

104TH CONGRESS
2D SESSION

H. R. 3441

To amend the Internal Revenue Code of 1986 to reform and rename the earned income tax credit.

IN THE HOUSE OF REPRESENTATIVES

MAY 10, 1996

Mr. HUTCHINSON (for himself, Mr. BALLENGER, Mr. ARMEY, Mr. TALENT, Mr. GOSS, Mr. LARGENT, Mr. GRAHAM, Mr. PETE GEREN of Texas, Mr. HOEKSTRA, Mr. ZELIFF, Mr. NORWOOD, Mr. BAKER of California, Mr. COBLE, Mr. CALVERT, Mr. SENSENBRENNER, and Mr. DOOLITTLE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to reform and rename the earned income tax credit.

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

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Minimum Wage for Families Act”.

6 (b) **TABLE OF CONTENTS.**—The table of contents for
7 this Act is as follows:

- Sec. 1. Short title and table of contents.
- Sec. 2. Congressional findings.
- Sec. 3. Renaming of credit.

- Sec. 4. Working families support credit denied to individuals not authorized to be employed in the United States.
- Sec. 5. Repeal of credit for individuals without children.
- Sec. 6. Termination of classification of students over age 18 as qualifying children.
- Sec. 7. Rules relating to denial of working families support credit on basis of disqualified income.
- Sec. 8. Modification of adjusted gross income definition for working families support credit.
- Sec. 9. Modification of credit amount and phaseout.
- Sec. 10. Installment payments of working families support credit.
- Sec. 11. Provisions to improve tax compliance.
- Sec. 12. Study on advance payments.
- Sec. 13. Study on conversion of food stamps to cash payment and coordination with working families support credit payments.

1 **SEC. 2. CONGRESSIONAL FINDINGS.**

2 The Congress finds as follows:

3 (1) The original intent of the Earned Income
 4 Tax Credit (EITC), created in 1975, was to reduce
 5 the tax burden on low-income families and it has
 6 proven effective.

7 (2) Subsequent tax reforms have actually re-
 8 moved most families earning below poverty income
 9 from the Federal income tax rolls.

10 (3) The EITC provides low-income working
 11 families with large lump-sum cash refunds of up to
 12 \$3,600 each year.

13 (4) Studies show that the EITC targets its ben-
 14 efits toward poor households below the poverty line,
 15 as it is designed to do.

16 (5) The EITC does not eliminate jobs and tar-
 17 gets benefits at low-income families, and is therefore

1 of greater assistance in erasing poverty than is rais-
2 ing the minimum wage.

3 (6) The “Minimum Wage for Families Act” will
4 redesign the Earned Income Tax Credit, rename the
5 credit as the Working Families Support Credit, and
6 further encourage the work ethic and reduce depend-
7 ency on welfare. Under the Working Families Sup-
8 port Credit, families would qualify for up to \$4,455
9 each year in benefits.

10 (7) In the case of a family with 1 child, under
11 the Working Family Support Credit a full-time mini-
12 mum wage worker would earn an estimated wage of
13 \$5.47 an hour.

14 (8) In the case of a family with 2 children,
15 under the Working Family Support Credit a full-
16 time minimum wage worker would earn an estimated
17 wage of \$6.37 an hour.

18 (9) Therefore, the Working Family Support
19 Credit is an effective way to increase take-home pay
20 of workers without any of the economic disadvan-
21 tages associated with a minimum wage increase.

22 (10) Therefore, the “Minimum Wage for Fami-
23 lies Act” is a better way to lift the incomes of poor
24 families than a broad, sweeping increase in the Fed-
25 eral minimum wage.

1 **SEC. 3. RENAMING OF CREDIT.**

2 (a) IN GENERAL.—The heading of section 32 of the
3 Internal Revenue Code of 1986 is amended to read as fol-
4 lows:

5 **“SEC. 32. WORKING FAMILIES SUPPORT CREDIT.”**

6 (b) CONFORMING AMENDMENTS.—Each of the fol-
7 lowing provisions of such Code is amended by striking
8 “earned income credit” and inserting “working families
9 support credit”:

10 (1) Section 32(g).

11 (2) Section 3507.

12 (3) Section 6012(a)(8).

13 (4) Paragraphs (7) and (10) of section 6051(a).

14 (c) CLERICAL AMENDMENTS.—

15 (1) The table of sections for subpart C of part
16 IV of subchapter A of chapter 1 of such Code is
17 amended by striking the item relating to section 32
18 and inserting the following new item:

“Sec. 32. Working families support credit.”

19 (2) The table of sections for chapter 25 of such
20 Code is amended by striking the item relating to sec-
21 tion 3507 and inserting the following new item:

“Sec. 3507. Advance payment of working families support credit.”

1 **SEC. 4. WORKING FAMILIES SUPPORT CREDIT DENIED TO**
2 **INDIVIDUALS NOT AUTHORIZED TO BE EM-**
3 **PLOYED IN THE UNITED STATES.**

4 (a) **IN GENERAL.**—Section 32(c)(1) of the Internal
5 Revenue Code of 1986 (relating to individuals eligible to
6 claim credit) is amended by adding at the end the follow-
7 ing new subparagraph:

8 “(F) **IDENTIFICATION NUMBER REQUIRE-**
9 **MENT.**—The term ‘eligible individual’ does not
10 include any individual who does not include on
11 the return of tax for the taxable year—

12 “(i) such individual’s taxpayer identi-
13 fication number, and

14 “(ii) if the individual is married (with-
15 in the meaning of section 7703), the tax-
16 payer identification number of such indi-
17 vidual’s spouse.”.

18 (b) **SPECIAL IDENTIFICATION NUMBER.**—Section 32
19 of such Code is amended by adding at the end the follow-
20 ing new subsection:

21 “(l) **IDENTIFICATION NUMBERS.**—Solely for pur-
22 poses of subsections (c)(1)(F) and (c)(3)(D), a taxpayer
23 identification number means a social security number is-
24 sued to an individual by the Social Security Administra-
25 tion (other than a social security number issued pursuant
26 to clause (II) (or that portion of clause (III) that relates

1 to clause (II)) of section 205(c)(2)(B)(i) of the Social Se-
2 curity Act).”.

3 (c) EXTENSION OF PROCEDURES APPLICABLE TO
4 MATHEMATICAL OR CLERICAL ERRORS.—Section
5 6213(g)(2) of such Code (relating to the definition of
6 mathematical or clerical errors) is amended by striking
7 “and” at the end of subparagraph (D), by striking the
8 period at the end of subparagraph (E) and inserting a
9 comma, and by inserting after subparagraph (E) the fol-
10 lowing new subparagraphs:

11 “(F) an omission of a correct taxpayer
12 identification number required under section 32
13 (relating to the working families support credit)
14 to be included on a return, and

15 “(G) an entry on a return claiming the
16 credit under section 32 with respect to net
17 earnings from self-employment described in sec-
18 tion 32(c)(2)(A) to the extent the tax imposed
19 by section 1401 (relating to self-employment
20 tax) on such net earnings has not been paid.”.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 1995.

1 **SEC. 5. REPEAL OF CREDIT FOR INDIVIDUALS WITHOUT**
2 **CHILDREN.**

3 (a) IN GENERAL.—Subparagraph (A) of section
4 32(c)(1) of the Internal Revenue Code of 1986 (defining
5 eligible individual) is amended to read as follows:

6 “(A) IN GENERAL.—The term ‘eligible in-
7 dividual’ means any individual who has a quali-
8 fying child for the taxable year.”.

9 (b) CONFORMING AMENDMENTS.—Each of the tables
10 contained in paragraphs (1) and (2) of section 32(b) of
11 such Code is amended by striking the items relating to
12 no qualifying children.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 1995.

16 **SEC. 6. TERMINATION OF CLASSIFICATION OF STUDENTS**
17 **OVER AGE 18 AS QUALIFYING CHILDREN.**

18 (a) IN GENERAL.—Subparagraph (C) of section
19 32(c)(3) of the Internal Revenue Code of 1986 is amend-
20 ed—

- 21 (1) in clause (i), by adding “or” at the end,
22 (2) by striking clause (ii), and
23 (3) by redesignating clause (iii) as clause (ii).

24 (b) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to taxable years beginning after
26 December 31, 1995.

1 **SEC. 7. RULES RELATING TO DENIAL OF WORKING FAMI-**
2 **LIES SUPPORT CREDIT ON BASIS OF DIS-**
3 **QUALIFIED INCOME.**

4 (a) DEFINITION OF DISQUALIFIED INCOME.—Para-
5 graph (2) of section 32(i) of the Internal Revenue Code
6 of 1986 (defining disqualified income) is amended by
7 striking “and” at the end of subparagraph (B), by striking
8 the period at the end of subparagraph (C) and inserting
9 “, and”, and by adding at the end the following new sub-
10 paragraph:

11 “(D) the excess (if any) of—

12 “(i) the aggregate income from all
13 passive activities for the taxable year (de-
14 termined without regard to any amount de-
15 scribed in a preceding subparagraph of this
16 paragraph), over

17 “(ii) the aggregate losses from all pas-
18 sive activities for the taxable year (as so
19 determined).

20 For purposes of subparagraph (D), the term ‘passive
21 activity’ has the meaning given such term by section
22 469.”.

23 (b) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 1995.

1 “(B) NONTAXABLE INCOME TAKEN INTO
2 ACCOUNT.—Amounts described in this subpara-
3 graph are—

4 “(i) amounts which—

5 “(I) are received during the tax-
6 able year by (or on behalf of) a spouse
7 pursuant to a divorce or separation
8 instrument (as defined in section
9 71(b)(2)), and

10 “(II) under the terms of the in-
11 strument are fixed as payable for the
12 support of the children of the payor
13 spouse (as determined under section
14 71(c)),

15 but only to the extent such amounts exceed
16 \$6,000,

17 “(ii) interest received or accrued dur-
18 ing the taxable year which is exempt from
19 tax imposed by this chapter,

20 “(iii) amounts received as a pension
21 or annuity, and any distributions or pay-
22 ments received from an individual retire-
23 ment plan, by the taxpayer during the tax-
24 able year to the extent not included in
25 gross income, and

1 “(iv) social security benefits (as de-
2 fined in section 86(d)) received by the tax-
3 payer during the taxable year to the extent
4 not included in gross income.

5 Clause (iii) shall not include any amount which
6 is not includible in gross income by reason of
7 section 402(c), 403(a)(4), 403(b)(8), 408(d)
8 (3), (4), or (5), or 457(e)(10).

9 “(C) CERTAIN AMOUNTS DISREGARDED.—
10 An amount is described in this subparagraph if
11 it is—

12 “(i) the amount of losses from sales
13 or exchanges of capital assets in excess of
14 gains from such sales or exchanges to the
15 extent such amount does not exceed the
16 amount under section 1211(b)(1),

17 “(ii) the net loss from the carrying on
18 of trades or businesses, computed sepa-
19 rately with respect to—

20 “(I) trades or businesses (other
21 than farming) conducted as sole pro-
22 prietorships,

23 “(II) trades or businesses of
24 farming conducted as sole proprietor-
25 ships, and

1 “(III) other trades or business,
2 “(iii) the net loss from estates and
3 trusts, and
4 “(iv) the excess (if any) of amounts
5 described in subsection (i)(2)(C)(ii) over
6 the amounts described in subsection
7 (i)(2)(C)(i) (relating to nonbusiness rents
8 and royalties).

9 For purposes of clause (ii), there shall not be
10 taken into account items which are attributable
11 to a trade or business which consists of the per-
12 formance of services by the taxpayer as an em-
13 ployee.”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 1995.

17 **SEC. 9. MODIFICATION OF CREDIT AMOUNT AND PHASE-**
18 **OUT.**

19 (a) MODIFICATION OF PHASEOUT.—Subparagraph
20 (B) of section 32(a)(2) of the Internal Revenue Code of
21 1986 is amended to read as follows:

22 “(B) the sum of—
23 “(i) the initial phaseout percentage of
24 so much of the modified adjusted gross in-
25 come (or, if greater, the earned income) of

1 the taxpayer for the taxable year as ex-
 2 ceeds the initial phaseout amount but does
 3 not exceed the final phaseout amount, plus
 4 “(ii) the final phaseout percentage of
 5 so much of the modified adjusted gross in-
 6 come (or, if greater, the earned income) of
 7 the taxpayer for the taxable year as ex-
 8 ceeds the final phaseout amount.”.

9 (b) CHANGES TO PERCENTAGES AND AMOUNTS.—

10 (1) IN GENERAL.—Subsection (b) of section 32
 11 of such Code is amended to read as follows:

12 “(b) PERCENTAGES AND AMOUNTS.—

13 “(1) PERCENTAGES.—The credit percentage,
 14 the initial phaseout percentage, and the final phase-
 15 out percentage shall be determined as follows:

16 “(A) IN GENERAL.—In the case of taxable
 17 years beginning after 1999:

“In the case of an eligible individual with:	The credit per- centage is:	The initial phase- out percentage is:	The final phase- out percentage is:
1 qualifying child	40	15.98	23.776
2 or more qualifying children	50	21.06	41.253

18 “(B) TRANSITIONAL PERCENTAGES FOR
 19 1998 AND 1999.—In the case of taxable years be-
 20 ginning in 1998 or 1999:

“In the case of an eligible individual with:	The credit percentage is:	The initial phase-out percentage is:	The final phase-out percentage is:
1 qualifying child	37	15.98	22.318
2 or more qualifying children	45	21.06	35.448

1 “(2) AMOUNTS.—The earned income amount,
 2 the initial phaseout amount, and the final phaseout
 3 amount shall be determined as follows:

“In the case of an eligible individual with:	The earned income amount is:	The initial phase-out amount is:	The final phase-out amount is:
1 qualifying child	\$6,330	\$11,610	\$14,850
2 or more qualifying children	\$8,890	\$11,610	\$17,750”.

4 (2) CONFORMING AMENDMENT.—Subsection (j)
 5 of section 32 of such Code is amended—

6 (A) by striking “subsection (b)(2)(A)” and
 7 inserting “subsection (b)(2)”,

8 (B) by striking “1994” and inserting
 9 “1996”, and

10 (C) by striking “1993” and inserting
 11 “1995”.

12 (c) TEMPORARY INCREASE IN CREDIT FOR LOWER-
 13 INCOME FAMILIES HAVING 2 OR MORE QUALIFYING
 14 CHILDREN.—Section 32 of such Code (as amended by sec-
 15 tion 4(b)) is amended by adding at the end the following
 16 new subsection:

17 “(m) INCREASE IN CREDIT FOR 1996 AND 1997 FOR
 18 LOWER-INCOME FAMILIES HAVING 2 OR MORE QUALIFY-
 19 ING CHILDREN.—

1 “(1) IN GENERAL.— For taxable years begin-
2 ning in 1996 or 1997, if an eligible individual has
3 2 or more qualifying children then for purposes of
4 applying paragraphs (1) and (2)(A) of subsection
5 (a)—

6 “(A) the amount of the taxpayer’s earned
7 income shall be treated as being equal to $\frac{10}{9}$ of
8 such income (determined without regard to this
9 paragraph), and

10 “(B) the earned income amount shall be
11 treated as being equal to $\frac{10}{9}$ of such amount
12 (determined without regard to this paragraph).

13 “(2) PHASEOUT OF BENEFIT.—If the applicable
14 income of the taxpayer for the taxable year exceeds
15 \$14,000 (\$17,000 in the case of a joint return), the
16 amount of each increase under paragraph (1) shall
17 be reduced (but not below zero) by an amount which
18 bears the same ratio to such increase (determined
19 without regard to this paragraph) as such excess
20 bears to \$4,000.

21 “(3) APPLICABLE INCOME.—For purposes of
22 this subsection, the term ‘applicable income’ means
23 modified adjusted gross income or, if greater, earned
24 income.”

25 (d) EFFECTIVE DATES.—

1 (1) PERMANENT CHANGES.—Except as pro-
 2 vided in paragraph (2), the amendments made by
 3 this section shall apply to taxable years beginning
 4 after December 31, 1997.

5 (2) TEMPORARY INCREASE.—The amendment
 6 made by subsection (c) shall apply to taxable years
 7 beginning after December 31, 1995, and before Jan-
 8 uary 1, 1998.

9 **SEC. 10. INSTALLMENT PAYMENTS OF WORKING FAMILIES**

10 **SUPPORT CREDIT.**

11 (a) IN GENERAL.—Section 6402 of the Internal Rev-
 12 enue Code of 1986 (relating to authority to make credits
 13 or refunds) is amended by adding at the end the following
 14 new subsection:

15 “(j) INSTALLMENT PAYMENTS OF WORKING FAMI-
 16 LIES SUPPORT CREDIT REFUNDS.—

17 “(1) IN GENERAL.—The working families sup-
 18 port credit portion of any refund shall be paid in
 19 substantially equal monthly installments over a 12-
 20 month period beginning not later than the third
 21 month which begins after the month in which the
 22 taxpayer’s return is filed.

23 “(2) WORKING FAMILIES SUPPORT CREDIT
 24 PORTION OF REFUND.—For purposes of paragraph
 25 (1), the term ‘working families support credit por-

1 tion of any refund' means the amount of any over-
2 payment which is to be refunded (after the applica-
3 tion of the preceding provisions of this section) to
4 the person who made the overpayment, to the extent
5 that such amount does not exceed the credit allowed
6 to the person under section 32 for such taxable year.

7 “(3) EXCEPTION IF CREDIT IS \$600 OR LESS.—
8 Paragraph (1) shall not apply with respect to any
9 person making an overpayment for a taxable year if
10 the credit allowed to such person under section 32
11 for such taxable year does not exceed \$600.

12 “(4) PROHIBITION OF INTEREST.—Notwith-
13 standing any other provision of this title, no interest
14 shall be allowed or paid on any installment paid by
15 reason of this subsection.”

16 (b) CONFORMING AMENDMENT.—Subsection (a) of
17 section 6402 of such Code is amended by striking “(c)
18 and (d)” and inserting “(c), (d), and (j)”.

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

22 **SEC. 11. PROVISIONS TO IMPROVE TAX COMPLIANCE.**

23 (a) INCREASE IN PENALTIES FOR RETURN PREPAR-
24 ERS.—

1 (1) UNDERSTATEMENT PENALTY.—Section
2 6694 of the Internal Revenue Code of 1986 (relating
3 to understatement of income tax liability by income
4 tax return preparer) is amended—

5 (A) by striking “\$250” in subsection (a)
6 and inserting “\$500”, and

7 (B) by striking “\$1,000” in subsection (b)
8 and inserting “\$2,000”.

9 (2) OTHER ASSESSABLE PENALTIES.—Section
10 6695 of such Code (relating to other assessable pen-
11 alties) is amended—

12 (A) by striking “\$50” and “\$25,000” in
13 subsections (a), (b), (c), (d), and (e) and insert-
14 ing “\$100” and “\$50,000”, respectively, and

15 (B) by striking “\$500” in subsection (f)
16 and inserting “\$1,000”.

17 (b) AIDING AND ABETTING PENALTY.—Section
18 6701(b) of such Code (relating to amount of penalty) is
19 amended—

20 (1) by striking “\$1,000” in paragraph (1) and
21 inserting “\$2,000”, and

22 (2) by striking “\$10,000” in paragraph (2) and
23 inserting “\$20,000”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to penalties with respect to taxable
3 years beginning after December 31, 1995.

4 **SEC. 12. STUDY ON ADVANCE PAYMENTS.**

5 Not later than 6 months after the date of the enact-
6 ment of this Act, the Secretary of the Treasury shall sub-
7 mit to the Congress a report containing recommendations
8 of means—

9 (1) to encourage recipients of the working fami-
10 lies support credit to obtain advance payments with
11 respect to such credit under section 3507 of the In-
12 ternal Revenue Code of 1986,

13 (2) to reduce fraud in connection with such ad-
14 vance payments, and

15 (3) to reduce the burdens on small businesses
16 with respect to such advance payments.

17 **SEC. 13. STUDY ON CONVERSION OF FOOD STAMPS TO**
18 **CASH PAYMENT AND COORDINATION WITH**
19 **WORKING FAMILIES SUPPORT CREDIT PAY-**
20 **MENTS.**

21 Not later than 1 year after the date of the enactment
22 of this Act, the Comptroller General of the United States
23 shall submit to the Congress a report containing the re-
24 sults of a study on the feasibility and effects of—

1 (1) converting food stamps under the Food
2 Stamp Act of 1977 into a cash payment, and

3 (2) making cash payments of such food stamp
4 benefits in the same payment as monthly payments
5 of the working families support credit made under
6 sections 32 and 6402 of the Internal Revenue Code
7 of 1986 (as amended by this Act).

○