COMPARISON OF PROVISIONS OF H.R. 831 -- PERMANENT EXTENSION OF DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS, AS PASSED BY THE HOUSE AND THE SENATE

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of the
Joint Committee on Taxation**

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a comparison of the provisions of H.R. 831 as passed by the House and the Senate.

The House passed H.R. 831 on February 21, 1995, by a vote of 381-44. The Senate passed H.R. 831, as modified by the Senate Committee on Finance, on March 24, 1995, by a voice vote.

A separate document provides a comparison of the estimated budget effects of H.R. 831 as passed by the House and the Senate.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Comparison of Provisions of H.R. 831--Permanent Extension of Deduction for Health Insurance Costs of Self-Employed Individuals, as Passed by the House and the Senate* (JCX-17-95), March 28, 1995.

COMPARISON OF PROVISIONS OF H.R. 831

Item	Present Law	House Bill	Senate Amendment
1. Deduction for health insurance costs of self-employed individuals (sec. 1 of the House bill and Senate amendment)	Prior law provided a 25-percent deduction for the amount paid for health insurance for a self-employed individual and the individual's spouse and dependents. The 25-percent deduction expired for taxable years beginning after December 31, 1993.	The House bill would reinstate the 25-percent deduction for taxable years beginning in 1994 and would extend the deduction permanently. **Effective date**.--The provision would be effective for taxable years beginning after December 31, 1993.	Same as House bill, except that the deduction would be increased to 30 percent for taxable years beginning in 1995 and thereafter. **Effective date**.--Same as House bill.

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Item	Present Law	House Bill	Senate Amendment
2. Repeal of special rules applicable to FCC-certified sales of broadcast property (sec. 2 of the House bill and Senate amendment)	Under Code section 1071, if the FCC certifies that a sale or exchange of property is necessary or appropriate to effectuate a change in a policy of, or the adoption of a new policy by, the FCC with respect to the ownership and control of "radio broadcasting stations," a taxpayer may elect to treat the sale or exchange as an involuntary conversion, subject to the rules in Code section 1033. Under Code section 1033, gain realized by a taxpayer from certain involuntary conversions of property is deferred to the extent the taxpayer purchases property similar or related in service or use to the converted property. Special rules in Code section 1071 expand the types of property that satisfy the replacement requirement in the case of FCC-certified sales. In addition, section 1071 allows a taxpayer to reduce the adjusted basis of depreciable property held at the end of the year in which the sale or exchange occurs in lieu of acquiring replacement property.	The bill would repeal Code section 1071. **Effective date.**--The repeal of section 1071 would be effective for (1) sales or exchanges on or after January 17, 1995, and (2) sales or exchanges before that date if the FCC tax certificate with respect to the sale or exchange is issued on or after that date. The provision would not apply to taxpayers who have entered into a binding written contract (or have completed a sale or exchange pursuant to a binding written contract) before January 17, 1995, and who have applied for an FCC tax certificate by that date. A contract would be treated as not binding for this purpose if the sale or exchange pursuant to the contract (or the material terms of the contract) were contingent on January 16, 1995, on issuance of an FCC tax certificate. A sale or exchange would not be contingent on January 16, 1995, on issuance of an FCC tax certificate if the tax certificate had been issued by the FCC by that date.	Same as House bill.

Item	Present Law	House Bill	Senate Amendment
3. Modification of Code section 1033 (sec. 3 of the House bill and Senate amendment)	Under Code section 1033, gain realized by a taxpayer from certain involuntary conversions of property is deferred to the extent the taxpayer purchases property similar or related in service or use to the converted property. The replacement property may be acquired directly or by acquiring control of a corporation that owns replacement property. Under rulings issued by the IRS to taxpayers, property (stock or assets) purchased from a related person may, in some cases, qualify as property similar or related in service or use to the converted property. Thus, in certain circumstances, related taxpayers may obtain significant (and possible indefinite) tax deferral without any additional cash outlay to acquire new properties.	The House bill would provide that a taxpayer may not defer gain under Code section 1033 when the replacement property or stock is purchased from a related person. Under the bill, a person would be treated as related to another person if the relationship between the persons would result in a disallowance of losses under the rules of Code sections 267 or 707(b). __Effective date__.--The provision would apply to replacement property or stock acquired on or after February 6, 1995.	Same as House bill, except that the rule would apply only to subchapter C corporations. In addition, a taxpayer could purchase replacement property or stock from a related person and defer gain to the extent the related person acquired the replacement property or stock from an unrelated person within the period prescribed under Code section 1033. The amendment also would provide that sales or exchanges that are certified by the FCC as having been made by a taxpayer in connection with the relocation of the taxpayer from the 1850-1990MHz spectrum by reason of the FCC's reallocation of that spectrum for use for personal communications services ("PCS") would be treated as involuntary conversions to which Code section 1033 would apply. __Effective date__.--The provision prohibiting the purchase of qualified replacement property from a related party would apply to involuntary conversions occurring on or after February 6, 1995. The provision treating certain microwave relocation transactions as involuntary conversions would apply to sales or exchanges occurring before January 1, 2000.

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Item	Present Law	House Bill	Senate Amendment
4. Unearned income test for earned income tax credit (sec. 4 of the House bill and Senate amendment)	Eligible low-income workers are able to claim a refundable earned income tax credit (EITC). The amount of the credit an eligible taxpayer may claim is determined by multiplying the credit rate by the taxpayer's earned income up to an earned income threshold. The credit amount is phased out for taxpayers with earned income (or adjusted gross income, if greater) in excess of the phaseout threshold. There is no additional limitation on the amount of unearned income that the taxpayer may receive.	Under the House bill, a taxpayer would not be eligible for the EITC if the aggregate amount of interest and dividends includible in the taxpayer's income for the taxable year exceeds $3,150. The otherwise allowable EITC amount would be phased out ratably for taxpayers with aggregate taxable interest and dividend income between $2,500 and $3,150. For taxable years beginning after 1996, the $2,500 threshold and the $650 size of the phaseout would be indexed for inflation with rounding to the nearest multiple of $10. **Effective date.**--The provision would be effective for taxable years beginning after December 31, 1995. [A floor amendment offered by Mr. McDermott would have provided, in addition to other items, that a taxpayer would not be eligible for the EITC if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds $2,500. Disqualified income would include the aggregate amount of interest and dividends includible in the taxpayer's income for the taxable year plus (1) tax-exempt interest and (2) gross income from rents and royalties. The floor amendment was defeated, 191-234.]	Under the Senate amendment, a taxpayer would not be eligible for the EITC if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds $2,450. Disqualified income would include the aggregate amount of interest and dividends includible in the taxpayer's income for the taxable year plus (1) tax-exempt interest and (2) net income (if greater than zero) from rents and royalties not derived in the ordinary course of business. **Effective date.**-- Same as House bill.

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Item	Present Law	House Bill	Senate Amendment
5. Imposition of tax on U.S. citizens who relinquish citizenship (sec. 5 of the Senate amendment)	U.S. citizens and residents generally are subject to U.S. income taxation on their worldwide income. The United States imposes tax on gains recognized by foreign persons that are attributable to dispositions of interests in U.S. real property. Distributions, including lump-sum distributions, that foreign persons receive from qualified U.S. retirement plans generally are subject to U.S. tax at a 30-percent rate. A U.S. citizen who relinquishes U.S. citizenship with a principal purpose to avoid Federal tax may be subjected to an alternative taxing method for 10 years after expatriation (sec. 877). Under this alternative method, the expatriate generally is taxed on his U.S. source income (net of certain deductions), as well as on certain business profits, at rates applicable to U.S. citizens and residents. The United States imposes its estate tax on the worldwide estates of persons who were citizens or domiciliaries of the United States at the time of death, and on certain property belonging to nondomiciliaries of the United States which is located in the United States at the time of their death. The U.S. gift tax is imposed on all gifts made by U.S. citizens and domiciliaries, and on gifts of	No provision. [A floor amendment offered by Mr. McDermott would have imposed an expatriation tax in the form proposed by the President and introduced in H.R. 981, in addition to other items. The floor amendment was defeated, 191-234.]	Under the Senate amendment, a U.S. citizen who relinquishes citizenship generally would be treated as having sold all of his property at fair market value immediately prior to the expatriation. Gain or loss from the deemed sale would be recognized at that time, generally without regard to other provisions of the Code. Net gain on the deemed sale would be recognized under the bill only to the extent it exceeds $600,000 ($1.2 million in the case of married individuals filing a joint return, both of whom expatriate). Property treated as sold by an expatriating citizen under the provision would include all items that would be included in the individual's gross estate under the Federal estate tax if such individual were to die on the day of the deemed sale, plus certain trust interests that are not otherwise includible in the gross estate and other interests that may be specified by the Treasury Department in order to carry out the purposes of the provision. Certain types of property generally would not be taken into account for purposes of determining the expatriation tax: U.S. real property interests, interests in qualified retirement plans (other than interests attributable to

Item	Present Law	House Bill	Senate Amendment
	property made by nondomiciliaries where the property is located in the United States at the time of the gift. Special rules apply to the estate and gift tax treatment of individuals who relinquished their U.S. citizenship within 10 years of death or gift, if the individual's loss of U.S. citizenship has as one of its principal purposes a tax avoidance motive.		excess contributions or contributions that violate any condition for tax-favored treatment), and, under regulations, interests in foreign pension plans and similar retirement plans or programs (up to a maximum amount of $500,000). Under the provision, an expatriate who is a beneficiary of a trust would be deemed to own a separate trust consisting of the assets allocable to his share of the trust, in accordance with his interest in the trust. The separate trust would be treated as selling its assets for fair market value immediately before the beneficiary relinquishes his citizenship, and distributing all resulting income and corpus to the beneficiary. A U.S. citizen who renounces his U.S. nationality before a diplomatic or consular officer of the United States would be treated as having relinquished his citizenship on that date, provided that the renunciation is later confirmed by the issuance of a certificate of loss of nationality ("CLN") by the U.S. Department of State. A U.S. citizen who furnishes to the Department of State a signed statement of voluntary relinquishment of U.S. nationality confirming the performance of an expatriating act would be treated as

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Item	Present Law	House Bill	Senate Amendment
			having relinquished his citizenship on the date such statement is so furnished, provided that the voluntary relinquishment is later confirmed by the issuance of a CLN. Any other U.S. citizen to whom the Department of State issues a CLN would be treated as having relinquished his citizenship on the date the CLN is issued to the individual. A naturalized citizen is treated as having relinquished his citizenship on the date a court of the United States cancels his certificate of naturalization. An individual who is subject to the tax on expatriation would be required to pay a tentative tax equal to the amount of tax that would have been due based on a hypothetical short tax year that ended on the date the individual relinquished his citizenship. The tentative tax would be due on the 90th day after the date of relinquishment. The amendment would provide that the time for the payment of the tax on expatriation may be extended for a period not to exceed 10 years at the request of the taxpayer, as provided by section 6161. The amendment would authorize the Treasury Department to issue regulations to permit a taxpayer to

Item	Present Law	House Bill	Senate Amendment
			allocate the taxable gain (net of any applicable exclusion) to the basis of assets taxed under this provision, thereby preventing double taxation if the assets remain subject to U.S. tax jurisdiction. **Effective date**.--The provision would be effective for U.S. citizens who relinquish their U.S. citizenship (as determined under the bill) on or after February 6, 1995. The tentative tax would not be required to be paid until 90 days after the date of enactment of the bill. Present law would continue to apply to U.S. citizens who relinquished their citizenship prior to February 6, 1995.