

108TH CONGRESS
2D SESSION

H. R. 4168

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service, and enacting a national retail sales tax to be administered primarily by the States.

IN THE HOUSE OF REPRESENTATIVES

APRIL 2, 2004

Mr. TAUZIN (for himself, Mr. BURTON of Indiana, Mr. DEMINT, and Mr. NORWOOD) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service, and enacting a national retail sales tax to be administered primarily by the States.

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; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Individual Tax Freedom Act of 2004”.

1 (b) TABLE OF CONTENTS.—The table of contents of
 2 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Congressional findings.
- Sec. 3. Repeal of the income tax, estate and gift taxes, and certain excise taxes.
- Sec. 4. Sales tax.

“CHAPTER 1—SALES TAX

“SUBCHAPTER A—IMPOSITION OF TAX

- “Sec. 1. Imposition of tax.
- “Sec. 2. Exemptions.
- “Sec. 3. Rules relating to collection and remittance of tax.

“SUBCHAPTER B—CREDITS; REFUNDS; INSTALLMENT PAYMENTS OF TAX ON
 PURCHASES OF RESIDENCES

- “Sec. 11. Credits and refunds.
- “Sec. 12. Installment payments of tax on purchase of principal residences.
- “Sec. 13. Family consumption refund.

“SUBCHAPTER C—DEFINITIONS AND SPECIAL RULES; FINANCIAL
 INTERMEDIATION SERVICES

- “Sec. 21. Definitions.
- “Sec. 22. Special rules.
- “Sec. 23. Determination of financial intermediation services amount.
- “Sec. 24. Bad debts.
- “Sec. 25. Timing of tax on financial intermediation services.
- “Sec. 26. Alternative method for calculating tax due.
- “Sec. 27. Basic interest rate.
- “Sec. 28. Applicable interest rate.

“SUBCHAPTER D—AUTHORITY FOR STATES TO COLLECT TAX

- “Sec. 31. Authority for States to collect tax.
- “Sec. 32. Federal administrative support for States.
- “Sec. 33. Federal administration option for multistate vendors.
- “Sec. 34. General administrative matters.

“SUBCHAPTER E—OTHER ADMINISTRATIVE PROVISIONS

- “Sec. 41. Monthly reports and payments.
- “Sec. 42. Records.
- “Sec. 43. Registration.
- “Sec. 44. Certificate.
- “Sec. 45. Penalties.
- “Sec. 46. Burden of persuasion and burden of production.
- “Sec. 47. Attorneys and accountancy fees.
- “Sec. 48. Appeals.
- “Sec. 49. Taxpayer subject to subpoena on production.
- “Sec. 50. Tax Court jurisdiction.
- “Sec. 51. Power to levy.
- “Sec. 52. Problem resolution officers.
- “Sec. 53. Jurisdiction and interstate allocation.

“Sec. 54. Tax to be stated and charged separately.

“Sec. 55. Installment agreements; compromises.

“Sec. 56. Accounting.

“Sec. 57. Hobby activities.

Sec. 5. Phase-out of the Internal Revenue Service.

Sec. 6. Social Security Administration to collect payroll taxes.

Sec. 7. Self-employment tax.

Sec. 8. Social Security benefits indexed on sales tax inclusive basis.

Sec. 9. Compensating payments to certain persons on fixed income.

Sec. 10. Interest.

Sec. 11. Supermajority required to raise rate.

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

2 (a) The Congress finds that the income tax—

3 (1) retards economic growth and has reduced
4 the standard of living of the American public;

5 (2) impedes the international competitiveness of
6 United States industry;

7 (3) reduces savings and investment in the
8 United States;

9 (4) lowers productivity;

10 (5) imposes unacceptable administrative costs
11 on taxpayers, individuals and businesses alike;

12 (6) is unfair and inequitable; and

13 (7) unnecessarily intrudes upon the privacy and
14 civil rights of United States citizens.

15 (b) The Congress finds further that national sales,
16 services and use tax on final consumption of goods and
17 services—

18 (1) is similar in many respects to those in place
19 in 45 of the 50 States;

20 (2) will promote savings;

- 1 (3) will promote fairness;
- 2 (4) will promote economic growth;
- 3 (5) will raise the standard of living;
- 4 (6) will increase savings and investment;
- 5 (7) will enhance productivity and international
- 6 competitiveness;
- 7 (8) will reduce administrative burdens on the
- 8 taxpayer; and
- 9 (9) will respect the privacy interests and civil
- 10 rights of taxpayers.

11 (c) The Congress further finds that—

- 12 (1) most of the practical experience admin-
- 13 istering sales taxes is found at the State Govern-
- 14 mental level;
- 15 (2) it is desirable to harmonize Federal and
- 16 State collection and enforcement efforts to the max-
- 17 imum extent possible;
- 18 (3) it is sound tax administration policy to ad-
- 19 minister and collect the Federal sales and service tax
- 20 at the State level in return for a reasonable adminis-
- 21 tration fee to the States;
- 22 (4) businesses that must collect and remit taxes
- 23 should receive reasonable compensation for the cost
- 24 of doing so; and

1 (5) the sixteenth amendment to the Constitu-
2 tion should be repealed.

3 **SEC. 3. REPEAL OF THE INCOME TAX, ESTATE AND GIFT**
4 **TAXES, AND CERTAIN EXCISE TAXES.**

5 (a) IN GENERAL.—The following provisions of the In-
6 ternal Revenue Code of 1986 are hereby repealed:

7 (1) Chapter 1 (relating to income tax).

8 (2) Chapter 5 (relating to tax on transfers to
9 avoid income tax).

10 (3) Chapter 6 (relating to consolidated returns).

11 (4) Chapter 24 (relating to collection of income
12 tax at source).

13 (5) Subtitle B (relating to estate and gift
14 taxes).

15 (6) Chapter 31 (relating to retail excise taxes).

16 (7) Chapter 32 (relating to manufacturers ex-
17 cise taxes).

18 (8) Subtitle E (relating to alcohol, tobacco, and
19 certain other excise taxes).

20 (9) Subtitle F (relating to procedure and ad-
21 ministration of the income tax and certain other
22 taxes) except for section 6103 (relating to confiden-
23 tiality), chapter 66 (relating to limitations), chapter
24 67 (relating to interest), section 6656 (relating to
25 failure to make deposit of taxes), section 6657 (re-

1 relating to bad checks), section 6658 (relating to co-
2 ordination with title 11), chapter 75 (relating to
3 crimes), chapter 76 (relating to Judicial Pro-
4 ceedings), section 7431 (relating to damages for un-
5 authorized disclosure), section 7432 (relating to
6 damages for failure to release lien), section 7433
7 (relating to damages for unauthorized collection
8 data) and chapter 77 (relating to miscellaneous pro-
9 visions). References to provisions repealed by the
10 preceding sentence shall be treated as references to
11 such provisions as in effect on the day before the
12 date of the enactment of this Act.

13 (b) EFFECTIVE DATE.—

14 (1) IN GENERAL.—Except as provided in para-
15 graph (2), the amendments made by subsection (a)
16 shall take effect on July 1, 2006.

17 (2) INCOME TAX.—The amendment made by
18 subsection (a)(1) shall apply to taxable years begin-
19 ning after June 30, 2006.

20 (3) SALES TAX.—The amendment made by sec-
21 tion 4 shall take effect on July 1, 2006.

22 (4) SOCIAL SECURITY BENEFITS.—The amend-
23 ment made by section 9 shall take effect on January
24 1, 2006.

1 (5) SUPERMAJORITY REQUIRED.—The amend-
 2 ment made by section 11 shall take effect on Janu-
 3 ary 1, 2006.

4 **SEC. 4. SALES TAX.**

5 Subtitle A of the Internal Revenue Code of 1986 is
 6 amended by inserting at the beginning the following new
 7 chapter:

8 **“CHAPTER 1—SALES TAX**

 “SUBCHAPTER A. Imposition of tax.

 “SUBCHAPTER B. Credits; refunds; installment payments of tax
 on purchases of residences.

 “SUBCHAPTER C. Definitions and special rules; financial inter-
 mediation services.

 “SUBCHAPTER D. Authority for States to collect tax.

 “SUBCHAPTER E. Other administrative provisions.

9 **“Subchapter A—Imposition of Tax**

 “Sec. 1. Imposition of tax.

 “Sec. 2. Exemptions.

 “Sec. 3. Special rules relating to collection and remittance of tax.

10 **“SECTION 1. IMPOSITION OF TAX.**

11 “(a) IN GENERAL.—There is hereby imposed a tax
 12 of 15 percent on the gross payments for the use, consump-
 13 tion or enjoyment in the United States of any taxable
 14 property or service, whether produced or rendered within
 15 or without the United States.

16 “(b) COORDINATION WITH IMPORT DUTIES.—The
 17 taxes imposed by this section are in addition to any import
 18 duties imposed by law. The Secretary shall provide by reg-
 19 ulation that, to the maximum extent practicable, the taxes
 20 imposed by this section on imported property and services

1 are collected and administered in conjunction with any ap-
2 plicable import duties.

3 “(c) LIABILITY FOR COLLECTION AND REMITTANCE
4 OF THE TAX.—

5 “(1) GENERAL RULE.—The tax imposed by
6 subsection (a) shall be collected and remitted by the
7 seller, except as provided in subsection (2).

8 “(2) TAX TO BE PAID BY PURCHASER IN CER-
9 TAIN CIRCUMSTANCES.—

10 “(A) GENERAL RULE.—In the case of tax-
11 able property or services purchased outside of
12 the United States for use, consumption or en-
13 joyment in the United States, the purchaser
14 shall remit the tax imposed by subsection (a).

15 “(B) In the case of a purchaser electing to
16 pay tax in installments pursuant to section 12,
17 the purchaser shall remit the tax imposed by
18 subsection (a).

19 “(C) Employers that pay wages that are
20 taxable services within the meaning of section
21 21(n) shall be responsible for paying and remit-
22 ting the tax.

23 “(D) The Secretary may provide by regula-
24 tion that the tax imposed by subsection (a) is

1 to be collected and remitted by the purchaser
2 rather than the seller.

3 **“SEC. 2. EXEMPTIONS.**

4 “(a) IN GENERAL.—Except as provided in section
5 3(b)(2), no tax shall be imposed under section 1 on any
6 taxable property or service purchased for—

7 “(1) a business purpose in an active trade or
8 business, or

9 “(2) export from the United States for use or
10 consumption outside the United States, provided
11 that the purchaser provided the seller with—

12 “(A) an intermediate sales certificate, or

13 “(B) an export sales certificate.

14 “(b) BUSINESS PURPOSES.—For purposes of this
15 section, the term ‘purchased for a business purpose in an
16 active trade or business’ means purchased by a person en-
17 gaged in an active trade or business and used in that ac-
18 tive trade or business—

19 “(1) for resale,

20 “(2) to produce taxable property or services (as
21 defined in section 21(e)), or

22 “(3) in furtherance of other bona fide business
23 purposes.

24 “(c) DE MINIMIS PAYMENTS.—Up to \$400 of gross
25 payments per calendar year—

1 “(1) made by a person not engaged in an active
2 trade or business at any time during such calendar
3 year prior to making such gross payments, and

4 “(2) made to purchase any taxable property or
5 service which is imported into the United States by
6 such person for use or consumption by such person
7 in the United States,

8 shall be exempt from the tax imposed by section 1.

9 “(d) DE MINIMIS SALES.—Up to \$2,500 per cal-
10 endar year of gross payments received—

11 “(1) by a person not engaged in an active trade
12 or business during such calendar year prior to the
13 receipt of such gross payments, and

14 “(2) in connection with a casual or isolated
15 sale,

16 shall be exempt from the tax imposed by section 1.

17 “(e) AFFILIATED FIRMS.—Firms that make pur-
18 chases from or sell to affiliated firms which are exempt
19 pursuant to subsection (a) shall not need to comply with
20 the requirements of subsection (g) for such purchases to
21 remain exempt. For purposes of this section, a firm is af-
22 filiated with another if 1 firm owns 50 percent of the vot-
23 ing shares or interest in the other.

24 “(f) DE MINIMIS SALE OF FINANCIAL INTERMEDI-
25 ATION SERVICES.—The first \$10,000 per calendar year

1 of gross payments received by a person from the sale of
2 financial intermediation services shall be exempt from the
3 tax imposed by section 1. The exemption provided by this
4 subsection is in addition to other exemptions afforded by
5 this chapter.

6 “(g) SELLER RELIEVED OF LIABILITY IN CERTAIN
7 CASES.—In the case of any property or service which is
8 sold exempt from tax pursuant to subsection (a), if the
9 seller—

10 “(1) has on file a copy of an exemption certifi-
11 cate (whether an intermediate sale or export sale
12 certificate) from the purchaser, and

13 “(2) did not have reasonable cause to believe
14 that an exemption from the tax imposed by section
15 1 was unavailable to the purchaser with respect to
16 such purchase, then the seller shall be relieved of li-
17 ability to collect and remit the tax imposed by sec-
18 tion 1 on such purchase.

19 **“SEC. 3. RULES RELATING TO COLLECTION AND REMIT-**
20 **TANCE OF TAX.**

21 “(a) OBLIGATION OF GOVERNMENTAL UNITS AND
22 NOT-FOR-PROFIT ORGANIZATIONS TO COLLECT, REMIT
23 AND PAY TAXES.—

24 “(1) GOVERNMENTAL UNITS.—Nothing in this
25 subtitle shall be construed to exempt any Federal,

1 State, or local governmental unit or political subdivi-
2 sion from paying any tax imposed by this subtitle on
3 any sale, purchase, use, consumption or enjoyment
4 by such a unit.

5 “(2) NOT-FOR-PROFIT ORGANIZATIONS.—

6 “(A) IN GENERAL.—Dues, contributions
7 and payments to qualified not-for-profit organi-
8 zations shall not be considered gross payments
9 for taxable property or services for purposes of
10 this subtitle.

11 “(B) EXCEPTION.—Notwithstanding sub-
12 paragraph (2)(A), payments of any form to a
13 qualified not-for-profit organization shall be
14 considered gross payments for taxable property
15 or services unless said organization establishes
16 that the property or service provided in ex-
17 change is—

18 “(i) substantially related to the pur-
19 poses of the qualified not-for-profit organi-
20 zation, or

21 “(ii) is not commercially available.

22 “(C) For purposes of this section, qualified
23 not-for-profit organization means a not-for-prof-
24 it organization organized and operated exclu-
25 sively—

1 “(i) for religious, charitable, scientific,
2 testing for public safety, literary or edu-
3 cational purposes;

4 “(ii) as civic leagues or social welfare
5 organizations;

6 “(iii) as labor, agricultural or horti-
7 cultural organizations;

8 “(iv) as chambers of commerce, busi-
9 ness leagues or trade associations; or

10 “(v) as fraternal beneficiary societies,
11 orders or associations;

12 no part of the net earnings of which inures to
13 the benefit of any private shareholder or indi-
14 vidual.

15 “(D) Upon application in a form pre-
16 scribed by the State Administrator, the State
17 Administrator shall provide qualification certifi-
18 cates to qualified not-for-profit organizations.

19 “(E) If a not-for-profit organization pro-
20 vides taxable property or services in connection
21 with contributions or dues to the organizations,
22 then it shall be required to treat the provision
23 of said taxable property or services as a pur-
24 chase taxable pursuant to this subtitle at the

1 fair market value of said property or personal
2 services.

3 “(F) Taxable property and services pur-
4 chased by not-for-profit organizations for resale
5 or for use in the production of taxable property
6 or services shall be eligible for the exemptions
7 provided in section 2.

8 “(b) TAX COLLECTED ON CERTAIN EXEMPT PUR-
9 CHASES.—

10 “(1) IN GENERAL.—In the case of a purchase
11 which would (but for this subsection (b)) be exempt
12 from the tax imposed by section 1 by reason of sec-
13 tion 2(a), such subsection shall not apply to such
14 purchase if the seller—

15 “(A) elects the application of this sub-
16 section, and

17 “(B) immediately provides the purchaser
18 with a receipt reflecting the information re-
19 quired by section 54. Seller may elect to exer-
20 cise the application of this section with respect
21 to some or all purchases or purchasers.

22 “(2) The Secretary may by regulation provide
23 that certain industries or specific products are such
24 that the vendor must collect the tax on otherwise ex-
25 empt purchases if, in the Secretary’s judgment, said

1 industry or products are such that consumers buy 25
2 percent or more of the product sold by the industry
3 or the product. A registered vendor may by applica-
4 tion for good cause shown elect to opt out of the ap-
5 plication of this paragraph.

6 “(3) CROSS REFERENCE.—

**“For credit to purchaser where seller collects tax
on exempt purchase, see section 11(a)(3).**

**“For tax to be separately stated and charged, see
section 54.**

7 “(c) GOVERNMENT ENTERPRISES.—

8 “(1) GOVERNMENT ENTERPRISES TO COLLECT
9 AND REMIT TAXES ON SALES.—Nothing in this sub-
10 title shall be construed to exempt any Federal,
11 State, or local governmental unit or political subdivi-
12 sion (whether or not the State is a conforming
13 State) operating a government enterprise from col-
14 lecting and remitting tax imposed by this subtitle on
15 any sale of taxable property or services. Government
16 enterprises shall comply with all duties imposed on
17 private enterprises by this subtitle and shall be liable
18 for penalties and subject to enforcement action in
19 the same manner as private enterprises.

20 “(2) GOVERNMENT ENTERPRISE.—Any entity
21 owned or operated by a Federal, State, or local gov-
22 ernmental unit or political subdivision that receives
23 gross payments from selling taxable property or

1 services to private persons is a government enter-
2 prise, provided, however, that a government-owned
3 entity shall not become a government enterprise for
4 purposes of this section unless in any quarter it has
5 revenues from the sale of taxable property or serv-
6 ices that exceed \$2,500.

7 “(3) GOVERNMENT ENTERPRISES’ INTER-
8 MEDIATE AND EXPORT SALES.—

9 “(A) Government enterprises shall not be
10 subject to tax on purchases that would not be
11 subject to tax pursuant to section 2 if the gov-
12 ernment enterprise were a private enterprise.

13 “(B) Government enterprises may not use
14 the exemption afforded by section 2 to serve as
15 a conduit for tax-free purchases by government
16 units that would otherwise be subject to tax-
17 ation on purchases pursuant to section 1.
18 Transfers of taxable property or services pur-
19 chased exempt from tax by a government enter-
20 prise to such government unit shall be taxable.

21 “(4) SEPARATE BOOKS OF ACCOUNT.—Any gov-
22 ernment enterprise must maintain books of account,
23 separate from the nonenterprise government ac-
24 counts, maintained in accordance with generally ac-
25 cepted accounting principles.

1 “(5) ACTIVE TRADE OR BUSINESS.—A govern-
2 ment enterprise shall be treated as an active trade
3 or business.

4 “(6) CROSS REFERENCE.—

**“For obligation of government units, see section
3(a)(1).**

5 **“Subchapter B—Credits; Refunds; Install-**
6 **ment Payments of Tax on Purchases of**
7 **Residences**

 “Sec. 11. Credits and refunds.

 “Sec. 12. Installment payments of tax on purchases of principal
 residences.

 “Sec. 13. Family Consumption Refund.

8 **“SEC. 11. CREDITS AND REFUNDS.**

9 “(a) GENERAL CREDITS.—Each person shall be al-
10 lowed a credit against the taxes imposed by section 1 for
11 any month in an amount equal to the sum of—

12 “(1) such person’s used property credit under
13 subsection (c) for such month,

14 “(2) such person’s business use conversion
15 credit under subsection (d) for such month,

16 “(3) the amount paid by such person with re-
17 spect to a purchase during such month by reason of
18 a tax collected on an exempt purchase pursuant to
19 section 3(b) (relating to election to collect tax on
20 certain nontaxable purchases),

21 “(4) the administration credit under section (e),

1 “(5) the compliance equipment cost credit
2 under section (f),

3 “(6) the bad debt credit under subsection (g),

4 “(7) the insurance proceeds credit under sub-
5 section (h),

6 “(8) the transition inventory credit under sub-
7 section (i), and

8 “(9) any amount paid in excess of amount due.

9 “(b) REFUNDS.—

10 “(1) FILERS.—If a person files two consecutive
11 monthly tax reports with a credit balance, then,
12 upon application in a form prescribed by the State
13 Administrator, then the credit balance shown on the
14 second monthly report shall be refunded to the tax-
15 payer within 60 days of said application.

16 “(2) NONFILERS.—If a person other than a
17 monthly filer has an excess credit for any month,
18 then, upon application in a form prescribed by the
19 State Administrator, then the credit balance due
20 shall be refunded to the taxpayer within 60 days of
21 said application.

22 “(3) INTEREST.—No interest shall be required
23 to be paid on any overpayment under this subsection
24 for any month if such overpayment is paid within 60
25 days after the close of such month.

1 “(4) SUSPENSION OF PERIOD TO PAY REFUND
2 ONLY IF FEDERAL COURT RULING.—The 60-day pe-
3 riods under paragraphs (1) and (2) shall be sus-
4 pended with respect to a purported credit balance
5 (or portion thereof) only during any period that
6 there is in effect a preliminary ruling from a Federal
7 court that there is reasonable cause to believe that
8 such credit balance is not actually the amount due.

9 “(5) FILER.—For purposes of this subsection,
10 the term ‘filer’ means, with respect to any month,
11 any person required to register under section 43 for
12 such month.

13 “(c) USED PROPERTY CREDIT.—

14 “(1) IN GENERAL.—For purposes of subsection
15 (a), a seller shall receive credit for previous sales tax
16 paid on the resale of taxable property or services, as
17 provided in this subsection (c).

18 “(2) DETERMINATION OF USED PROPERTY
19 CREDIT AMOUNT.—The used property credit amount
20 determined under this paragraph with respect to any
21 property is the lesser of—

22 “(A) the amount of tax due and paid by
23 virtue of the present transaction (without re-
24 gard to any credits), or

1 “(B) the most recent prior tax imposed by
2 section 1 with respect to such property trans-
3 action (without regard to any credits).

4 “(3) TRANSITIONAL DEEMED PAID RULE FOR
5 PROPERTY OWNED ON EFFECTIVE DATE OF ACT.—
6 In the case of property which was acquired by the
7 seller before July 1, 2006, the amount under para-
8 graph (2)(B) shall be the amount which is the prod-
9 uct of—

10 “(A) that which would be determined
11 under paragraph (2)(B) as if this subtitle had
12 been in effect at the time of such acquisition,
13 and

14 “(B) the equity ratio (as defined in para-
15 graph (4)).

16 “(4) The equity ratio is the quotient of—

17 “(A) the income tax basis in the property
18 at the end of the taxable year 2006, less the
19 mortgage or debt secured by said property at
20 the end of said taxable year, divided by

21 “(B) the income tax basis in the property
22 at the end of the taxable year 2006,
23 provided, however, that the quantity defined in sub-
24 paragraph (1) cannot be less than zero and further

1 providing that the equity ratio so calculated cannot
2 be less than zero or greater than one.

3 “(d) BUSINESS USE CONVERSION CREDIT.—

4 “(1) IN GENERAL.—For purposes of subsection
5 (a), a person’s business use conversion credit for any
6 month is the aggregate of the amounts determined
7 under paragraph (2) with respect to property—

8 “(A) on which a prior tax was imposed by
9 section 1 on the purchase by such person, and

10 “(B) which commences to be exclusively
11 used during such month in the production by
12 such person of other taxable property or serv-
13 ices.

14 “(2) AMOUNT OF CREDIT.—The amount deter-
15 mined under this paragraph with respect to any
16 property is lesser of—

17 “(A) the product of the rate imposed by
18 section 1 and the fair market value of the prop-
19 erty when its use is converted, and

20 “(B) the prior tax referred to in paragraph
21 (1)(A).

22 “(3) Property converted from business use to
23 personal use shall be subject to tax pursuant to sec-
24 tion 1 on the book value of the converted property
25 as of the date of conversion, provided that the books

1 are kept in accordance with generally accepted ac-
2 counting principles.

3 “(e) ADMINISTRATION CREDIT.—Every taxpayer fil-
4 ing a timely monthly report in compliance with section 41
5 shall be entitled to a taxpayer administrative credit equal
6 to the greater of—

7 “(1) \$200, or

8 “(2) one-half of 1 percent of the tax remitted,
9 provided, however, that in no event will the credit af-
10 farded by this section exceed 20 percent of the tax
11 due to be remitted prior to the application of this
12 credit.

13 “(f) COMPLIANCE EQUIPMENT COST CREDIT.—Ven-
14 dors required to purchase new equipment to comply with
15 the provisions of section 54 shall be entitled to a credit
16 in the amount of 50 percent of the cost of such equipment.

17 “(g) BAD DEBT CREDIT.—

18 “(1) FINANCIAL INTERMEDIATION SERVICES.—

19 Any person registered pursuant to section 43 who
20 has experienced a bad debt (other than unpaid in-
21 voices within the meaning of paragraph (2)) shall be
22 entitled to a credit equal to the product of—

23 “(A) the rate imposed by section 1, and

24 “(B) the quotient that is—

1 “(i) the amount of the bad debt (as
2 defined in section 24), divided by

3 “(ii) the quantity that is 1 minus the
4 rate imposed by section 1.

5 “(2) UNPAID INVOICES.—Any person electing
6 the accrual method pursuant to section 56 that has
7 with respect to a transaction—

8 “(A) invoiced the tax imposed by section 1,

9 “(B) remitted the invoiced tax,

10 “(C) actually delivered the taxable prop-
11 erty or performed the taxable services invoiced,
12 and

13 “(D) not been paid 90 days after the date
14 the invoice was due to be paid,

15 shall be entitled to a credit equal to the amount of
16 tax remitted and unpaid by the purchaser.

17 “(3) SUBSEQUENT PAYMENT.—Any payment
18 made with respect to a transaction subsequent to a
19 subsection (g) credit being taken with respect to
20 that transaction shall be subject to tax in the month
21 the payment was received as if a tax inclusive sale
22 of taxable property and services in the amount of
23 the payment had been made.

24 “(4) PARTIAL PAYMENTS.—Partial payments
25 shall be treated as pro rata payments of the under-

1 lying obligation and shall be allocated proportion-
2 ately among payment for the taxable property and
3 service, tax and otherwise (in the case of partially
4 nontaxable payments).

5 “(5) RELATED PARTIES.—The credit provided
6 by this section shall not be available with respect to
7 sales made to affiliated firms (within the meaning of
8 section 2(e)).

9 “(h) INSURANCE PROCEEDS CREDIT.—

10 “(1) IN GENERAL.—A person receiving a pay-
11 ment from an insurer by virtue of an insurance con-
12 tract shall be entitled to a credit in an amount de-
13 termined by paragraph (2), less any amount paid to
14 the insured by the insurer pursuant to paragraph
15 (3), if the entire premium (except that portion allo-
16 cable to the investment account of the underlying
17 policy) for the insurance contract giving rise to the
18 insurer’s obligation to make a payment to the in-
19 sured was subject to the tax imposed by section 1
20 and such tax was paid.

21 “(2) CREDIT AMOUNT.—The amount of the
22 credit shall be the product of—

23 “(A) the rate imposed by section 1, and

24 “(B) the quotient that is—

1 “(i) the amount of the payment made
2 by the insurer to the insured, divided by

3 “(ii) the quantity that is 1 minus the
4 rate imposed by section 1.

5 “(3) ADMINISTRATIVE OPTION.—The credit de-
6 termined in accordance with paragraph (2) shall be
7 paid by the insurer to the insured and the insurer
8 shall be entitled to the credit in lieu of the insured
9 provided, however, the insurer may elect, in a form
10 prescribed by the Secretary, to not pay the credit
11 and require the insured to make application for the
12 credit. In the event of such election, the insurer shall
13 provide to the Secretary and the insured the name
14 and tax identification number of the insurer and of
15 the insured and indicate the proper amount of the
16 credit.

17 “(4) COORDINATION WITH RESPECT TO EXEMP-
18 TION.—If taxable property or services purchased by
19 an insurer on behalf of an insured are purchased
20 free of tax by virtue of section 21(e)(3), then the
21 credit provided by this section shall not be available
22 with respect to that purchase.

23 “(5) INSURANCE CONTRACT.—For purposes of
24 paragraph (1), the term ‘insurance contract’ in-
25 cludes a life insurance contract, a health insurance

1 contract, a property and casualty loss insurance con-
2 tract, a general liability insurance contract, a marine
3 insurance contract, a fire insurance contract, an ac-
4 cident insurance contract, a disability insurance con-
5 tract, a long-term care insurance contract, and an
6 insurance contract that provides a combination of
7 these types of insurance.

8 “(i) TRANSITIONAL INVENTORY CREDIT.—

9 “(1) TRANSITION INVENTORY CREDIT.—A cred-
10 it shall be allowed equal to the product of the rate
11 of tax imposed by section 1 and the cost of qualified
12 inventory.

13 “(2) INVENTORY.—

14 “(A) QUALIFIED INVENTORY.—Inventory
15 held by an active trade or business on the close
16 of business June 30, 2006, that is subsequently
17 sold subject to the tax imposed by section 1
18 shall be qualified inventory.

19 “(B) COST.—For purposes of this section,
20 qualified inventory shall have the cost that it
21 had on the income tax return of the active
22 trade or business filed for the period ending
23 June 30, 2006 (including any amounts capital-
24 ized by virtue of section 263A as in effect on
25 June 30, 2006).

1 “(3) TIMING OF CREDIT.—The credit provided
2 under paragraph (1) shall be allowed on the sales
3 tax return where the taxable sale of the qualified in-
4 ventory is reported. The person claiming such credit
5 shall attach supporting schedules in the form that
6 the Secretary may prescribe.

7 **“SEC. 12. INSTALLMENT PAYMENTS OF TAX ON PURCHASE**
8 **OF PRINCIPAL RESIDENCES.**

9 “(a) IN GENERAL.—If—

10 “(1) property is purchased and used as the
11 principal residence of any purchaser of such prop-
12 erty, and

13 “(2) such purchaser elects the application of
14 this section, then the tax imposed by section 1 with
15 respect to such purchase shall be paid in equal an-
16 nual installments over the 30-year period beginning
17 on the date of such sale together with simple inter-
18 est at the rate imposed by section 6621.

19 “(b) TERMINATION OF INSTALLMENTS IF PROPERTY
20 IS SOLD OR OTHERWISE CEASES TO BE PRINCIPAL RESI-
21 DENCE.—

22 “(1) IN GENERAL.—If, before the close of the
23 30-year period referred to in subsection (a), any
24 property to which an election under subsection (a)
25 applies—

1 “(A) is sold, or

2 “(B) otherwise ceases to be used as the
3 principal residence of any purchaser making
4 such election,

5 then the unpaid installments shall be due no later
6 than two years after the time of such sale or ces-
7 sation. To the extent that such sale or cessation is
8 only of a portion of such residential property, the
9 preceding sentence shall apply only to a like portion
10 (based on value) of such unpaid installments.

11 “(2) SPECIAL RULE.—In a case to which para-
12 graph (1)(B) applies with respect to any pur-
13 chaser—

14 “(A) if such purchaser purchases within
15 two years another property which property is
16 purchased and used as the principal residence
17 of such purchaser, the remaining unpaid install-
18 ments shall be due at the time of such pur-
19 chase,

20 “(B) if subparagraph (A) does not apply to
21 such purchaser, the remaining unpaid install-
22 ments shall be due at the close of the two-year
23 period beginning on the date of the cessation
24 referred to in paragraph (1); and

1 “(C) the two-year period referred to in
2 subparagraph (B) shall be suspended during
3 any period that such purchaser uses such prop-
4 erty as his principal residence.

5 “(3) If any purchaser exercises the right to in-
6 stallment payments under this section, then the re-
7 sponsibility to remit the tax due is the purchaser’s
8 rather than the seller’s provided that the seller has
9 on file a copy of the election form prescribed by the
10 Secretary.

11 **“SEC. 13. FAMILY CONSUMPTION REFUND.**

12 “(a) GENERAL RULE.—Each qualified family unit
13 (as defined in subsection (b)) shall be eligible to receive
14 a sales tax rebate in an amount no greater than the prod-
15 uct of—

16 “(1) the rate of tax imposed by section 1, and

17 “(2) the lesser of—

18 “(A) the poverty level (as defined in sub-
19 section (c)), or

20 “(B) the wage income of the family unit,
21 in the manner prescribed and subject to the
22 limitations set forth by this section.

23 “(b) QUALIFIED FAMILY UNIT DEFINED.—For pur-
24 poses of this section, the term qualified family unit shall
25 mean any family sharing a common residence. Any family

1 members (as defined in subsection (e)) sharing a common
2 residence shall be considered part of one integrated family
3 unit.

4 “(c) POVERTY LEVEL DEFINED.—The poverty level
5 shall be the quotient that is—

6 “(1) the level determined by the Department of
7 Health and Human Services poverty guidelines re-
8 quired by sections 652 and 673(2) of the Omnibus
9 Reconciliation Act of 1981 (all States and the Dis-
10 trict of Columbia) for family units of a particular
11 size, divided by

12 “(2) the quantity that is one minus the tax rate
13 imposed by section 1.

14 “(d) REBATE MECHANISM.—

15 “(1) GENERAL RULE.—The rebate provided by
16 section (a) shall be provided to each qualified family
17 unit by including the pay period rebate amount in
18 each paycheck.

19 “(2) PAY PERIOD REBATE AMOUNT.—The pay
20 period rebate amount shall be the lesser of product
21 of the rate of tax imposed by the section 1 and—

22 “(A) the wages paid during the pay period,

23 or

24 “(B) the quotient that is the poverty level
25 for the family unit (determined in accordance

1 with subsection (c)) divided by the number of
2 pay periods in a year.

3 “(3) ADJUSTED WITHHOLDING TABLES TO BE
4 PROVIDED TO EMPLOYERS.—The Social Security
5 Administration shall publish revised withholding ta-
6 bles for use by employers.

7 “(4) COORDINATION.—The family member re-
8 ceiving the family consumption rebate shall set
9 forth, in a form prescribed by the Social Security
10 Administration, the names and Social Security num-
11 bers of all members of the family unit for which a
12 rebate is claimed. Employers shall provide this infor-
13 mation in the form prescribed to the Social Security
14 Administration.

15 “(e) FAMILY MEMBERS DEFINED.—For purposes of
16 determining the size of the family unit, family members
17 shall include each spouse or the head of household, chil-
18 dren, grandchildren, parents and grandparents.

19 “(f) DISQUALIFIED FAMILY MEMBERS.—In order for
20 a family member to be counted for purposes of deter-
21 mining family unit size, said family member must—

22 “(1) if over the age of two years, have a bona
23 fide Social Security number; and

24 “(2) be a lawful resident of the United States.

1 “(g) STUDENTS LIVING AWAY FROM HOME.—A stu-
2 dent during each of five months in a calendar year living
3 away from the common residence of a family unit but who
4 receives over 50 percent of his support from the family
5 unit shall be included as part of that family unit for pur-
6 poses of this section.

7 “(h) CHANGE IN FAMILY CIRCUMSTANCES.—The
8 residence of family members, marital status and number
9 of persons in a family unit on the first day of the calendar
10 year shall govern determinations required to be made
11 under this section for purposes of said calendar year.

12 “(i) TWO OR MORE FAMILY MEMBERS WORKING.—
13 The family unit may elect to divide the rebate between
14 two family members. Family members shall make this
15 election in a form prescribed by the Social Security Ad-
16 ministration and shall when making said election disclose
17 the name and Social Security number of the other family
18 members. Creditable wages for families making this elec-
19 tion shall not exceed one half of the poverty level for that
20 family unit.

21 “(j) EMPLOYERS TO ADJUST REMITTANCES.—Em-
22 ployers shall reduce their payroll tax remittances to the
23 Social Security Administration by the amount of Family
24 Consumption Rebate provided in employee paychecks.

1 “(k) NO DOUBLE COUNTING.—In no event shall any
2 person be considered part of more than one family unit.

3 “(l) SOCIAL SECURITY ADMINISTRATION.—The So-
4 cial Security Administration shall provide to multiple
5 wage-earner family units who received a lower rebate
6 amount than that to which they were entitled under sub-
7 section (a) due to the application of the limitations in sub-
8 section (d)(2) and subsection (i) any payment due within
9 30 days of the close of the calendar year.

10 **“Subchapter C—Definitions and Special**
11 **Rules; Financial Intermediation Services**

“Sec. 21. Definitions.

“Sec. 22. Special rules.

“Sec. 23. Determination of financial intermediation services
amount.

“Sec. 24. Bad debts.

“Sec. 25. Timing of tax on financial intermediation services.

“Sec. 26. Alternative method for calculating tax due.

“Sec. 27. Basic interest rate.

“Sec. 28. Applicable interest rate.

12 **“SEC. 21. DEFINITIONS.**

13 “(a) FINANCIAL INTERMEDIATION SERVICES.—The
14 term ‘financial intermediation services’ means financial
15 intermediation services determined in accordance with sec-
16 tion 23.

17 “(b) GROSS PAYMENTS.—For purposes of this sub-
18 title, the term ‘gross payments’ shall mean gross payments
19 inclusive of Federal tax imposed by, and State taxes im-
20 posed in conformity with, this chapter but exclusive of cus-
21 toms duties. Gross payment shall be the product of the

1 pre-tax factor and the payments for the taxable property
2 or service exclusive of State and Federal taxes imposed
3 by, and State taxes imposed in conformity with, this sub-
4 title. For purposes of this section, the pre-tax factor shall
5 be one divided by the quantity that is one minus the sum
6 of—

7 “(1) the Federal tax rate imposed by section 1,
8 and

9 “(2) the State tax rate imposed in conformity
10 with this subtitle.

11 “(c) Primary residence shall mean residential real
12 property used predominantly as the place of abode for a
13 person or persons. A person shall have only one primary
14 residence for purposes of this section. A married couple
15 shall have only one primary residence.

16 “(d) PURCHASED FOR RESALE.—For purposes of
17 section 2(b)(1), a property or service is purchased for re-
18 sale if such property or service is purchased by a person
19 in an active trade or business for the purpose of reselling
20 the taxable property or service in the ordinary course of
21 that active trade or business.

22 “(e) PURCHASED TO PRODUCE TAXABLE PROPERTY
23 OR SERVICES.—For purposes of section 2(b)(2)—

24 “(1) IN GENERAL.—A property or service is
25 purchased to produce a taxable property or service

1 if such property or service is purchased by a person
2 in an active trade or business for the purpose of em-
3 ploying or using such property or service in the pro-
4 duction or sale of other taxable property or services
5 in the ordinary course of that active trade or busi-
6 ness.

7 “(2) RESEARCH EXPERIMENTATION AND DE-
8 VELOPMENT.—Taxable property or services used in
9 an active trade or business for the purpose of re-
10 search, experimentation and development shall be
11 treated as purchased to produce taxable property or
12 services.

13 “(3) INSURANCE PAYMENTS.—Taxable property
14 or services purchased by an insurance company on
15 behalf of an insured shall be treated as a property
16 or service purchased to produce a taxable property
17 or service if the entire premium for the insurance
18 contract giving rise to the insurer’s obligation was
19 subject to tax in accordance with subsection (a) (re-
20 lating to financial intermediation services).

21 “(4) EDUCATION AND TRAINING.—Education
22 and training shall be treated as purchased to
23 produce taxable property or services. For purposes
24 of this section, education and training shall mean
25 tuition for general primary, secondary, or university

1 level education, and tuition for job-related training
2 courses. Tuition shall not include amounts attrib-
3 utable to room or board for the student.

4 “(f) Qualified fixtures shall include only those fix-
5 tures that are a permanent, integral, incorporated and
6 irremovable part of the structure and shall exclude fur-
7 niture, furnishings, appliances or similar tangible personal
8 property.

9 “(g) REAL PROPERTY.—For purposes of this chap-
10 ter, the term real property shall have the meaning ascribed
11 to it at common law. The Secretary shall by regulation
12 establish uniform national rules for purposes of admin-
13 istering this chapter to the extent that jurisdictions within
14 the United States may provide different holdings as to the
15 scope of the term real property.

16 “(h) RESIDENCE.—Whenever this chapter requires
17 that the State of ‘residence’ need be determined, it shall
18 be determined in descending order of priority as the State
19 of permanent abode, the center of vital interests, or the
20 habitual abode. If the State of residence is still undeter-
21 mined, if the person is a resident of the United States,
22 the determination will be made by the Federal Office of
23 Revenue Allocation.

1 “(i) Residential real property is real property, includ-
2 ing structures, land, and qualified fixtures and appur-
3 tenances thereto that—

4 “(1) is held in fee simple and

5 “(2) is predominantly used as a residence or
6 dwelling.

7 “(j) SECRETARY.—For purposes of this chapter, the
8 term ‘Secretary’ means the United States Secretary of
9 Treasury.

10 “(k) STATE ADMINISTRATOR.—For purposes of this
11 chapter, the term ‘State Administrator’ shall mean the
12 highest State official responsible for administering the
13 taxes imposed by this subtitle in the conforming State. In
14 States that are not conforming States, the ‘State Adminis-
15 trator’ shall mean the person designated by the Secretary
16 as the Federal official responsible for administering the
17 taxes imposed by this chapter in a non-conforming State.
18 State Administrator shall also mean, when the context so
19 requires, the Federal official responsible for administering
20 the multi-State vendor program.

21 “(l) Structures, for purposes of subsection (i) shall
22 include homes that are manufactured housing but not self-
23 propelled and not on wheels.

24 “(m) TANGIBLE PERSONAL PROPERTY.—For pur-
25 poses of this chapter, the term tangible personal property

1 shall have the meaning ascribed to it at common law. The
2 Secretary shall by regulation establish uniform national
3 rules for purposes of administering this chapter to the ex-
4 tent that jurisdictions within the United States may pro-
5 vide different holdings as to the scope of the term tangible
6 personal property.

7 “(n) TAXABLE PROPERTY OR SERVICES.—

8 “(1) GENERAL RULE.—For purposes of this
9 chapter, the term ‘taxable property or service’
10 means—

11 “(A) any property (including leaseholds of
12 any term or rents with respect to such prop-
13 erty) other than intangible property, and

14 “(B) any service (including any financial
15 intermediation services).

16 “(2) WAGES.—For purposes of the preceding
17 sentence, services shall not include wages paid by an
18 employer engaged in an active trade or business that
19 is registered pursuant to section 43. Services shall
20 include wages paid by an employer (including gov-
21 ernment employers) not engaged in an active trade
22 or business unless those wages are paid by a quali-
23 fied not-for-profit organization (as defined in section
24 3(a)(2)(C).

25 “(3) INTANGIBLE PROPERTY.—

1 “(A) IN GENERAL.—For purposes of this
2 subtitle, intangible property shall include copy-
3 rights, trademarks, patents, goodwill, financial
4 instruments, and other property deemed intan-
5 gible at common law.

6 “(B) CERTAIN TYPES OF PROPERTY.—For
7 purposes of this subtitle, intangible property
8 shall not include tangible personal property (or
9 rents or leaseholds of any term thereon), real
10 property (or rents or leaseholds of any term
11 thereon), and computer software.

12 “(C) ANTI-AVOIDANCE RULE.—Notwith-
13 standing subparagraph (A), the sale of a copy-
14 right or trademark shall be treated as the sale
15 of taxable services (within the meaning of sec-
16 tion 1) if the substance of the transaction sell-
17 ing said copyright or trademark constituted the
18 sale of the services that produced the copy-
19 righted material or the trademark.

20 “(o) UNITED STATES.—For purposes of this chapter,
21 the term ‘United States’, when used in the geographical
22 sense, means the 50 States, the District of Columbia, and
23 any commonwealth, territory or possession of the United
24 States.

1 **“SEC. 22. SPECIAL RULES.**

2 “(a) FOREIGN FINANCIAL INTERMEDIATION SERV-
3 ICES.—

4 “(1) SPECIAL RULES RELATING TO INTER-
5 NATIONAL FINANCIAL INTERMEDIATION SERVICES.—

6 Financial intermediation services shall be deemed as
7 used or consumed within the United States if the
8 person (or any related party within the meaning of
9 section 2(e)) purchasing the services is a resident of
10 the United States.

11 “(2) Any person that provides financial inter-
12 mediation services to United States residents must,
13 as a condition of lawfully providing such services,
14 designate, in a form prescribed by the Secretary, a
15 United States tax representative. This United States
16 tax representative shall be responsible for ensuring
17 that the taxes imposed by this chapter are collected
18 and remitted and shall be jointly and severally liable
19 for collecting and remitting these taxes. The Sec-
20 retary may require reasonable bond of the United
21 States tax representative.

22 “(b) FINANCING LEASES.—

23 “(1) DEFINED.—For purposes of this section, a
24 financing lease shall be any lease under which the
25 lessee shall have the right to acquire the property

1 for 50 percent or less of its fair market value at the
2 end of the lease term.

3 “(2) TAX.—Financing leases shall be taxed in
4 the method set forth in this section.

5 “(3) DETERMINATION OF PRINCIPLE AND IN-
6 TEREST COMPONENTS OF FINANCING LEASE.—The
7 Secretary shall promulgate rules for disaggregating
8 the principle and interest components of a financing
9 lease. The principle amount shall be determined to
10 the extent possible by examination of the contem-
11 poraneous sales price or prices of the same or simi-
12 lar property as the leased property.

13 “(4) ALTERNATIVE METHOD.—In the event
14 that contemporaneous sales prices of the same or
15 similar property as the lease property are not avail-
16 able, the principle and interest components of a fi-
17 nancing lease shall be disaggregating using the ap-
18 plicable interest rate (as defined in section 28), plus
19 4 percent.

20 “(5) PRINCIPAL COMPONENT.—The principal
21 component of the financing lease shall be subject to
22 tax as if a purchase in the amount of the principal
23 component had been made on the day the lease was
24 entered into.

1 “(6) INTEREST COMPONENT.—The financial
2 intermediation services amount with respect to the
3 interest component of the financing lease shall be
4 subject to tax.

5 “(7) COORDINATION.—If the principal compo-
6 nent and financial intermediation services amount
7 with respect to the interest component of a lease
8 have been taxed pursuant to this section, then the
9 gross lease or rental payments shall not be subject
10 to additional tax.

11 “(c) INSTALLMENT SALES, ACCOUNTING, RE-
12 TURNS.—

13 “(1) GENERAL RULE.—Tax will be due when
14 payment for the taxable property and services sold,
15 consumed, used or enjoyed is actually received.

16 “(2) ALTERNATIVE RULE.—A vendor may elect
17 to adopt the accrual method of accounting for pur-
18 poses of determining when the tax will be due. Said
19 election must apply to all sales made by vendor in
20 a particular calendar year.

21 “(3) INSTALLMENT SALES.—Tax will be due on
22 taxable property and services sold under the install-
23 ment method when payment for the taxable property
24 and services sold is actually received.

1 “(4) RETURNS.—A credit shall be provided to
2 the vendor for returned taxable property and serv-
3 ices when actual payment for the returned taxable
4 property and services is made by the vendor to the
5 person returning the taxable property and services.

6 “(d) MIXED USE PROPERTY OR SERVICES.—

7 “(1) MIXED USE PROPERTY OR SERVICE DE-
8 FINED.—Mixed Use Property or Service is taxable
9 property or services purchased both for a purpose
10 that would give rise to an exemption pursuant to
11 section 2 and for taxable use, consumption or enjoy-
12 ment.

13 “(2) EXEMPTION THRESHOLD.—Mixed Use
14 Property or Service shall not be exempt pursuant to
15 section 2 unless said property is used more than 95
16 percent for purposes that would give rise to an ex-
17 emption pursuant to section 2.

18 “(3) MIXED USE PROPERTY OR SERVICES
19 CREDIT.—A business registered pursuant to section
20 43 is entitled to a business use conversion credit
21 (pursuant to section 11(d)) equal to product of—

22 “(A) the mixed use property amount,

23 “(B) the business use ratio, and

24 “(C) the rate of tax imposed by section 1.

1 “(4) MIXED USE PROPERTY AMOUNT.—The
2 mixed use property amount for each year shall be—

3 “(A) one-thirtieth of the purchase price for
4 real property for thirty years or until the prop-
5 erty is sold,

6 “(B) one-seventh of the purchase price for
7 tangible personal property for seven years or
8 until the property is sold,

9 “(C) one-fifth of the purchase price for ve-
10 hicles for five years or until the property is
11 sold, and

12 “(D) a reasonable amount for other types
13 of taxable property or services or in accordance
14 with regulations.

15 “(5) BUSINESS USE RATIO.—The business use
16 ratio is the ratio of business use to total use for a
17 particular year. For vehicles, the business use ratio
18 will be the ratio of business purpose miles to total
19 miles. For real property, the business use ratio is
20 the ratio of floor space used for business purposes
21 to total floor space. For tangible personal property
22 (except for vehicles), the business use ratio is the
23 ratio of total time used for business purposes to
24 total time used. For other property or services, the
25 business ratio shall be calculated using a reasonable

1 method. Reasonable records must be maintained to
2 support a taxpayer's business use of the mixed use
3 property or service.

4 “(e) GAMING.—There is hereby imposed a 15-percent
5 tax on taxable gaming services. Taxable gaming services
6 shall be the gross gaming receipts less total gaming pay-
7 offs. This tax shall be paid and remitted by the person
8 offering the gaming services.

9 **“SEC. 23. DETERMINATION OF FINANCIAL INTERMEDI-**
10 **ATION SERVICES AMOUNT.**

11 “(a) FINANCIAL INTERMEDIATION SERVICES.—For
12 purposes of this subtitle—

13 “(1) IN GENERAL.—The term ‘financial inter-
14 mediation services’ means the sum of—

15 “(A) explicitly charged financial intermedi-
16 ation services, and

17 “(B) implicitly charged financial intermedi-
18 ation services.

19 “(2) EXPLICITLY CHARGED FINANCIAL INTER-
20 MEDIATION SERVICES.—The term ‘explicitly charged
21 financial intermediation services’ includes—

22 “(A) brokerage fees,

23 “(B) explicitly stated banking, loan origi-
24 nation, processing, documentation, credit check
25 fees or other similar fees,

1 “(C) safe-deposit box fees,

2 “(D) insurance premiums, to the extent
3 such premiums are not allocable to the invest-
4 ment account of the underlying insurance pol-
5 icy,

6 “(E) trustees’ fees, and

7 “(F) other financial service fees (including,
8 but not limited to, mutual fund management,
9 sales, and exit fees).

10 “(3) IMPLICITLY CHARGED FINANCIAL INTER-
11 MEDIATION SERVICES.—

12 “(A) IN GENERAL.—The term ‘implicitly
13 charged financial intermediation services’ in-
14 cludes the gross imputed amount in relation to
15 any underlying interest bearing investment, ac-
16 count, or debt.

17 “(B) GROSS IMPUTED AMOUNT.—For pur-
18 poses of subparagraph (A), the term ‘gross im-
19 puted amount’ means—

20 “(i) with respect to any underlying in-
21 terest bearing investment or account, the
22 product of—

23 “(I) the excess (if any) of the
24 basic interest rate (as defined in sec-

1 tion 27) over the rate paid on such in-
2 vestment, and

3 “(II) such account balance, and
4 “(ii) with respect to any underlying
5 interest bearing debt, the product of—

6 “(I) the excess (if any) of the
7 rate paid on such debt over the basic
8 interest rate (as defined in section
9 27), and

10 “(II) such debt balance.

11 “(b) For purposes of section 1(c), the seller of finan-
12 cial intermediation services shall be—

13 “(1) in the case of explicitly charged financial
14 intermediation services (as defined in subsection
15 (a)(2)), the person who receives the gross payments
16 for the charged financial intermediation services,

17 “(2) in the case of implicit financial intermedi-
18 ation services (as defined in subsection (a)(3)) with
19 respect to any underlying interest bearing invest-
20 ment or account, the person making the interest
21 payments on the interest bearing investment or ac-
22 count, and

23 “(3) in the case of implicit financial intermedi-
24 ation services (as defined in subsection (a)(2)) with
25 respect to any interest bearing debt, the person re-

1 ceiving the interest payments on the interest bearing
2 debt.

3 **“SEC. 24. BAD DEBTS.**

4 “(a) For purposes of section 11, a bad debt shall be
5 a business loan or debt that becomes wholly or partially
6 worthless.

7 “(b) For purposes of subsection (a), a business loan
8 or debt is a bona fide loan or debt made for a business
9 purpose that both parties intended be repaid.

10 “(c) No loan or debt shall be considered wholly or
11 partially worthless unless it has been in arrears for 90
12 days or more, provided, however, that if a debt is dis-
13 charged wholly or partially in bankruptcy before 90 days
14 has elapsed, then it shall be deemed wholly or partially
15 worthless on the date of discharge.

16 “(d) A loan or debt that has been in arrears for 90
17 days or more may be deemed wholly or partially worthless
18 by the holder unless a payment schedule has been entered
19 into between the debtor and the lender.

20 “(e) CROSS REFERENCE.—

**“For tax on subsequent payments, see section
11(g)(3).**

21 **“SEC. 25. TIMING OF TAX ON FINANCIAL INTERMEDIATION**
22 **SERVICES.**

23 “The tax on financial intermediation services pro-
24 vided in connection to an underlying investment account

1 or debt shall be calculated and collected with the same
2 frequency that statements are rendered by the financial
3 institution in connection with the investment account or
4 debt but not less frequently than quarterly.

5 **“SEC. 26. ALTERNATIVE METHOD FOR CALCULATING TAX**
6 **DUE.**

7 “(a) **ALTERNATIVE METHOD PERMISSIBLE.**—A pro-
8 vider of financial intermediation services need not cal-
9 culate its liability on a transaction-by-transaction or ac-
10 count-by-account basis provided that the method used by
11 the financial intermediation services provider—

12 “(1) is reasonable, and

13 “(2) will lead to a tax liability that is substan-
14 tially similar to that projected under ordinary sales
15 tax principles. The provider of financial intermedi-
16 ation services shall set forth his proposed method
17 and the reasons why it meets the criteria set forth
18 in the preceding sentence in a petition to the Sec-
19 retary.

20 “(b) **SECRETARY TO RULE.**—An alternative method
21 proposed in a petition pursuant to subsection (a) shall be
22 accepted by the Secretary unless the Secretary rules that
23 the proposed alternative method—

24 “(1) is unreasonable, or

1 “(2) will lead to a tax liability that is substan-
2 tially different from that projected under ordinary
3 sales tax principles.

4 The Secretary shall set forth the reasons for his ruling
5 in a finding. The Secretary must make his ruling within
6 120 days of receiving the petition and notify the petitioner
7 of his decision. In the event the Secretary fails to render
8 a ruling within 120 days, then the proposed method shall
9 be permissible. He must provide the petitioner with a copy
10 of the finding within 30 days of a ruling. He must publish
11 the permissible method (including those methods that be-
12 come permissible by virtue of the Secretary’s failure to
13 rule).

14 “(c) EFFECTIVE DATES OF ALTERNATIVE METH-
15 OD.—An alternative method ruled permissible or permis-
16 sible by virtue of the Secretary’s failure to rule shall be
17 effective indefinitely and may take effect as early as the
18 month after the alternative method becomes permissible.
19 The Secretary may, however, after an investigation, audit,
20 or otherwise, subsequently rule on his own initiative that
21 the method is not permissible. Such subsequent ruling
22 shall be prospective in effect and not take effect until the
23 latter of—

24 “(1) the first day of the calendar year following
25 the ruling, or

1 “(2) 120 days after the ruling.

2 If judicial review is sought pursuant to subsection (d), said
3 subsequent ruling shall not take effect until a final judg-
4 ment is rendered by the court.

5 “(d) JUDICIAL REVIEW.—A ruling by the Secretary
6 with respect to a petition for use of an alternative method
7 pursuant to subsection (a) shall be subject to judicial re-
8 view in any court of competent jurisdiction, provided, how-
9 ever, that the standard of review shall be whether the peti-
10 tioner establishes by clear and convincing evidence that
11 the decision of the Secretary should be reversed.

12 “(e) REGULATIONS.—The Secretary may provide by
13 regulation permissible alternative methods for calculating
14 tax due including methods based on annual flows of rev-
15 enue and expense.

16 **“SEC. 27. BASIC INTEREST RATE.**

17 “For purposes of this subchapter, the basic interest
18 rate with respect to a debt instrument, investment, financ-
19 ing lease, or account shall be the applicable interest rate
20 (as determined in section 28). For debt instruments, in-
21 vestments, or accounts of contractually fixed interest, the
22 applicable interest rate of the month of issuance shall
23 apply. For debt instruments, investments, or accounts of
24 variable interest rates and which have no reference inter-
25 est rate, the applicable interest rate shall be the Federal

1 short-term interest rate for each month. For debt instru-
2 ments, investments or accounts of variable interest rates
3 and which have a reference interest rate, the applicable
4 interest rate shall be the applicable interest rate for the
5 reference interest rate for each month.

6 **“SEC. 28. APPLICABLE INTEREST RATE.**

7 “(a) IN GENERAL.—

8 “(1) In the case of a debt instrument, invest-
9 ment, financing lease, or account with a term of not
10 over 3 years, the applicable interest rate is the Fed-
11 eral short-term rate.

12 “(2) In the case of a debt instrument, invest-
13 ment, financing lease, or account with a term of over
14 3 years but not over 9 years, the applicable interest
15 rate is the Federal mid-term rate.

16 “(3) In the case of a debt instrument, invest-
17 ment, financing lease, or account with a term of over
18 9 years, the applicable interest rate is the Federal
19 long-term rate.

20 “(b) FEDERAL SHORT-TERM RATE.—The Federal
21 short-term rate shall be the rate determined by the Sec-
22 retary based on the average market yield (during any 1
23 month) on outstanding marketable obligations of the
24 United States with remaining periods to maturity of 3
25 years or less.

1 administering State shall be administered, collected, and
2 remitted to the United States Treasury by such State.

3 “(b) ADMINISTERING STATE.—For purposes of this
4 section, the term ‘administering State’ means any State—

5 “(1) which maintains a conforming sales tax,
6 and

7 “(2) which enters into a cooperative agreement
8 with the Secretary containing reasonable provisions,
9 limited in scope and detail, governing the adminis-
10 tration by such State of the taxes imposed by this
11 chapter and the remittance to the United States in
12 a timely manner of taxes collected under this chap-
13 ter.

14 “(c) CONFORMING SALES TAX.—For purposes of
15 subsection (b), a State maintains a conforming sales tax
16 if such State imposes, administers, and collects a sales
17 tax—

18 “(1) which conforms to the tax imposed by this
19 chapter in all significant respects (other than the
20 rate of tax), including—

21 “(A) the same taxable property and serv-
22 ices,

23 “(B) the same exemptions, and

24 “(C) the same credits and refunds (other
25 than section 11(a)(4) (relating to the taxpayer

1 administrative credit) and section 13 (relating to
2 the family consumption refund)), and

3 “(2) which is imposed at a rate of no less than
4 1 percent.

5 “(d) COOPERATIVE AGREEMENTS.—The agreement
6 under subsection (b)(2) shall be limited in scope and detail
7 but include provisions for the expeditious transfer of
8 funds, contact officers, dispute resolution, information ex-
9 change, confidentiality, taxpayer rights, and other matters
10 of importance.

11 “(e) TIMELY REMITTANCE OF TAX.—

12 “(1) IN GENERAL.—Administering States shall
13 remit and pay over taxes collected under this chap-
14 ter on behalf of the United States (less the adminis-
15 tration fee allowable under paragraph (2)) no later
16 than 15 days after receipt.

17 “(2) ADMINISTRATION FEE.—Administering
18 States may retain an administration fee equal to one
19 percent of the amounts otherwise required to be re-
20 mitted to the United States under this chapter by
21 the State.

22 “(f) LIMITATION ON ADMINISTRATION OF TAX BY
23 UNITED STATES.—The Secretary may administer the tax
24 imposed by this chapter in an administering State only
25 if—

1 “(1)(A) such State has failed on a regular and
2 sustained basis to timely remit to the United States
3 taxes collected under this chapter on behalf of the
4 United States, or

5 “(B) such State has on a regular and sustained
6 basis otherwise materially breached the agreement
7 referred to in subsection (b)(2),

8 “(2) the State has failed to cure such failures
9 and alleged breaches within a reasonable time,

10 “(3) the Secretary provides such State with
11 written notice of such failures and alleged breaches,
12 and

13 “(4) a district court of the United States within
14 such State has rendered a decision permitting such
15 administration.

16 “(g) The Secretary shall administer the tax imposed
17 by this chapter in any State or other jurisdiction that is
18 not an administering State.

19 “(h) It shall be permissible for a conforming State
20 to contract with another conforming State to administer
21 its sales tax for an agreed fee. In this case, the agreement
22 contemplated by subsection (d) shall have both States and
23 the Federal Government as parties.

24 “(i) COORDINATION AMONG CONFORMING STATES.—

1 “(1) EXEMPTION CERTIFICATES.—Conforming
2 States shall honor exemption certificates issued by
3 other conforming States.

4 “(2) AUDITS.—Conforming States shall not
5 conduct audits at facilities in other Conforming
6 States but shall instead cooperate with other Con-
7 forming States using the mechanisms established by
8 section 32 of this subchapter or by other agreement
9 or Compact.

10 **“SEC. 32. FEDERAL ADMINISTRATIVE SUPPORT FOR**
11 **STATES.**

12 “(a) The Secretary shall administer a program to fa-
13 cilitate information sharing among States.

14 “(b) The Secretary shall facilitate and may be a party
15 to a Compact Among Conforming States for purposes of
16 facilitating the taxation of interstate purchases and for
17 other purposes that may facilitate implementation of this
18 chapter.

19 “(c) The Secretary shall have the authority to pro-
20 mulgate regulations and guidelines to assist States in ad-
21 ministering the national sales tax, to provide for uni-
22 formity in the administration of the tax and to provide
23 guidance to taxpayers and administrators.

1 **“SEC. 33. FEDERAL ADMINISTRATION OPTION FOR**
2 **MULTISTATE VENDORS.**

3 “(a) IN GENERAL.—Vendors that maintain retail es-
4 tablishments in five or more conforming States may elect,
5 in a form prescribed by the Secretary, to have their sales
6 tax obligations administered by the Federal Government
7 under the multistate vendor program.

8 “(b) FEDERAL GOVERNMENT TO COLLECT AND
9 REMIT STATE SALES TAXES.—Under the multistate ven-
10 dor program, the Federal Government will collect Federal
11 and conforming State sales taxes and remit the State sales
12 taxes to the States within 10 days of receiving said rev-
13 enue.

14 “(c) FEDERAL ADMINISTRATION.—The Federal Gov-
15 ernment will serve in the place of the State Administrator
16 with respect to multi-State vendors exercising the election
17 under this section. With respect to electing multi-State
18 vendors, the Federal Government exclusively will—

19 “(1) audit;

20 “(2) provide certificates; and

21 “(3) otherwise administer the Federal and con-
22 forming State sales tax in place of the administering
23 State.

24 **“SEC. 34. GENERAL ADMINISTRATIVE MATTERS.**

25 “(a) IN GENERAL.—The Secretary and each State
26 Administrator may employ accountants, auditors, inves-

1 tigators, assistants, and clerks for the administration of
2 this subtitle and may delegate to employees the authority
3 to conduct interviews, hearings, prescribe rules, promul-
4 gate regulations, and perform such other duties as are re-
5 quired by this subtitle.

6 “(b) RESOLUTION OF ANY INCONSISTENT RULES
7 AND REGULATIONS.—In the event that the Secretary and
8 any State Administrator have issued inconsistent rules or
9 regulations, the rule or regulation issued by the Secretary
10 shall govern provided that the Secretary possessed the
11 statutory authority to issue the rule or regulation.

12 “(c) ADEQUATE NOTICE TO BE PROVIDED.—Except
13 in the case of an emergency declared by the Secretary (and
14 not his designee), no rule or regulation issued by the Sec-
15 retary with respect to any internal revenue law shall take
16 effect before 90 days have elapsed after its publication in
17 the Federal Register. Upon issuance, the Secretary shall
18 provide copies of all rules or regulations issued under this
19 title to each sales tax administering authority.

20 “(d) NO RULES, RULINGS, OR REGULATIONS WITH
21 RETROACTIVE EFFECT.—

22 “(1) IN GENERAL.—No rule, ruling, or regula-
23 tion issued or promulgated by the Secretary relating
24 to any internal revenue law or by a State Adminis-
25 trator that constitutes a change in law (including a

1 reversal of prior law and new law) shall be retroactive
2 in effect.

3 “(2) Notwithstanding paragraph (1), a rule,
4 ruling, or regulation that provides guidance or clari-
5 fies existing law may lawfully apply to cases prior to
6 its issuance.

7 “(3) For purposes of this subsection, the term
8 ‘law’ includes State and Federal statutes, regula-
9 tions, rules, rulings, and court decisions.

10 “(4) A rule, ruling, or regulation issued in con-
11 travention to paragraph (1) shall be void as to tax-
12 able events arising prior to the issuance of such rule,
13 ruling, or regulation.

14 “(5) REVIEW OF IMPACT OF RULES, RULINGS,
15 AND REGULATIONS ON SMALL BUSINESS.—

16 “(A) SUBMISSION TO SMALL BUSINESS AD-
17 MINISTRATION.—After publication of any pro-
18 posed or temporary regulation by the Secretary
19 relating to internal revenue laws, the Secretary
20 shall submit such regulation to the Chief Coun-
21 sel for Advocacy of the Small Business Admin-
22 istration for comment on the impact of such
23 regulation on small businesses. Not later than
24 the date 4 weeks after the date of such submis-
25 sion, the Chief Counsel for Advocacy of the

1 Small Business Administration shall submit
2 comments on such regulation to the Secretary.

3 “(B) CONSIDERATION OF COMMENTS.—In
4 prescribing any final regulation which super-
5 sedes a proposed or temporary regulation which
6 had been submitted under this subsection to the
7 Chief Counsel for Advocacy of the Small Busi-
8 ness Administration, the Secretary shall—

9 “(i) consider the comments of the
10 Chief Counsel for Advocacy of the Small
11 Business Administration on such proposed
12 or temporary regulation, and

13 “(ii) discuss any response to such
14 comments in the preamble to the regula-
15 tion.

16 “(C) SUBMISSION OF CERTAIN FINAL REG-
17 ULATIONS.—In the case of promulgation by the
18 Secretary of any final regulations (other than a
19 temporary regulation) which do not supersede a
20 proposed regulation, the requirements of sub-
21 paragraphs (A) and (B) shall apply, except that
22 the submission under subparagraph (A) shall be
23 made at least 4 weeks before the date of such
24 promulgation, and the consideration and discus-
25 sion required under subparagraph (B) shall be

1 “(3) the amount and type of any credit claimed.

2 “(b) PAYMENTS OF TAX.—The tax imposed by this
3 chapter with respect to any use, consumption or enjoy-
4 ment during any month shall be paid on or before the 20th
5 of the succeeding month. One payment shall pay both Fed-
6 eral and conforming State tax liability.

7 “(c) INTEREST ON AMOUNTS REMITTED LATE.—

8 “(1) IN GENERAL.—If any amount required to
9 be paid on or before the 20th of any month is paid
10 after such 20th day, the taxpayer shall pay simple
11 interest from such 20th day at the rate of—

12 “(A) 1 percent per month (or any fraction
13 thereof) for the first month, and

14 “(B) 1.5 percent per month (or any frac-
15 tion thereof) thereafter.

16 “(2) AMOUNTS PAID AFTER COLLECTION AC-
17 TION.—

18 “(A) IN GENERAL.—The rate of interest
19 under paragraph (1) shall be 2 percent per
20 month (or any fraction thereof) with respect to
21 amounts paid only after the commencement of
22 a collection action with respect to such
23 amounts.

24 “(B) COLLECTION ACTION.—For purposes
25 of subparagraph (A), the term ‘collection ac-

1 tion' includes administrative levies or garnish-
2 ments and the commencement of legal action in
3 any court.

4 “(d) PENALTY FOR LATE FILING.—

5 “(1) IN GENERAL.—In the case of a failure by
6 any person to file a report required by subsection (a)
7 on or before due date (determined with regard to
8 any extension) for such report, such person shall pay
9 a penalty equal to the greater of—

10 “(A) \$50, or

11 “(B) 0.5 percent of the gross payments re-
12 ferred to in section 1 required to be shown on
13 the report.

14 “(2) INCREASED PENALTY ON RETURNS FILED
15 AFTER WRITTEN INQUIRY.—The amount of the pen-
16 alty under paragraph (1) shall be doubled with re-
17 spect to any report filed after a written inquiry with
18 respect to such report is received by the taxpayer
19 from the State Administrator.

20 “(3) EXCEPTIONS.—

21 “(A) REASONABLE CAUSE.—No penalty
22 shall be imposed under paragraph (1) with re-
23 spect to any failure if it is shown that such fail-
24 ure is due to reasonable cause.

1 “(B) OTHER WAIVER AUTHORITY.—In ad-
2 dition to penalties not imposed by reason of
3 subparagraph (A), the State Administrator, on
4 application, shall waive the penalty imposed by
5 paragraph (1) once per taxpayer per 2-year pe-
6 riod. The preceding sentence shall not apply to
7 a penalty determined under paragraph (2).

8 “(e) EXTENSIONS FOR FILING REPORTS.—

9 “(1) AUTOMATIC EXTENSIONS FOR LESS THAN
10 30 DAYS.—On application, extensions of less than 30
11 days to file reports under subsection (a) shall be
12 automatically granted.

13 “(2) OTHER EXTENSIONS.—Extensions of 30 to
14 90 days to file such reports shall be liberally granted
15 by the State Administrator for reasonable cause. Ex-
16 tensions greater than 90 days may be granted by the
17 State Administrator to avoid hardship.

18 “(3) NO EXTENSION FOR PAYMENT OF
19 TAXES.—Notwithstanding paragraphs (1) and (2),
20 no extension shall be granted with respect to the
21 time for paying the taxes under this chapter.

22 “(f) PENALTY FOR WILLFULLY OR RECKLESSLY AC-
23 CEPTING A FALSE EXEMPTION CERTIFICATE.—A person
24 who willingly or recklessly accepts a false exemption cer-
25 tificate shall pay a penalty equal to 20 percent of the tax

1 not collected on gross payments for taxable property and
2 services by virtue of said acceptance.

3 “(g) The Secretary shall establish a system whereby
4 violation of the Individual Tax Freedom Act of 2004 can
5 be brought to the attention of the Secretary for investiga-
6 tion through the use of a toll-free telephone number and
7 otherwise.

8 **“SEC. 42. RECORDS.**

9 “Any person liable to collect and remit taxes pursu-
10 ant to this chapter or pay the tax imposed by this chapter
11 by reason of gross payments described in section 1, shall
12 keep records (including, but not limited to, copies of all
13 section 54 receipts provided and complete records of ex-
14 empt purchases including exempt purchaser’s exemption
15 certificates and tax number and the net of tax amount
16 of purchase) sufficient to provide a reasonable basis for
17 determining the amounts reported, collected, and remitted
18 for a period of 3 years after the filing of the report for
19 which the records formed the basis. Any purchaser who
20 purchased taxable property or services but did not pay tax
21 by reason of asserting an exemption shall keep records
22 sufficient to provide a reasonable basis for determining
23 whether the exemption was valid for a period of 3 years
24 after the purchase of taxable property or services.

1 **“SEC. 43. REGISTRATION.**

2 “(a) IN GENERAL.—Any person liable to collect and
3 remit taxes pursuant to section 1 who is engaged in an
4 active trade or business shall register with the State or
5 Federal taxing authorities administering the taxes im-
6 posed by this chapter.

7 “(b) DESIGNATION OF TAX MATTERS PERSON.—

8 Every person registered pursuant to subsection (a) shall
9 designate a tax matters person. Each person registered
10 must provide notice of a change in the identity of the tax
11 matters person within 30 days of said change.

12 **“SEC. 44. CERTIFICATE.**

13 “The State Administrator shall issue certificates of
14 registration and qualification certificates to qualified not-
15 for-profit organizations and may issue such other certifi-
16 cates as may prove useful in the administration of the
17 taxes imposed by this chapter.

18 **“SEC. 45. PENALTIES.**

19 “(a) FAILURE TO REGISTER.—Each person who is
20 required to register pursuant to section 43 but fails to do
21 so prior to notification by the State Administrator shall
22 be liable for a penalty of \$500.

23 “(b) FAILURE TO COLLECT OR REMIT TAX.—

24 “(1) CIVIL PENALTY.—Each person who reck-
25 lessly or willfully fails to collect or remit taxes im-
26 posed by section 1 shall be liable for a penalty equal

1 to the greater of \$500 or 20 percent of the tax not
2 collected or remitted.

3 “(2) CRIMINAL PENALTY.—Each person who
4 willfully fails as part of an active trade or business
5 to collect or remit taxes imposed by this chapter
6 may be imprisoned for a period of up to one year.

7 “(c) FAILURE TO PAY TAX.—

8 “(1) CIVIL PENALTY.—Each person who will-
9 fully fails to pay taxes imposed by section 1 shall be
10 liable for a penalty equal to the greater of \$500 or
11 20 percent of the tax not paid.

12 “(2) CRIMINAL PENALTY.—Each person who
13 willfully fails to pay taxes imposed by this chapter
14 may be imprisoned for a period of up to six months.

15 **“SEC. 46. BURDEN OF PERSUASION AND BURDEN OF PRO-**
16 **DUCTION.**

17 “In all disputes concerning taxes imposed by this
18 chapter, the person engaged in a dispute with the State
19 Administrator shall have the burden of production of doc-
20 uments and records but the State Administrator shall
21 have the burden of persuasion. In all disputes concerning
22 the legitimacy of an exemption claimed by a purchaser,
23 if the seller has on file a copy of a bona fide exemption
24 certificate and did not have reasonable cause to believe
25 that an exemption from the tax was unavailable to the

1 purchaser with respect to such purchase, then the burden
2 of production of documents and records relating to that
3 exemption shall rest with the purchaser and not with the
4 seller.

5 **“SEC. 47. ATTORNEYS AND ACCOUNTANCY FEES.**

6 “In all disputes concerning taxes imposed by this
7 chapter, the person engaged in a dispute with the State
8 Administrator or the Secretary, as the case may be, shall
9 be entitled to reasonable attorneys and accountancy fees
10 incurred in direct relation to the dispute unless the State
11 Administrator or the Secretary, as the case may be, estab-
12 lishes that his position was substantially justified.

13 **“SEC. 48. APPEALS.**

14 “The State Administrator and the Secretary shall es-
15 tablish an administrative appeals process wherein the tax-
16 payer is provided a full and fair hearing in connection with
17 any disputes he has with the State Administrator or the
18 Secretary.

19 **“SEC. 49. TAXPAYER SUBJECT TO SUBPOENA ON PRODUC-**
20 **TION.**

21 “Taxpayers are subject to subpoena for records and
22 documents required by the State Administrator or the Sec-
23 retary, as the case may be, to accurately determine liabil-
24 ity for tax under this chapter.

1 **“SEC. 50. TAX COURT JURISDICTION.**

2 “The United States Tax Court shall have jurisdiction
3 pursuant to section 7442 in connection with all disputes
4 with taxpayers arising under this chapter.

5 **“SEC. 51. POWER TO LEVY.**

6 “Pursuant to enforcement of a judgment duly ren-
7 dered by a court of law, the State Administrator or the
8 Secretary, as the case may be, shall have the right to levy
9 and seize property and garnish wages to collect amounts
10 due under this chapter.

11 **“SEC. 52. PROBLEM RESOLUTION OFFICERS.**

12 “The State Administrator shall establish a Problem
13 Resolution Office. Problem Resolution Officers shall have
14 the authority to investigate taxpayer complaints and en-
15 join collection activity if, in the opinion of the Problem
16 Resolution Officer, said collection activity is reasonably
17 likely to not be in compliance with law. Said administra-
18 tive injunction may only be reversed by the highest official
19 in the relevant State or Federal taxing authority or by
20 its General Counsel upon a finding that the collection ac-
21 tivity is justified by clear and convincing evidence. The
22 authority to reverse this administrative injunction may not
23 be delegated. Problem Resolution Officers shall not be dis-
24 ciplined or adversely affected for the issuance of adminis-
25 trative injunctions unless a pattern or issuing injunctions
26 that are manifestly unreasonable is proven in an adminis-

1 trative hearing. Nothing in this section shall limit the au-
2 thority of the State Administrators or the taxpayer to pur-
3 sue any legal remedy in any court with jurisdiction over
4 the dispute at issue.

5 **“SEC. 53. JURISDICTION AND INTERSTATE ALLOCATION.**

6 “(a) ALLOCATION RULES.—For purposes of allo-
7 cating revenue between or among administering states
8 from taxes imposed by this subtitle, the revenue shall be
9 allocated to those states that are the destination of the
10 taxable property or services. The destination of the pur-
11 chase of taxable property and services shall be determined
12 in accordance with this section.

13 “(b) FEDERAL OFFICE OF REVENUE ALLOCATION.—
14 The Secretary shall establish an Office of Revenue Alloca-
15 tion to arbitrate any claims or disputes among admin-
16 istering states as to the destination of taxable property
17 and services for purposes of allocating revenue between or
18 among the states from taxes imposed by this subtitle. The
19 determination of the Administrator of the Office of Rev-
20 enue Allocation shall be subject to judicial review in any
21 federal court with competent jurisdiction provided, how-
22 ever, that the standard of review shall be abuse of discre-
23 tion.

24 “(c) TANGIBLE PERSONAL PROPERTY.—The destina-
25 tion of tangible personal property shall be the state or ter-

1 ritory in which the property was first delivered to the pur-
2 chaser. Tangible personal property shipped by means of
3 the mail or common carrier shall be deemed delivered to
4 the location of the purchaser for purposes of this sub-
5 section upon shipment by mail or common carrier.

6 “(d) REAL PROPERTY.—The destination of real prop-
7 erty or rents or leaseholds on real property shall be state
8 or territory in which the real property is located.

9 “(e) OTHER PROPERTY.—The destination of other
10 property shall be residence of the purchaser.

11 “(f) SERVICES.—

12 “(1) GENERAL RULE.—The destination of serv-
13 ices shall be state or territory in which the use, con-
14 sumption or enjoyment of the services occurred. Al-
15 location of service invoices relating to more than one
16 jurisdiction shall be on the basis of time.

17 “(2) TELECOMMUNICATIONS SERVICES.—The
18 destination of telecommunications services shall be
19 the residence of the purchaser. Telecommunications
20 services shall include telephone, telegraph, cable tele-
21 vision, satellite and computer on-line or network
22 services.

23 “(3) DOMESTIC TRANSPORTATION SERVICES.—
24 For transportation services where all of the final
25 destinations are within the United States, the des-

1 tination of transportation services shall be the final
2 destination of the trip (in the case of round or mul-
3 tiple trip fares, the services amount shall be equally
4 allocated among the final destinations).

5 “(4) INTERNATIONAL TRANSPORTATION SERV-
6 ICES.—For transportation services where the final
7 destination or origin of the trip is without the
8 United States, the service amount shall be deemed
9 50 percent attributable to the United States destina-
10 tion or origin.

11 “(g) FINANCIAL INTERMEDIATION SERVICES.—The
12 destination of financial intermediation services shall be the
13 residence of the purchase.

14 “(h) A State Tax Administrator shall have jurisdic-
15 tion over any gross payments made which have a destina-
16 tion (as determined in accordance with this section) within
17 the state of said State Tax Administrator. This grant of
18 jurisdiction is not exclusive of other jurisdiction that said
19 State Tax Administrator may have.

20 “(i) RENTS AND ROYALTIES PAID FOR THE LEASE
21 OF TANGIBLE PROPERTY.—

22 “(1) GENERAL RULE.—The destination of rents
23 and royalties paid for the lease of tangible property
24 shall be where the property is located.

1 “(2) VEHICLES.—The destination of rent and
2 lease payments on vehicles shall be—

3 “(A) in the case of rentals and leases of a
4 term one month or less, the location where the
5 vehicle was originally delivered to the lessee;
6 and

7 “(B) in the case of rentals and leases of a
8 term greater than one month, the residence of
9 the lessee.

10 **“SEC. 54. TAX TO BE STATED AND CHARGED SEPARATELY.**

11 “(a) IN GENERAL.—For each purchase of taxable
12 property or services for which a tax is imposed pursuant
13 to section 1, the sales tax shall be charged separately from
14 the purchase price by the vendor or seller. For purchase
15 of taxable property or services for which a tax is imposed
16 pursuant to section 1, the vendor shall provide to the pur-
17 chaser a receipt that sets forth at least the following infor-
18 mation:

19 “(1) The property or services price exclusive of
20 tax.

21 “(2) The amount of tax paid.

22 “(3) The property or service price inclusive of
23 tax.

1 “(4) The tax rate (the amount of tax paid (per
2 subparagraph 2) divided by the property or service
3 price inclusive of tax (per subparagraph 3)).

4 “(5) The date that the good or service was sold.

5 “(6) The name of the vendor.

6 “(7) The vendor registration number.

7 “(b) VENDING MACHINE EXCEPTION.—The require-
8 ments of subsection (a) shall be inapplicable in the case
9 of sales by vending machines. Vending machines for pur-
10 poses of this subsection shall mean machines—

11 “(1) that dispense taxable property in exchange
12 for coins, one, five, ten or twenty dollar bills, and

13 “(2) that sell no single item exceeding ten dol-
14 lars per unit in price.

15 **“SEC. 55. INSTALLMENT AGREEMENTS; COMPROMISES.**

16 “The State Administrator or the Secretary, as the
17 case may be, is authorized to enter into written agree-
18 ments with any person under which the person is allowed
19 to satisfy liability for payment of any tax in installment
20 payments if he determines that such agreement will facili-
21 tate the collection of such liability. The agreement shall
22 remain in effect for the term of the agreement unless the
23 information that the person provided to the Secretary or
24 the State Administrator was materially inaccurate or in-

1 complete. The Secretary and the State Administrator may
2 compromise any amounts alleged to be due.

3 **“SEC. 56. ACCOUNTING.**

4 “(a) CASH METHOD TO BE USED GENERALLY.—
5 Vendors and other persons shall remit taxes and report
6 transactions with respect to the month for which payment
7 was received or the tax imposed by this chapter otherwise
8 becomes due.

9 “(b) ELECTION TO USE ACCRUAL METHOD.—A per-
10 son may elect with respect to a calendar year, in a form
11 prescribed by the Secretary, to remit taxes and report
12 transactions with respect to the month where a sale was
13 invoiced and accrued.

14 “(c) CROSS REFERENCE.—

**“For rules relating to bad debts for vendors elect-
ing the accrual method, see section 11(g).**

15 **“SEC. 57. HOBBY ACTIVITIES.**

16 “(a) The exemption afforded by section 2(a)(1) shall
17 not be available for any taxable property or service used
18 by a trade or business if that trade or business is not en-
19 gaged in for profit.

20 “(b) If the trade or business has received gross pay-
21 ments for the sale of taxable property or services that ex-
22 ceed the sum of—

23 “(1) taxable property and services purchased,

24 “(2) wages paid, and

1 “(3) taxes paid,
2 in 2 or more of the most recent 4 calendar years during
3 which it operated, then the business activity shall be con-
4 clusively deemed to be engaged in for profit.”.

5 **SEC. 5. PHASE-OUT OF THE INTERNAL REVENUE SERVICE.**

6 (a) **IN GENERAL.**—Appropriations for any expenses
7 of the Internal Revenue Service including processing in-
8 come tax returns for years prior to the repeal of the in-
9 come tax, revenue accounting, management, transfer of
10 payroll tax data to the Social Security Administration and
11 otherwise for years after fiscal year 2007 are not author-
12 ized.

13 (b) **EXCISE AND SALES TAX BUREAUS.**—Section
14 7801 is amended by adding the following new subsections:

15 “(d) **EXCISE TAX BUREAU.**—There shall be in the
16 Department of Treasury an Excise Tax Bureau to admin-
17 ister those excise taxes not repealed by this Act.

18 “(e) **SALES TAX BUREAU.**—There shall be in the De-
19 partment of Treasury a Sales Tax Bureau to administer
20 the national sales tax in those States where it is required
21 pursuant to section 31(g), and to discharge other Federal
22 duties and powers relating to the national sales tax (in-
23 cluding those required by sections 32, 33, and 53(b)). The
24 Office of Revenue Allocation shall be within the Sales Tax
25 Bureau.”.

1 (c) ASSISTANT GENERAL COUNSELS.—Section
2 7801(b)(2) is amended to read as follows:

3 “(2) ASSISTANT GENERAL COUNSELS.—The
4 Secretary of the Treasury may appoint, without re-
5 gard to the provisions of the civil service laws, and
6 fix the duties of not more than 5 Assistant General
7 Counsels.”.

8 (d) SHORT YEAR.—

9 (1) For purposes of the Federal income tax, the
10 tax imposed by section 1 and section 11 for taxable
11 years ending June 30, 2006, shall be modified as set
12 forth in this subsection.

13 (2) For calendar year taxpayers, the dollar fig-
14 ures in section 1 and section 11 shall be reduced by
15 dividing by 2 all dollar figures that would be applica-
16 ble but for this subsection.

17 (3) For fiscal year taxpayers, the dollar figures
18 in section 1 and section 11 shall be equal to the
19 product of—

20 (A) the dollar amount that would be appli-
21 cable but for this subsection, and

22 (B) the ratio that has as its numerator the
23 number of months in the taxpayer’s taxable
24 year ending June 30, 2006, and as its denomi-
25 nator 12.

1 (4) The Secretary shall publish tax rate sched-
2 ules in accordance with this subsection.

3 **SEC. 6. SOCIAL SECURITY ADMINISTRATION TO COLLECT**
4 **PAYROLL TAXES.**

5 (a) IN GENERAL.—Commencing January 1, 2006,
6 the Social Security Administration shall collect and ad-
7 minister the taxes imposed pursuant to chapter 2 of sub-
8 title A (relating to self employment income taxes) and sub-
9 title C (relating to employment taxes) of the Internal Rev-
10 enue Code of 1986.

11 (b) CROSS REFERENCES.—

**For revised rules relating to the self-employment
tax, see section 7 of this Act.**

**For rules relating to revised withholding tax
schedules and family consumption refund, see sec-
tion 13.**

12 **SEC. 7. SELF-EMPLOYMENT TAX.**

13 (a) IN GENERAL.—Subsection 1402(a) of the Inter-
14 nal Revenue Code of 1986 is amended to read as follows:

15 “(a) IN GENERAL.—‘Self employment income’ shall
16 mean gross payments received in a calendar year from the
17 sale of taxable property or services (without regard to ex-
18 emption) less the sum in a calendar year of—

19 “(1) purchases of taxable property or services
20 (without regard to exemption) in furtherance of a
21 business purpose,

1 “(2) any wages paid (whether to the self-em-
2 ployed person or others) in furtherance of a business
3 purpose,

4 “(3) unused transition amounts, and

5 “(4) undeducted negative self employment in-
6 come amounts from prior periods.

7 “(b) TRANSITION AMOUNTS.—

8 “(1) GENERAL RULE.—The transition amount
9 for the ten calendar years commencing in 2006 shall
10 be the unrecovered basis amount as of the end of
11 December 31, 2005, divided by ten.

12 “(2) UNRECOVERED BASIS AMOUNT.—The un-
13 recovered basis amount shall be remaining income
14 tax basis relating to—

15 “(A) prior law section 167 property placed
16 in service prior to January 1, 2006, and

17 “(B) inventory held as of the end of 2005
18 (including any amounts capitalized in accord-
19 ance with prior law section 263A).”.

20 (b) CONFORMING AMENDMENTS.—Subsections
21 1402(b) and 1402(c) are hereby repealed. Subsections
22 1402(d) et seq. are hereby renumbered as subsections
23 1402(b) et seq.

1 **SEC. 8. SOCIAL SECURITY BENEFITS INDEXED ON SALES**
2 **TAX INCLUSIVE BASIS.**

3 Subparagraph (D) of paragraph (1) of subsection (i)
4 of section 215 of the Social Security Act (42 U.S.C. 415)
5 (relating to cost-of-living increases in Social Security bene-
6 fits) is amended to read as follows:

7 “(D)(i) the term ‘CPI increase percentage’,
8 with respect to a base quarter or cost-of-living quar-
9 ter in any calendar year, means the percentage
10 (rounded to the nearest one-tenth of 1 percent) by
11 which the Consumer Price Index for that quarter (as
12 prepared by the Department of Labor) exceeds such
13 index for the most recent prior calendar quarter
14 which was a base quarter under subparagraph
15 (A)(ii) or, if later, the most recent cost-of-living
16 computation quarter under subparagraph (B);

17 “(ii) if the Consumer Price Index (as prepared
18 by the Department of Labor) does not include the
19 national sales tax paid, then the term ‘CPI increase
20 percentage’ with respect to a base quarter or cost-
21 of-living quarter in any calendar year, means the
22 percentage (rounded to the nearest one-tenth of 1
23 percent) by which the product of—

24 “(I) the Consumer Price Index for that
25 quarter (as prepared by the Department of
26 Labor); and

1 “(II) the national sales tax factor,
2 exceeds such index for the most recent prior cal-
3 endar quarter which was a base quarter under sub-
4 paragraph (A)(ii) or, if later, the most recent cost-
5 of-living computation quarter under subparagraph
6 (B); and

7 “(iii) for purposes of clause (ii), the ‘national
8 sales tax factor’ is equal to one plus the quotient
9 that is—

10 “(I) the sales tax rate (as defined in sec-
11 tion 1 of title 26), divided by

12 “(II) the quantity that is one minus the
13 sales tax rate.”.

14 **SEC. 9. COMPENSATING PAYMENTS TO CERTAIN PERSONS**
15 **ON FIXED INCOME.**

16 (a) COMPENSATING PAYMENT.—Eligible persons (as
17 defined in subsection (c)) shall receive a compensating
18 payment (as defined in subsection (b)) provided that they
19 comply with subsection (g) (relating to applications).

20 (b) COMPENSATING PAYMENT DEFINED.—The term
21 “compensating payment” means the product of the quali-
22 fied fixed income payment amount (as defined in sub-
23 section (e)) and the excess inflation rate (as defined in
24 subsection (f)).

1 (c) ELIGIBLE PERSON DEFINED.—An eligible person
2 is any person with respect to any calendar year who is
3 entitled to—

4 (1) Social Security benefits; and

5 (2) qualified fixed income payments (as defined
6 in subsection (d)).

7 (d) QUALIFIED FIXED INCOME PAYMENT DE-
8 FINED.—A qualified fixed income payment is a payment
9 received by—

10 (1) a beneficiary under a defined benefit plan
11 (within the meaning of section 414(j) of the Internal
12 Revenue Code as in effect prior to the enactment of
13 this Act) whether sponsored by a private or Govern-
14 ment employer; or

15 (2) by an annuitant pursuant to an annuity
16 contract between the annuitant and a bona fide in-
17 surance company.

18 A payment pursuant to a plan or annuity contract is not
19 a qualified fixed income payment if the payment varies
20 with investment performance, interest rates, or inflation.

21 Payments pursuant to an annuity contract entered into
22 after June 30, 2006, shall not be qualified fixed income
23 payments. Payments pursuant to a defined benefit plan
24 to a beneficiary that had been a participant in said defined
25 benefit plan (within the meaning of section 410 of the In-

1 ternal Revenue Code as in effect prior to the enactment
2 of this Act) for less than 5 years shall not be qualified
3 fixed income payments.

4 (e) QUALIFIED FIXED INCOME PAYMENT
5 AMOUNT.—The qualified fixed income payment amount is
6 $\frac{1}{12}$ of qualified fixed income payments that an eligible
7 person is entitled to receive during the calendar year sub-
8 sequent to the year for which the compensating payment
9 is calculated, provided, however, that the qualified fixed
10 income payment amount shall not exceed \$5,000.

11 (f) EXCESS INFLATION RATE DEFINED.—The term
12 “excess inflation rate” shall mean the excess, if any, of
13 the consumer price index (all urban) during the 18-month
14 period ending December 31, 2006, over the increase pro-
15 jected for the consumer price index (all urban) in the Of-
16 fice of Management and Budget baseline reported in the
17 Budget of the United States for Fiscal Year 2006 for said
18 18-month period. The baseline assumption for the 6
19 months in 2006 shall be $\frac{1}{2}$ of the assumed increase for
20 the entire calendar year 2006.

21 (g) APPLICATION REQUIRED.—In order to receive
22 compensating payments, each eligible person must apply
23 in a form prescribed by the Secretary of Health and
24 Human Services and provide such documentation as the
25 Secretary may reasonably require.

1 (h) MEANS OF PAYMENT.—Each person entitled to
2 a compensating payment shall receive the compensating
3 payment with their Social Security benefit payment. The
4 compensating payment shall be separately indicated but
5 may be included in one check. The funds to make compen-
6 sating payments shall come from the general fund.

7 (i) The Secretary of Health and Human Services may
8 require insurers that are parties to annuity contracts and
9 defined benefit plan sponsors to issue a statement to an-
10 nuitants or plan participants including such information
11 as the Secretary may require to determine the qualified
12 fixed income payment amount.

13 **SEC. 10. INTEREST.**

14 Section 6621 of the Internal Revenue Code of 1986
15 is amended by striking the last sentence in section
16 6621(a)(1) and by striking “3” in section 6621(a)(2)(B)
17 and substituting in its stead “2”.

18 **SEC. 11. SUPERMAJORITY REQUIRED TO RAISE RATE.**

19 (a) IN GENERAL.—It shall not be in order in the
20 House of Representatives or the Senate to consider any
21 bill, joint resolution, amendment thereto, or conference re-
22 port thereon that includes any provision that—

23 (1) increases any federal sales tax rate, and

1 (2) provides any exemption, deduction, credit or
2 other benefit which results in a reduction in federal
3 revenues.

4 (b) WAIVER OR SUSPENSION.—This section may be
5 waived or suspended in the House of Representatives or
6 the Senate only by the affirmative vote of two-thirds of
7 the Members, duly chosen and sworn.

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