

104TH CONGRESS
1ST SESSION

S. 1038

To amend the Internal Revenue Code of 1986 to impose a 15 percent tax only on individual taxable earned income and business taxable income, to repeal the estate and gift taxes, to abolish the Internal Revenue Service, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 14 (legislative day, JULY 10), 1995

Mr. HELMS introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to impose a 15 percent tax only on individual taxable earned income and business taxable income, to repeal the estate and gift taxes, to abolish the Internal Revenue Service, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Flat Tax Act of 1995”.

TITLE I—FLAT TAX

SEC. 101. 15 PERCENT INCOME TAX RATE FOR INDIVIDUALS.

Section 1 of the Internal Revenue Code of 1986 (relating to tax imposed on individuals) is amended to read as follows:

“SECTION 1. TAX IMPOSED.

“(a) IN GENERAL.—There is hereby imposed on the income of every individual a tax equal to 15 percent of the excess of the earned income of such individual for the taxable year over the standard exemption amount for such year.

“(b) DEFINITIONS.—For purposes of this section—

“(1) STANDARD EXEMPTION AMOUNT.—

“(A) IN GENERAL.—The term ‘standard exemption amount’ means the sum of—

“(i) the basic standard exemption,
plus

“(ii) the additional standard exemption.

“(B) BASIC STANDARD EXEMPTION.—For purposes of subparagraph (A), the basic standard exemption is—

“(i) \$20,000 in the case of—

“(I) a joint return, and

1 “(II) a surviving spouse (as de-
2 fined in section 2(a)),

3 “(ii) \$15,000 in the case of a head of
4 household (as defined in section 2(b)), and

5 “(iii) \$10,000 in the case of an indi-
6 vidual—

7 “(I) who is not married and who
8 is not a surviving spouse or head of
9 household, or

10 “(II) who is a married individual
11 filing a separate return.

12 “(C) ADDITIONAL STANDARD EXEMP-
13 TION.—For purposes of subparagraph (A), the
14 additional standard exemption is \$5,000 for
15 each dependent (as defined in section 152)—

16 “(i) whose earned income for the cal-
17 endar year in which the taxable year of the
18 taxpayer begins is less than the basic
19 standard exemption specified in subpara-
20 graph (B)(iii), or

21 “(ii) who is a child of the taxpayer
22 and who—

23 “(I) has not attained the age of
24 19 at the close of the calendar year in

1 which the taxable year of the taxpayer
2 begins, or

3 “(II) is a student who has not at-
4 tained the age of 24 at the close of
5 such calendar year.

6 “(D) INFLATION ADJUSTMENT.—

7 “(i) IN GENERAL.—In the case of any
8 taxable year beginning in a calendar year
9 after 1997, each dollar amount contained
10 in subparagraphs (B) and (C) shall be in-
11 creased by an amount equal to—

12 “(I) such dollar amount, multi-
13 plied by

14 “(II) the cost-of-living adjust-
15 ment for the calendar year in which
16 the taxable year begins.

17 “(ii) COST-OF-LIVING ADJUSTMENT.—

18 For purposes of this subparagraph—

19 “(I) IN GENERAL.—The cost-of-
20 living adjustment for any calendar
21 year is the percentage (if any) by
22 which the CPI for October of the pre-
23 ceding calendar year, exceeds the CPI
24 for October of 1996.

1 “(II) CPI.—The term ‘CPI’
2 means the last Consumer Price Index
3 for all-urban consumers published by
4 the Department of Labor.

5 “(iii) ROUNDING.—If the increase de-
6 termined under this subparagraph is not a
7 multiple of \$10, such increase shall be
8 rounded to the nearest multiple of \$10.

9 “(2) EARNED INCOME.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), the term ‘earned income’
12 means—

13 “(i) wages, salaries, and other em-
14 ployee compensation,

15 “(ii) the amount of the taxpayer’s net
16 earnings from self-employment for the tax-
17 able year, and

18 “(iii) the amount of dividends which
19 are from a personal service corporation or
20 which are otherwise directly or indirectly
21 compensation for services.

22 “(B) EXCEPTIONS.—The term ‘earned in-
23 come’ does not include—

24 “(i) any amount received as a pension
25 or annuity, or

1 “(ii) any tip unless the amount of the
2 tip is not within the discretion of the serv-
3 ice-recipient.”

4 **SEC. 102. TRANSITION RULE FOR HOME MORTGAGE INTER-**
5 **EST DEDUCTION.**

6 Section 1 of the Internal Revenue Code of 1986, as
7 amended by section 2 of this Act, is amended—

8 (1) by striking subsection (a) and inserting the
9 following new subsection:

10 “(a) IN GENERAL.—There is hereby imposed on the
11 income of every individual a tax equal to 15 percent of
12 the excess of—

13 “(1) the earned income of the taxpayer for the
14 taxable year, over

15 “(2) the standard exemption amount and the
16 excess qualified residence interest amount for such
17 taxpayer for such year.”, and

18 (2) in subsection (b), by redesignating para-
19 graph (2) as paragraph (3) and by inserting after
20 paragraph (1) the following new paragraph:

21 “(2) EXCESS QUALIFIED RESIDENCE INTEREST
22 AMOUNT.—The excess qualified residence amount
23 for any taxable year is equal to the excess (if any)
24 of—

1 “(A) the amount which would have been
2 allowable as a deduction to the taxpayer for
3 such year under section 163(h)(3), as in effect
4 on the day before the effective date of the Flat
5 Tax Act of 1995 (determined without regard to
6 section 68 (as so in effect)), with respect to any
7 indebtedness incurred on or before such day,
8 over

9 “(B) one-half of the basic standard exemp-
10 tion for an individual for such year.”

11 **SEC. 103. 15 PERCENT INCOME TAX RATE FOR BUSINESS**
12 **ACTIVITIES.**

13 Section 11 of the Internal Revenue Code of 1986 (re-
14 lating to tax imposed on corporations) is amended to read
15 as follows:

16 **“SEC. 11. TAX IMPOSED.**

17 “(a) TAX IMPOSED.—There is hereby imposed on
18 every person engaged in a business activity a tax equal
19 to 15 percent of the business taxable income of such per-
20 son.

21 “(b) LIABILITY FOR TAX.—The tax imposed by this
22 section shall be paid by the person engaged in the business
23 activity, whether such person is an individual, partnership,
24 corporation, or otherwise.

25 “(c) BUSINESS TAXABLE INCOME.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the term ‘business taxable income’ means gross
3 active income reduced by the deductions specified in
4 subsection (d).

5 “(2) GROSS ACTIVE INCOME.—For purposes of
6 paragraph (1), the term ‘gross active income’ means
7 gross income other than investment income.

8 “(d) DEDUCTIONS.—

9 “(1) IN GENERAL.—The deductions specified in
10 this subsection are—

11 “(A) the cost of business inputs for the
12 business activity,

13 “(B) the compensation (including contribu-
14 tions to qualified retirement plans but not in-
15 cluding other fringe benefits) paid for employ-
16 ees performing services in such activity, and

17 “(C) the cost of tangible personal and real
18 property used in such activity.

19 “(2) BUSINESS INPUTS.—For purposes of sub-
20 paragraph (A), the term ‘cost of business inputs’
21 means—

22 “(A) the actual amount paid for goods,
23 services, and materials, whether or not resold
24 during the taxable year,

1 “(B) the fair market value of business in-
2 puts brought into the United States, and

3 “(C) the actual cost, if reasonable, of trav-
4 el and entertainment expenses for business pur-
5 poses.

6 Such term shall not include purchases of goods and
7 services provided to employees or owners.

8 “(e) CARRYOVER OF EXCESS DEDUCTIONS.—If the
9 aggregate deductions for any taxable year exceed the gross
10 active income for such taxable year, the amount of the
11 deductions specified in subsection (d) for the succeeding
12 taxable year (determined without regard to this sub-
13 section) shall be increased by the sum of—

14 “(1) such excess, plus

15 “(2) the product of such excess and the 3-
16 month Treasury rate for the last month of such tax-
17 able year.”

18 **SEC. 104. REPEAL OF SPECIAL DEDUCTIONS, CREDITS, AND**
19 **EXCLUSIONS FROM INCOME FOR CORPORA-**
20 **TIONS AND INDIVIDUALS.**

21 Chapter 1 of the Internal Revenue Code of 1986 is
22 amended by striking out all specific exclusions from gross
23 income, all deductions, and all credits against income tax
24 to the extent related to the computation of corporate and
25 individual income tax liability.

1 **SEC. 105. REPEAL OF ESTATE AND GIFT TAXES.**

2 Subtitle B of the Internal Revenue Code of 1986 (re-
3 lating to estate, gift, and generation-skipping taxes) is
4 hereby repealed.

5 **SEC. 106. EFFECTIVE DATES.**

6 (a) IN GENERAL.—Except as provided in subsection
7 (b), the amendments made by this title shall apply to tax-
8 able years beginning after December 31, 1996.

9 (b) REPEAL OF ESTATE AND GIFT TAXES.—The re-
10 peal made by section 105 shall apply to estates of dece-
11 dents dying, and transfers made, after December 31,
12 1996.

13 (c) TECHNICAL AND CONFORMING CHANGES.—The
14 Secretary of the Treasury or the Secretary's delegate
15 shall, as soon as practicable but in any event not later
16 than 90 days after the date of the enactment of this Act,
17 submit to the Committee on Ways and Means of the
18 House of Representatives and the Committee on Finance
19 of the Senate a draft of any technical and conforming
20 changes in the Internal Revenue Code of 1986 which are
21 necessary to reflect throughout such Code the changes in
22 the substantive provisions of law made by this Act.

23 **TITLE II—REDUCTIONS IN**
24 **FEDERAL SPENDING**

25 **SEC. 201. REDUCTIONS IN FEDERAL SPENDING.**

26 (a) ADJUSTMENT OF DISCRETIONARY CAPS.—

1 (1) DISCRETIONARY SPENDING LIMITS AND DI-
2 RECT SPENDING BALANCES.—Not later than 5 days
3 after the date of enactment of this Act, the Presi-
4 dent shall reduce the discretionary spending limits
5 under section 601 of the Congressional Budget Act
6 of 1974 for each of the fiscal years 1996, 1997, and
7 1998 to reflect a reduction of 15 percent in budget
8 authority and budget outlays for each fiscal year.

9 (2) ADJUSTMENT OF COMMITTEE ALLOCA-
10 TIONS.—Not later than 5 days after the date of en-
11 actment of this Act, the chairs of the Committees on
12 the Budget of the Senate and the House of Rep-
13 resentatives shall revise levels under section 311(a)
14 of the Congressional Budget Act of 1974 and adjust
15 the committee allocations under section 602(a) of
16 the Congressional Budget Act of 1974 to reflect the
17 reductions required by paragraph (1).

18 (b) FOREIGN AID.—Notwithstanding subsection (a),
19 the amount of budget authority provided under budget
20 function 150 relating to United States assistance (as de-
21 fined in section 481(e)(4) of the Foreign Assistance Act
22 of 1961 (22 U.S.C. 2291(e)(4)) for payments not required
23 by law shall not exceed—

24 (1) for fiscal year 1996, 60 percent of the
25 amount provided for fiscal year 1995;

1 (2) for fiscal year 1997, 50 percent of the
2 amount provided for fiscal year 1995; and

3 (3) for fiscal year 1998, 40 percent of the
4 amount provided for fiscal year 1995.

5 (c) FREEZE ON DEPARTMENT OF DEFENSE.—Not-
6 withstanding subsection (a), the amount of budget author-
7 ity provided under budget function 050 (national defense)
8 for payments not required by law for each of the fiscal
9 years 1996, 1997, and 1998 shall not exceed the amount
10 provided for fiscal year 1995.

11 (d) NO REDUCTION IN THE ADMINISTRATIVE EX-
12 PENSES OF THE SOCIAL SECURITY ADMINISTRATION AND
13 MEDICARE.—Notwithstanding subsection (a), the amount
14 of budget authority provided for the administrative ex-
15 penses of the Social Security Administration and medicare
16 for payments not required by law for each of the fiscal
17 years 1996, 1997, and 1998 shall not be reduced by rea-
18 son of subsection (a).

19 **SEC. 202. REDUCTION IN DIRECT SPENDING.**

20 (a) REDUCTION.—

21 (1) IN GENERAL.—Except as provided in para-
22 graph (2), the level of direct spending for fiscal
23 years 1996, 1997, and 1998 shall not exceed 85 per-
24 cent of the level for fiscal year 1995.

1 (2) EXCEPTION.—Paragraph (1) shall not
2 apply to—

3 (A) social security;

4 (B) medicare; and

5 (C) veterans' programs.

6 (b) IMPLEMENTING LEGISLATION.—

7 (1) COMMITTEE ACTION.—Not later than Sep-
8 tember 1, 1995, the committees of the House of
9 Representatives and Senate shall report legislation
10 reducing the direct spending programs within their
11 jurisdiction as required by subsection (a).

12 (2) ENACTMENT.—Not later than September
13 30, 1995, the Senate and the House of Representa-
14 tives shall enact legislation complying with para-
15 graph (1).

16 **SEC. 203. ELIMINATION OF THE INTERNAL REVENUE**
17 **SERVICE.**

18 (a) ELIMINATION OF THE INTERNAL REVENUE
19 SERVICE.—Effective January 1, 1997, the Internal Reve-
20 nue Service is abolished.

21 (b) TRANSFER OF FUNCTIONS.—

22 (1) FUNCTION DEFINED.—For purposes of this
23 subsection, the term “function” means any duty, ob-
24 ligation, power, authority, responsibility, right, privi-
25 lege, activity, or program.

1 (2) TRANSFER TO TREASURY.—The functions
2 of the Internal Revenue Service are transferred to
3 the Department of the Treasury.

4 (3) TRANSFER TO SECRETARY.—The functions
5 of the Commissioner of Internal Revenue shall be
6 performed by the Secretary of the Treasury or the
7 designee of the Secretary.

8 (b) AMENDMENT TO THE INTERNAL REVENUE CODE
9 OF 1986.—Section 7802(a) of the Internal Revenue Code
10 of 1986 is repealed.

11 (c) REFERENCES.—Reference in any other Federal
12 law, Executive order, rule, regulation, or delegation of au-
13 thority, or any document of or relating to—

14 (1) the Commissioner of Internal Revenue with
15 regard to functions transferred under this sub-
16 section, shall be deemed to refer to the Secretary of
17 the Treasury; and

18 (2) the Internal Revenue Service with regard to
19 functions transferred under this subsection, shall be
20 deemed to refer to the Department of the Treasury.

21 (d) ADDITIONAL CONFORMING AMENDMENTS.—

22 (1) After consultation with the appropriate
23 committees of the Congress, the Secretary of the
24 Treasury shall prepare and submit to the Congress
25 recommended legislation containing technical and

1 conforming amendments to reflect the changes made
2 by this subsection.

3 (2) Not later than 6 months after the effective
4 date of this Act, the Secretary of the Treasury shall
5 submit the recommended legislation referred to
6 under paragraph (1).

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