purpose” and insert “purpose described in subsection (c)(3)”.

Page 423, starting line 20, strike “content of any homily, sermon” and all that follows through “such content” on line 23, and insert “content of any statement which”.

Page 424, line 1, strike “is in” and insert “is made in”.

Page 424, after line 6, insert the following:

“(2) TERMINATION.—Paragraph (1) shall not apply to taxable years beginning after December 31, 2023.”.
Page 424, starting line 8, strike “ending after the date of the enactment of this Act” and insert “beginning after December 31, 2018”.

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