

118TH CONGRESS
1ST SESSION

S. _____

To amend the Internal Revenue Code of 1986 to eliminate tax loopholes that allow billionaires to defer tax indefinitely through planning strategies such as “buy, borrow, die”, to modify over 30 tax provisions so that billionaires are required to pay taxes annually, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. WYDEN (for himself, Ms. STABENOW, Mr. BROWN, Mr. CASEY, Mr. WHITEHOUSE, Ms. WARREN, Mr. SCHATZ, Ms. HIRONO, Ms. BALDWIN, Mr. SANDERS, Mr. MERKLEY, Mr. FETTERMAN, Mr. REED, and Mr. WELCH) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to eliminate tax loopholes that allow billionaires to defer tax indefinitely through planning strategies such as “buy, borrow, die”, to modify over 30 tax provisions so that billionaires are required to pay taxes annually, and for other purposes.

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

1 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**
 2 **TABLE OF CONTENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the
 4 “Billionaires Income Tax Act”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
 6 wise expressly provided, whenever in this Act an amend-
 7 ment or repeal is expressed in terms of an amendment
 8 to, or repeal of, a section or other provision, the reference
 9 shall be considered to be made to a section or other provi-
 10 sion of the Internal Revenue Code of 1986

11 (c) **TABLE OF CONTENTS.**— The table of contents
 12 of this Act is as follows:

- Sec. 1. Short title; amendment of 1986 Code; table of contents.
 Sec. 2. Purpose.

**TITLE I—ELIMINATION OF DEFERRAL FOR APPLICABLE
 TAXPAYERS**

- Sec. 101. Elimination of deferral of tax.
 Sec. 102. Carryback of capital losses attributable to mark-to-market rules.

**TITLE II—APPLICATION OF OTHER PROVISIONS TO APPLICABLE
 TAXPAYERS AND ENTITIES**

Subtitle A—Individuals

- Sec. 201. Applicable taxpayers not eligible for adjusted gross income limitation
 on net investment tax.
 Sec. 202. Treatment of covered expatriates.

Subtitle B—Rules for Applicable Entities and Trusts

- Sec. 211. Treatment of like-kind exchanges by applicable entities.
 Sec. 212. Treatment of transfers by applicable entities in exchange for stock.
 Sec. 213. Special rules for applicable trusts.

**Subtitle C—Treatment of Deferred Compensation and Certain Life Insurance
 and Annuity Contracts**

- Sec. 221. Elimination of deferral of tax on certain compensation.
 Sec. 222. Rules relating to certain life insurance and annuity contracts of appli-
 cable taxpayers.

Subtitle D—Repeal of Special Treatment for Certain Investments

Sec. 231. Treatment of exclusion for certain small business stock.

Sec. 232. Modifications for investments in qualified opportunity funds.

1 **SEC. 2. PURPOSE.**

2 The purpose of this Act is to require billionaires to
3 pay taxes annually by eliminating the ability of high in-
4 come and high net worth taxpayers to use tax planning
5 strategies such as “buy, borrow, die” to defer paying taxes
6 indefinitely, specifically by—

7 (1) under the provisions of title I of this Act—

8 (A) requiring high income and high net
9 worth taxpayers to pay tax on the income they
10 earn on an annual basis, just like working peo-
11 ple do on their income from wages, through
12 mark-to-market taxation, and

13 (B) shutting down the ability of the ultra
14 wealthy to buy and hold appreciating assets and
15 borrow against those assets to support their
16 lavish lifestyles, all completely tax-free, and

17 (2) under the provisions of title II of this Act,
18 closing loopholes in the tax code that allow high in-
19 come and high net worth taxpayers to shield their
20 income from taxation, including the loophole that al-
21 lows ultra wealthy taxpayers to transfer untaxed ap-
22 preciated assets to their heirs at death and such
23 heirs to sell such assets completely tax-free.

1 **TITLE I—ELIMINATION OF DE-**
2 **FERRAL FOR APPLICABLE**
3 **TAXPAYERS**

4 **SEC. 101. ELIMINATION OF DEFERRAL OF TAX.**

5 (a) IN GENERAL.—Subchapter E of chapter 1 is
6 amended by adding at the end the following new part:

7 **“PART IV—ELIMINATION OF DEFERRAL FOR**
8 **APPLICABLE TAXPAYERS**

“Subpart A. General provisions.

“Subpart B. Definitions and rules relating to applicable taxpayers.

“Subpart C. Other definitions and rules.

9 **“Subpart A—General Provisions**

“Sec. 490. Elimination of deferral of tax for applicable taxpayers.

“Sec. 491. Treatment of tradable covered assets.

“Sec. 492. Deferral recapture amount on applicable transfers of nontradable covered assets.

“Sec. 493. Special rules for application of nondeferral rules to certain pass-through entities.

“Sec. 494. Treatment of gifts, bequests, and transfers in trust.

10 **“SEC. 490. ELIMINATION OF DEFERRAL OF TAX FOR APPLI-**
11 **CABLE TAXPAYERS.**

12 “In the case of an applicable taxpayer for any taxable
13 year—

14 “(1) if there is a taxable event with respect to
15 any tradable covered asset of the taxpayer during
16 the taxable year, gain or loss shall be recognized as
17 provided in section 491,

18 “(2) if there is an applicable transfer by the
19 taxpayer during the taxable year of any nontradable
20 covered asset—

1 “(A) if such applicable transfer is a dis-
2 regarded nonrecognition event, gain or loss
3 shall be recognized as provided in section
4 492(a)(1), and

5 “(B) the tax imposed by this chapter for
6 the taxable year shall be increased as provided
7 in section 492 with respect to any gain from
8 any such transfer,

9 “(3) gain or loss with respect to any applicable
10 entity held by the taxpayer shall be taken into ac-
11 count as provided in section 493, and

12 “(4) in the case of any gift, bequest, or transfer
13 in trust by an applicable taxpayer or applicable enti-
14 ty held by an applicable taxpayer, section 494 shall
15 apply.

16 **“SEC. 491. TREATMENT OF TRADABLE COVERED ASSETS.**

17 “(a) IN GENERAL.—For purposes of this title, in the
18 case of a taxable event with respect to any tradable cov-
19 ered asset of an applicable taxpayer—

20 “(1) notwithstanding any other provision of this
21 title—

22 “(A) gain or loss shall be recognized and
23 taken into account in the taxable year in which
24 the taxable event occurs as if the taxpayer had

1 sold the tradable covered asset for its fair mar-
2 ket value—

3 “(i) in the case of a taxable event de-
4 scribed in subsection (b)(1), on the date of
5 the taxable event, and

6 “(ii) in the case of a taxable event de-
7 scribed in subsection (b)(2), immediately
8 before the taxable event, and

9 “(B) except as provided in subsection
10 (c)(1), gain or loss taken into account by reason
11 of a taxable event described in subsection (b)(1)
12 with respect to a tradable covered asset which
13 is a capital asset shall be treated as long-term
14 capital gain or long-term capital loss, respec-
15 tively, and

16 “(2) proper adjustments shall be made in the
17 amount of gain or loss subsequently realized for gain
18 or loss taken into account under paragraph (1).

19 “(b) TAXABLE EVENT.—For purposes of this part,
20 the term ‘taxable event’ means, with respect to any
21 tradable covered asset—

22 “(1) the holding of such asset as of the close
23 of any taxable year with respect to which a taxpayer
24 is an applicable taxpayer, and

25 “(2) any disregarded nonrecognition event.

1 “(c) SPECIAL RULES.—

2 “(1) CHARACTERIZATION AS ORDINARY INCOME
3 OR LOSS.— Except as provided by the Secretary,
4 subsection (a)(1)(B) shall not apply to any gain or
5 loss from a tradable covered asset if, under any
6 other provision of this title, such gain or loss—

7 “(A) is treated as gain or loss from the
8 sale or exchange of an asset which is not a cap-
9 ital asset, or

10 “(B) is treated as ordinary income or loss
11 on a basis other than the taxpayer’s holding pe-
12 riod in such asset.

13 “(2) HOLDING PERIOD.— For purposes of this
14 title, any taxable event described in subsection (b)(1)
15 with respect to any tradable covered asset shall not
16 be taken into account in determining the holding pe-
17 riod of the taxpayer with respect to such tradable
18 covered asset.

19 “(3) PROPER ADJUSTMENTS FOR SUBSEQUENT
20 GAIN OR LOSS.—For purposes of subsection (a)(2),
21 section 492(a)(1)(B), section 493(c)(1)(A)(ii), and
22 section 493(c)(3)(C), the proper adjustments re-
23 quired under such provisions shall include such ad-
24 justments in basis of property, or such other adjust-

1 ments in respect of property, as the Secretary deter-
2 mines necessary or appropriate.

3 **“SEC. 492. DEFERRAL RECAPTURE AMOUNT ON APPLICA-**
4 **BLE TRANSFERS OF NONTRADABLE COV-**
5 **ERED ASSETS.**

6 “(a) IN GENERAL.—If there is an applicable transfer
7 during a taxable year of a nontradable covered asset of
8 an applicable taxpayer—

9 “(1) in the case of an applicable transfer which
10 is a disregarded nonrecognition event—

11 “(A) notwithstanding any other provision
12 of this title, gain or loss shall be recognized and
13 taken into account by the taxpayer (including
14 for purposes of paragraph (2) and subsection
15 (c)) in the taxable year in which the transfer
16 occurs as if the taxpayer had sold the
17 nontradable covered asset for its fair market
18 value immediately before such transfer, and

19 “(B) proper adjustments shall be made in
20 the amount of gain or loss subsequently realized
21 for gain or loss taken into account under sub-
22 paragraph (A), and

23 “(2) if there is gain from the applicable trans-
24 fer, the tax imposed by this chapter for the taxable
25 year (determined without regard to this section)

1 shall be increased by the sum of the deferral recap-
2 ture amounts determined under subsection (b) for
3 each such transfer.

4 “(b) DEFERRAL RECAPTURE AMOUNT.—

5 “(1) IN GENERAL.—For purposes of this part—

6 “(A) IN GENERAL.—The term ‘deferral re-
7 capture amount’ means, with respect to any ap-
8 plicable transfer of any nontradable covered
9 asset, the aggregate amount of interest (deter-
10 mined in the manner provided under paragraph
11 (3)) on the deemed tax amount determined
12 under paragraph (2) for each taxable year to
13 which gain is allocated under paragraph (2)(A)
14 and which precedes the taxable year of the ap-
15 plicable transfer.

16 “(B) LIMITATION ON AMOUNT.—The
17 amount determined under subparagraph (A)
18 with respect to any applicable transfer shall not
19 exceed the applicable percentage of the gain
20 from such transfer. For purposes of this sub-
21 paragraph, the applicable percentage is the ex-
22 cess of—

23 “(i) 49 percent, over

24 “(ii) in the case of the transfer of a
25 nontradable covered asset which—

1 “(I) is a capital asset, the rate of
2 tax in effect under section 1(h)(1)(D)
3 for the taxable year of the transfer, or

4 “(II) is not a capital asset, the
5 highest rate of tax in effect under sec-
6 tion 1 for such taxable year.

7 “(2) DEEMED TAX AMOUNT.—For purposes of
8 paragraph (1)—

9 “(A) IN GENERAL.—The deemed tax
10 amount for any taxable year preceding the tax-
11 able year of any applicable transfer of a
12 nontradable covered asset shall be the amount
13 determined—

14 “(i) first, except as provided in sub-
15 paragraph (B), by allocating the amount of
16 gain from such transfer ratably to each
17 day in the taxpayer’s holding period of
18 such asset, and

19 “(ii) then by multiplying the amount
20 allocated under clause (i) to days in such
21 preceding taxable year by—

22 “(I) if such asset is a capital
23 asset, the rate of tax in effect under
24 section 1(h)(1)(D) for the taxable
25 year of such transfer, or

1 “(II) if such asset is not a capital
2 asset, the highest rate of tax in effect
3 under section 1 for such taxable year.

4 “(B) SPECIAL RULE FOR PERIODS BEFORE
5 BECOMING APPLICABLE TAXPAYER.—Notwith-
6 standing subparagraph (A)(i), any gain allo-
7 cated under such subparagraph to any taxable
8 year preceding the first taxable year for which
9 the taxpayer is treated as an applicable tax-
10 payer shall be allocated to such first taxable
11 year.

12 “(C) INCREASE IN DEEMED TAX AMOUNT
13 BY TAX ON NET INVESTMENT INCOME.—If gain
14 from a transfer to which this section applies for
15 any taxable year is of a type taken into account
16 in computing net investment income (as defined
17 in section 1411), the deemed tax amount under
18 this paragraph for any preceding taxable year
19 to which such gain is allocated under subpara-
20 graph (A)(i) shall be increased by an amount
21 equal to the amount of such allocated gain mul-
22 tiplied by the rate of tax in effect under section
23 1411(a)(1) for the taxable year of such trans-
24 fer.

25 “(3) COMPUTATION OF INTEREST.—

1 “(A) IN GENERAL.—The amount of inter-
2 est referred to in paragraph (1) on any deemed
3 tax amount determined under paragraph (2) for
4 any preceding taxable year shall be determined
5 for the period—

6 “(i) beginning on the due date for
7 such preceding taxable year, and

8 “(ii) ending on the date on which the
9 applicable transfer occurs,

10 by using the rates determined under section
11 6621(b) (plus 1 percentage point), and the
12 method applicable under section 6621, for un-
13 derpayments of tax for such period.

14 “(B) DUE DATE.—For purposes of this
15 paragraph, the term ‘due date’ means, with re-
16 spect to any preceding taxable year, the date
17 prescribed by law (determined without regard to
18 extensions) for filing the return of the tax im-
19 posed by this chapter for such taxable year.

20 “(c) SPECIAL RULE FOR TAXPAYERS WITH NET
21 CAPITAL LOSSES.—

22 “(1) IN GENERAL.—If a taxpayer has a net
23 capital loss for any taxable year for which there is
24 an increase in tax under subsection (a)(2), such in-

1 crease in tax shall be reduced (but not below zero)
2 by the credit equivalent of such net capital loss.

3 “(2) CREDIT EQUIVALENT.—For purposes of
4 this subsection, the term ‘credit equivalent’ means,
5 with respect to any net capital loss for any taxable
6 year, an amount equal to such loss multiplied by the
7 rate of tax in effect under section 1(h)(1)(D) for
8 such taxable year.

9 “(3) COORDINATION WITH CARRYOVERS OF
10 LOSS.—For purposes of subsection (b) of section
11 1212, the net capital loss for a taxable year to which
12 paragraph (1) applies (determined without regard to
13 this subsection) shall be reduced (but not below
14 zero) by an amount equal to the amount of the re-
15 duction under paragraph (1) for such taxable year
16 divided by the rate of tax in effect under section
17 1(h)(1)(D) for such taxable year.

18 “(d) SPECIAL RULES FOR CERTAIN DIVIDEND DIS-
19 TRIBUTIONS.—

20 “(1) EXCESS DIVIDEND DISTRIBUTIONS.—

21 “(A) IN GENERAL.—For purposes of ap-
22 plying this section, any excess dividend shall be
23 treated as gain from an applicable transfer of
24 a nontradable covered asset occurring on the
25 date such dividend is received.

1 “(B) EXCESS DIVIDEND.—For purposes of
2 this part, the term ‘excess dividend’ means,
3 with respect to any nontradable covered asset
4 which consists of stock in a C corporation, any
5 dividend in respect of such stock received dur-
6 ing any taxable year to the extent such dividend
7 does not exceed its ratable portion of the total
8 excess dividends (if any) for such taxable year.

9 “(C) TOTAL EXCESS DIVIDENDS.—For
10 purposes of this paragraph—

11 “(i) IN GENERAL.—The term ‘total
12 excess dividends’ means, with respect to
13 stock in a C corporation described in sub-
14 paragraph (B), the excess (if any) of—

15 “(I) the amount of the dividends
16 in respect of such stock received by
17 the taxpayer during the taxable year,
18 over

19 “(II) 125 percent of the average
20 amount of dividends received in re-
21 spect of such stock by the taxpayer
22 during the 3 preceding taxable years
23 (or, if shorter, the portion of the tax-
24 payer’s holding period before the tax-
25 able year).

1 “(ii) NO EXCESS FOR 1ST YEAR.—Ex-
2 cept as provided by the Secretary, the total
3 excess dividends with respect to any stock
4 shall be zero for the taxable year in which
5 the taxpayer’s holding period in such stock
6 begins.

7 “(D) ADJUSTMENTS.—Under regulations
8 prescribed by the Secretary—

9 “(i) determinations under this para-
10 graph shall be made on a share-by-share
11 basis, except that shares with the same
12 holding period may be aggregated and
13 other shares may be aggregated to the ex-
14 tent provided by the Secretary,

15 “(ii) proper adjustments shall be
16 made for stock splits and stock dividends,

17 “(iii) if the taxpayer does not hold the
18 stock during the entire taxable year, divi-
19 dends received during such year shall be
20 annualized, and

21 “(iv) if the taxpayer’s holding period
22 includes periods during which the stock
23 was held by 1 or more other persons, divi-
24 dends with respect to such stock received

1 by such other person shall be taken into
2 account as if received by the taxpayer.

3 “(2) CAPITAL GAIN DIVIDENDS OF CERTAIN
4 REITS.—

5 “(A) IN GENERAL.—For purposes of ap-
6 plying this section, if an applicable taxpayer
7 holds directly (or indirectly through 1 or more
8 nontradable interests) stock in a real estate in-
9 vestment trust which is a nontradable covered
10 asset, any capital gain dividend received by
11 such taxpayer from such entity shall be treated
12 as gain from an applicable transfer of a
13 nontradable covered asset occurring on the date
14 such dividend is received.

15 “(B) REPORTING.—A real estate invest-
16 ment trust shall include in the written notice
17 for a capital gain dividend under section
18 857(b)(3)(B) its holding period in the asset giv-
19 ing rise to the capital gain dividend. The Sec-
20 retary shall provide rules for the determination
21 of holding periods in cases where the dividend
22 is properly allocable to gain from more than 1
23 asset.

24 “(3) HOLDING PERIOD.—Except as prescribed
25 by the Secretary, if an applicable taxpayer is treated

1 under this subsection as receiving gain from an ap-
2 plicable transfer of a nontradable covered asset, the
3 taxpayer's holding period for purposes of computing
4 the deferral recapture amount under this section
5 shall be the taxpayer's holding period with respect to
6 the stock or ownership interest in the entity to which
7 paragraph (1) or (2) applies (or, if shorter, the hold-
8 ing period included in the notice described in para-
9 graph (2)(B) in the case of a capital gain dividend).

10 “(e) HOLDING PERIOD.—For purposes of this sec-
11 tion—

12 “(1) IN GENERAL.—The taxpayer's holding pe-
13 riod shall be determined under section 1223, except
14 that if a tradable covered asset of an applicable tax-
15 payer is converted to, or exchanged for, a
16 nontradable covered asset, such period shall only in-
17 clude the period after the most recent taxable event
18 under this part with respect to such tradable covered
19 asset.

20 “(2) SECRETARIAL AUTHORITY.—The Secretary
21 shall prescribe such regulations, rules, or guidance
22 providing for other modifications to holding periods
23 as may be necessary to carry out the purposes of
24 this section.

1 **“SEC. 493. SPECIAL RULES FOR APPLICATION OF NON-**
2 **DEFERRAL RULES TO CERTAIN PASS-**
3 **THROUGH ENTITIES.**

4 “(a) TREATMENT OF OWNERSHIP INTERESTS IN AP-
5 PPLICABLE ENTITIES.—For purposes of applying this part,
6 except as provided in this section, any ownership interest
7 in an applicable entity held directly (or indirectly through
8 1 or more nontradable interests) by an applicable taxpayer
9 which is a tradable or nontradable covered asset shall be
10 treated in the same manner as any other such asset.

11 “(b) ADDITIONAL REQUIREMENTS FOR APPLICABLE
12 TAXPAYERS WHO ARE SIGNIFICANT OWNERS.—For pur-
13 poses of this part—

14 “(1) IN GENERAL.—In the case of any applica-
15 ble taxpayer which is a significant owner of an appli-
16 cable entity—

17 “(A) such taxpayer shall meet the report-
18 ing requirements under paragraph (2) with re-
19 spect to such entity, and

20 “(B) such taxpayer shall take into account
21 amounts with respect to such entity as required
22 under paragraph (3).

23 “(2) REPORTING REQUIREMENTS FOR SIGNIFI-
24 CANT OWNERS.—

25 “(A) NOTICE TO ENTITY OF STATUS.—

1 “(i) IN GENERAL.—In the case of the
2 first taxable year for which a taxpayer—
3 “(I) is an applicable taxpayer,
4 “(II) is a significant owner of an
5 applicable entity, and
6 “(III) holds directly a
7 nontradable interest in such applicable
8 entity,
9 such taxpayer shall, at such time and in
10 such manner as the Secretary shall pre-
11 scribe, notify such applicable entity that
12 such taxpayer is a taxpayer meeting the
13 requirements of subclauses (I), (II), and
14 (III) and that the applicable entity is sub-
15 ject to the notice requirements under sub-
16 section (c) with respect to such taxpayer.
17 Such taxpayer shall include with such no-
18 tice such information as the Secretary may
19 prescribe.

20 “(ii) PERIOD OF NOTICE.—Any notice
21 provided by a taxpayer under clause (i)
22 shall remain in effect, and such entity shall
23 continue to be subject to the reporting re-
24 quirements under subsection (c) with re-
25 spect to such taxpayer, for the period spec-

1 ified by the Secretary. The Secretary may
2 require additional reporting by the tax-
3 payer for purposes of carrying out this
4 clause.

5 “(B) REPORTING OF ELECTIONS TO TREAT
6 NONTRADABLE INTERESTS AS TRADABLE AS-
7 SETS.—If—

8 “(i) section 496(a)(1) applies to an
9 applicable taxpayer for any taxable year
10 for which a notice with respect to such tax-
11 payer is in effect under subparagraph (A),
12 and

13 “(ii) the applicable taxpayer made the
14 election under section 496(a)(3) to treat
15 any nontradable interest in an applicable
16 entity as a tradable covered asset for pur-
17 poses of section 496(a)(1),

18 the applicable taxpayer shall, at such times and
19 in such manner as the Secretary shall prescribe,
20 report to such applicable entity notice of such
21 election, the amount of gain described in section
22 496(c)(1) with respect to such treatment, and
23 the requirement for the entity to make the basis
24 adjustments described in section 496(c)(2).

1 “(3) CERTAIN GAIN OR LOSS OF APPLICABLE
2 ENTITY TAKEN INTO ACCOUNT BY SIGNIFICANT
3 OWNERS.—

4 “(A) IN GENERAL.—Each applicable tax-
5 payer for which a notice with respect to such
6 taxpayer is in effect under paragraph (2)(A) or
7 subsection (c)(2) with respect to an applicable
8 entity for any taxable year of the taxpayer
9 shall, in computing the taxpayer’s tax liability
10 under this chapter for such taxable year, take
11 into account such taxpayer’s share of any gain
12 or loss reported under subsection (c)(1)(A)(i) or
13 (c)(1)(B)(i) to the taxpayer for any taxable year
14 of such entity ending with or within such tax-
15 able year of the taxpayer.

16 “(B) BASIS ADJUSTMENTS.—Under rules
17 prescribed by the Secretary, if gain or loss is
18 taken into account by an applicable taxpayer
19 under subparagraph (A) with respect to any
20 tradable covered asset by reason of the taxpayer
21 holding a nontradable interest in an applicable
22 entity—

23 “(i) the applicable entity’s adjusted
24 basis of such asset (solely for purposes of

1 computing the taxpayer’s share of such ad-
2 justed basis), and

3 “**(ii)** the taxpayer’s adjusted basis of
4 such nontradable interest,

5 shall each be appropriately adjusted to reflect
6 gain or loss so taken into account. Such rules
7 shall also provide proper adjustments to ad-
8 justed bases where such ownership is held
9 through tiered entities.

10 “**(C)** SPECIAL RULES FOR DEFERRAL RE-
11 CAPTURE AMOUNT.—

12 “**(i)** HOLDING PERIOD.—Except as
13 prescribed by the Secretary, if an applica-
14 ble taxpayer takes into account gain under
15 subparagraph (A) for any taxable year
16 from an applicable transfer by such applica-
17 ble entity of a nontradable covered asset,
18 the taxpayer’s holding period with respect
19 to such asset for purposes of computing
20 the deferral recapture amount under sec-
21 tion 492 shall be the shorter of—

22 “**(I)** the entity’s holding period in
23 such asset, or

24 “**(II)** the taxpayer’s holding pe-
25 riod in such entity.

1 “(ii) OTHER RULES.—The Secretary
2 shall prescribe rules for purposes of this
3 section—

4 “(I) for the treatment of frag-
5 mented holding periods,

6 “(II) for the determination of
7 holding periods in the case of tiered
8 structures, and

9 “(III) to prevent the shifting of
10 any deferral recapture amount be-
11 tween taxpayers holding ownership in-
12 terests in an applicable entity.

13 “(D) TAXPAYERS FAILING TO FILE NO-
14 TICE.—Under rules required by the Secretary,
15 if a taxpayer fails to file a notice with any ap-
16 plicable entity as required under paragraph
17 (2)(A), such taxpayer shall take into account, in
18 computing the taxpayer’s tax liability under this
19 chapter for any taxable year for which such no-
20 tice (or a related notice under subsection (c)(2))
21 would otherwise have been in effect, gain or loss
22 described in subparagraph (A) which would
23 have been reported if such notice had been
24 filed.

1 “(4) SIGNIFICANT OWNER.—For purposes of
2 this subsection—

3 “(A) IN GENERAL.—The term ‘significant
4 owner’ means, with respect to any applicable
5 entity, an applicable taxpayer who, at any time
6 during the applicable taxpayer’s taxable year—

7 “(i) is a 5-percent owner with respect
8 to such entity, or

9 “(ii) holds nontradable interests in
10 such entity with an aggregate applicable
11 value of greater than \$50,000,000.

12 “(B) 5-PERCENT OWNER.—

13 “(i) IN GENERAL.—The term ‘5-per-
14 cent owner’ mean, with respect to any ap-
15 plicable entity, an applicable taxpayer who
16 owns (or is considered as owning within
17 the meaning of section 318) at least 5 per-
18 cent of—

19 “(I) in the case of a corporation,
20 the stock (by vote or value) in such
21 corporation, or

22 “(II) in the case of an applicable
23 entity other than a corporation, the
24 capital or profits interests in such en-
25 tity.

1 “(ii) CONSTRUCTIVE OWNERSHIP
2 RULES.—For purposes of this subpara-
3 graph—

4 “(I) subparagraph (C) of section
5 318(a)(2) shall be applied by sub-
6 stituting ‘5 percent’ for ‘50 percent’,
7 and

8 “(II) in the case of an applicable
9 entity which is not a corporation,
10 ownership in such entity shall be de-
11 termined in accordance with regula-
12 tions prescribed by the Secretary
13 which shall be based on principles
14 similar to the principles of section 318
15 (as modified by subclause (I)).

16 “(c) ADDITIONAL ENTITY REPORTING REQUIRE-
17 MENTS.—

18 “(1) IN GENERAL.—Except as provided in para-
19 graph (4), an applicable entity for any taxable year
20 shall, at such times and in such manner as the Sec-
21 retary shall prescribe, report to each applicable tax-
22 payer with respect to which a notice is in effect
23 under subsection (b)(2)(A) or paragraph (2)—

24 “(A) in the case of tradable covered assets
25 held by such entity, such taxpayer’s share of—

1 “(i) gain or loss determined by the en-
2 tity under rules similar to the rules under
3 section 491, and

4 “(ii) proper adjustments shall be
5 made in the amount of gain or loss subse-
6 quently realized for gain or loss taken into
7 account under clause (i),

8 “(B) in the case of nontradable covered as-
9 sets held by such entity—

10 “(i) such person’s share of any gain
11 or loss on any applicable transfer during
12 such taxable year of any such asset, and

13 “(ii) the holding period in each such
14 asset, and

15 “(C) such other information as the Sec-
16 retary determines necessary to carry out this
17 part.

18 “(2) NOTICE OF TAXPAYERS HOLDING INDI-
19 RECT INTERESTS IN OTHER APPLICABLE ENTI-
20 TIES.—

21 “(A) IN GENERAL.—Under rules pre-
22 scribed by the Secretary, except as provided in
23 subparagraph (B), if an applicable entity in a
24 tier of entities—

1 “(i) receives a notice under subsection
2 (b)(2)(A) with respect to an applicable tax-
3 payer, such entity shall notify each other
4 applicable entity in which such applicable
5 taxpayer holds, by reason of holding a
6 nontradable interest in such entity, a
7 nontradable interest in such other entity
8 that the person holding such interest in
9 such other entity is an applicable taxpayer
10 with respect to which the notice require-
11 ments of paragraph (1) apply to such other
12 entity, or

13 “(ii) receives a notice under clause (i)
14 or this clause, such entity shall notify each
15 other applicable entity in which the appli-
16 cable taxpayer holds, by reason of holding
17 an interest in the entity receiving such no-
18 tice, a nontradable interest in such other
19 entity that the person holding such interest
20 in such other entity is an applicable tax-
21 payer with respect to which the notice re-
22 quirements of paragraph (1) apply to such
23 other entity.

24 Any such notice shall remain in effect, and any
25 entity receiving such notice shall treat such tax-

1 payer as an applicable taxpayer, for the period
2 specified by the Secretary. The Secretary may
3 require additional reporting by such entities for
4 purposes of carrying out this clause.

5 “(B) REQUIREMENT ONLY APPLIES IF AP-
6 PPLICABLE TAXPAYER IS SIGNIFICANT OWNER.—
7 An applicable entity shall be required to report
8 under subparagraph (A) to another applicable
9 entity only if the applicable taxpayer is a sig-
10 nificant owner (within the meaning of sub-
11 section (b)(4)) of such other entity, determined
12 only by taking into account interests in such
13 other entity which such applicable taxpayer
14 holds by reason of its ownership interests in the
15 entity otherwise required to report and such
16 other ownership interests in such other entity
17 as the Secretary may require to be taken into
18 account to prevent the avoidance of the pur-
19 poses of this part.

20 “(3) SPECIAL RULES FOR DISREGARDED NON-
21 RECOGNITION EVENTS.—In the case of an applicable
22 transfer of a nontradable covered asset of an appli-
23 cable entity which is a disregarded nonrecognition
24 event—

1 “(A) notwithstanding any other provision
2 of this title, gain or loss shall be recognized and
3 taken into account in the taxable year in which
4 the transfer occurs as if the entity had sold the
5 nontradable covered asset for its fair market
6 value immediately before such transfer (or such
7 other value as is determined as of such time
8 under rules prescribed by the Secretary),

9 “(B) such entity shall report the amount
10 of gain or loss required to be taken into account
11 under subparagraph (A) to—

12 “(i) each applicable taxpayer with re-
13 spect to which a notice is in effect which
14 such entity has received under subsection
15 (b)(1), and

16 “(ii) each other applicable entity from
17 which it has received a notice under para-
18 graph (2) with respect to such an applica-
19 ble taxpayer, and

20 “(C) proper adjustments shall be made in
21 the amount of gain or loss subsequently realized
22 for gain or loss taken into account under sub-
23 paragraph (A).

24 “(4) DELAY IN REPORTING REQUIREMENT.—

25 If—

1 “(A) a notice is received by an applicable
2 entity under subsection (b)(2)(A) or paragraph
3 (2) for any taxable year of the entity with re-
4 spect to any person holding directly (or indi-
5 rectly through 1 or more nontradable interests)
6 a nontradable interest in such entity, and

7 “(B) no notice is in effect with respect to
8 such person or any other person for the pre-
9 ceding taxable year,

10 then, except as provided by the Secretary, such no-
11 tice shall be treated as first taking effect for pur-
12 poses of this subsection, section 351(h), and section
13 1031(i) for the taxable year immediately following
14 the taxable year in which the notice is received. This
15 paragraph shall not apply to a notice described in
16 subparagraph (A) received by an applicable entity
17 from a person who was a significant owner (within
18 the meaning of subsection (b)(4)) of such entity (or
19 any predecessor entity) on the date of the enactment
20 of this part.

21 “(5) SECRETARIAL AUTHORITY.—In prescribing
22 rules for the application of this subsection, the Sec-
23 retary may provide—

24 “(A) simplified methods for applicable en-
25 tities to meet the requirements of this sub-

1 section, including the aggregation of gains and
2 losses where appropriate,

3 “(B) rules for determining a holder’s share
4 of amounts required to be reported by an appli-
5 cable entity under paragraph (1), and

6 “(C) any rules necessary to prevent the
7 avoidance of the purposes of this section, in-
8 cluding through the delay in the reporting re-
9 quirement under paragraph (4).

10 “(d) DEFINITIONS AND RULES RELATING TO APPLI-
11 CATION OF SECTION.—For purposes of this part—

12 “(1) APPLICABLE ENTITY.—The term ‘applica-
13 ble entity’ means any—

14 “(A) partnership,

15 “(B) S corporation, or

16 “(C) other pass-through entity specified in
17 regulations or guidance prescribed by the Sec-
18 retary.

19 “(2) ELECTION TO TREAT ENTITY AS APPLICA-
20 BLE TAXPAYER FOR TAXABLE EVENTS INVOLVING
21 TRADABLE ASSETS.—If an applicable entity elects
22 the application of this paragraph for any taxable
23 year—

24 “(A) this section shall not apply with re-
25 spect to any gain or loss in connection with a

1 taxable event involving any tradable covered
2 asset held directly (or indirectly through 1 or
3 more nontradable interests) by such entity, and

4 “(B) such entity shall be treated as an ap-
5 plicable taxpayer for purposes of applying sec-
6 tions 490(1) and 491 to such taxable event.

7 Such an election shall be made at such time and in
8 such manner as the Secretary may prescribe and,
9 once made, shall be irrevocable without the consent
10 of the Secretary.

11 “(e) **NONTRADABLE INTEREST.**—For purposes of
12 this part, the term ‘nontradable interest’ means any own-
13 ership interest in an applicable entity which is a
14 nontradable covered asset.

15 “(f) **REGULATIONS AND GUIDANCE.**—The Secretary
16 shall prescribe such regulations and guidance as are nec-
17 essary to carry out the provisions of this section, including
18 regulations or guidance necessary—

19 “(1) to prevent the use of pass-through entities
20 to avoid the purposes of this part,

21 “(2) to simplify the application of this part.

22 **“SEC. 494. TREATMENT OF GIFTS, BEQUESTS, AND TRANS-**
23 **FERS IN TRUST.**

24 “(a) **IN GENERAL.**—

1 “(1) DEEMED SALE.—If any person described
2 in paragraph (3) transfers any covered asset by gift,
3 upon death, or in trust, such covered asset shall be
4 treated as sold by such person for its fair market
5 value to the transferee on the date of such gift,
6 death, or transfer.

7 “(2) NO RECOGNITION FOR LOSSES ON TRANS-
8 FERS BY GIFT OR IN TRUST.—

9 “(A) IN GENERAL.—No loss shall be recog-
10 nized with respect to any covered asset which is
11 treated as sold under subsection (a) by reason
12 of a transfer by gift or in trust.

13 “(B) AMOUNT OF GAIN FOR TRANS-
14 FEREE.—If a loss is not recognized by the
15 transferor by reason of subparagraph (A) and
16 the transferee sells or otherwise disposes of the
17 covered asset (or of other property the basis of
18 which in the taxpayer’s hands is determined di-
19 rectly or indirectly by reference to such prop-
20 erty) at a gain, then such gain shall be recog-
21 nized only to the extent that it exceeds so much
22 of such loss as is properly allocable to the cov-
23 ered asset sold or otherwise disposed of by the
24 transferee.

1 “(3) PERSON DESCRIBED.—A person is de-
2 scribed in this section if such person is—

3 “(A) an individual who is an applicable
4 taxpayer for the taxable year in which the
5 transfer is made, or

6 “(B) an applicable entity with respect to
7 which a notice received by the entity under sub-
8 section (b)(2)(A) or (c)(2) of section 493 is in
9 effect at the time of such transfer.

10 “(b) SPECIAL RULES FOR CERTAIN GRANTOR
11 TRUSTS.—

12 “(1) TRANSFERS OF NONTRADABLE COVERED
13 ASSETS INTO CERTAIN GRANTOR TRUSTS.—For pur-
14 poses of applying this section to any transfer in
15 trust, except as otherwise provided in this para-
16 graph, any transfer of a nontradable covered asset
17 from the person treated as the owner of an applica-
18 ble grantor trust (other than a grantor trust which
19 is a wholly revocable trust) to such trust shall be
20 treated as a transfer to which subsection (a) applies.

21 “(2) DEEMED DISTRIBUTIONS.—In the case of
22 any applicable grantor trust, any property held by
23 such trust shall be treated as transferred by the
24 owner in a transfer to which subsection (a) ap-
25 plies—

1 “(A) on any date that—

2 “(i) the owner ceases to be treated as
3 the owner under this chapter,

4 “(ii) such property is distributed to
5 any person other than the owner, or

6 “(iii) the property would no longer be
7 included in the owner’s gross estate under
8 chapter 11, or

9 “(B) on the date of the death of the owner.

10 “(3) APPLICABLE GRANTOR TRUST.—For pur-
11 poses of this subsection—

12 “(A) IN GENERAL.—The term ‘applicable
13 grantor trust’ means the portion of any trust
14 with respect to which an applicable taxpayer is
15 considered the owner under subpart E of part
16 I of subchapter J.

17 “(B) EXCEPTIONS.—The Secretary shall
18 provide for appropriate exceptions to the treat-
19 ment of categories of trusts as applicable grant-
20 or trusts under subparagraph (A), including ar-
21 rangements which are ordinarily used in the
22 course of a trade or business, employee benefit
23 arrangements, and arrangements for
24 securitization transactions.

25 “(c) EXCEPTIONS.—

1 “(1) SPOUSAL EXCEPTION.—

2 “(A) IN GENERAL.—Subsection (a) shall
3 not apply to any transfer if such transfer—

4 “(i) is—

5 “(I) made to the spouse or the
6 surviving spouse of the transferor, or

7 “(II) made to a former spouse of
8 the transferor if the transfer is inci-
9 dent to divorce, or

10 “(ii) is a transfer of qualified ter-
11 minable interest property or of property to
12 which section 2056(b)(5) or 2523(e) ap-
13 plies.

14 “(B) CERTAIN REMAINDER INTERESTS
15 TREATED AS TRANSFERRED BY SPOUSE.—Prop-
16 erty described in subparagraph (A)(ii) shall be
17 treated as sold by the spouse or surviving
18 spouse on the earlier of the date of the disposi-
19 tion of such property by such spouse or sur-
20 viving spouse or the date of the death of such
21 spouse or surviving spouse.

22 “(C) QUALIFIED TERMINABLE INTEREST
23 PROPERTY.—For purposes of this paragraph,
24 the term ‘qualified terminable interest property’

1 means any property described in section
2 2056(b)(7) or 2523(f)(2).

3 “(D) DISALLOWANCE OF SPOUSAL EXCEP-
4 TION WHERE SPOUSE OR SURVIVING SPOUSE
5 NOT UNITED STATES CITIZEN OR LONG-TERM
6 RESIDENT.—

7 “(i) IN GENERAL.—Subparagraph (A)
8 shall not apply if the spouse or surviving
9 spouse of the decedent is not a citizen or
10 long-term resident of the United States.

11 “(ii) LONG-TERM RESIDENT.—For
12 purposes of clause (i), the term ‘long-term
13 resident’ means any individual (other than
14 a citizen of the United States) who is a
15 lawful permanent resident of the United
16 States—

17 “(I) for the taxable year in which
18 the transfer described in subsection
19 (a) occurs, and

20 “(II) in at least 8 taxable years
21 during the period of 15 taxable years
22 ending with the taxable year during
23 which the transfer described in sub-
24 section (a) or (b)(1) occurs.

1 For purposes of the preceding sentence, an
2 individual shall not be treated as a lawful
3 permanent resident for any taxable year if
4 such individual is treated as a resident of
5 a foreign country for the taxable year
6 under the provisions of a tax treaty be-
7 tween the United States and the foreign
8 country and does not waive the benefits of
9 such treaty applicable to residents of the
10 foreign country.

11 “(2) GIFTS AND BEQUESTS TO CHARITY.—

12 “(A) IN GENERAL.—Subsection (a) shall
13 not apply to any transfer if such transfer is
14 made to or for the use of an organization de-
15 scribed in section 170(c).

16 “(B) SPECIAL RULE FOR SPLIT-INTEREST
17 TRUSTS.—In the case of any transfer—

18 “(i) to a charitable remainder annuity
19 trust (as defined in section 664) or a char-
20 itable remainder unitrust (as defined in
21 section 664), or

22 “(ii) of an interest described in sec-
23 tion 170(f)(2)(B),

1 subsection (a) shall not apply to the portion of
2 such transfer which is to or for the use of an
3 organization described in section 170(c).

4 “(C) SPECIAL RULE FOR POOLED INCOME
5 FUNDS.—In the case of any transfer to a pooled
6 income fund (as defined in section 642(c)(5)),
7 subsection (a) shall not apply to the portion of
8 such transfer which is to or for the use of an
9 organization described in section 170(b)(1)(A)
10 (other than in clauses (vii) or (viii)).

11 “(3) QUALIFIED DISABILITY TRUSTS AND CEM-
12 ETERY PERPETUAL CARE FUNDS.—Subsection (a)
13 shall not apply to transfers to any qualified dis-
14 ability trust (as defined in section 642(b)(2)(C)(ii))
15 or to transfers to any cemetery perpetual care fund
16 described in section 642(i).

17 “(d) BASIS OF TRANSFEREE.—

18 “(1) IN GENERAL.—Notwithstanding sections
19 1014 and 1015, to the extent that subsection (a) ap-
20 plies to any transfer of property—

21 “(A) except as provided in subparagraph
22 (B), the basis of the property in the hands of
23 the transferee shall be the fair market value of
24 the property (consistent with the amount taken

1 into account by the transferor under subsection
2 (a)), and

3 “(B) in the case such transfer is a transfer
4 upon death to any individual described in sub-
5 section (c)(1)(A)(i), the basis of the property in
6 the hands of the transferee shall be the same as
7 it would be in the hands of the transferor, ex-
8 cept that if such basis (adjusted for the period
9 before the date of the transfer as provided in
10 section 1016) is greater than the fair market
11 value of the property at the time of death, then
12 for the purpose of determining loss the basis
13 shall be such fair market value.

14 “(2) CONSISTENT BASIS RULES FOR TRANS-
15 FERS BY DEATH.—In the case of any transfer upon
16 death, rules similar to section 1014(f) shall apply for
17 purposes of this section.

18 “(e) APPLICATION OF DEPRECIATION RECAPTURE
19 RULES.—Paragraphs (1) and (2) of section 1245(b) and
20 paragraphs (1) and (2) of section 1250(d) shall not apply
21 to any property treated as sold by reason of subsection
22 (a).

23 **“Subpart B—Definitions and Rules Relating to**
24 **Applicable Taxpayers**

“Sec. 495. Applicable taxpayer defined.

“Sec. 496. Special rules for taxpayers entering or changing status as applicable taxpayers.

1 **“SEC. 495. APPLICABLE TAXPAYER DEFINED.**

2 “(a) IN GENERAL.—For purposes of this part—

3 “(1) IN GENERAL.—The term ‘applicable tax-
4 payer’ means, with respect to any taxable year, any
5 taxpayer—

6 “(A) which is an individual who met either
7 the income test of paragraph (2) or the asset
8 test of paragraph (3) for each of the 3 imme-
9 diately preceding taxable years (including tax-
10 able years beginning before the date of the en-
11 actment of this part which are included in any
12 such 3-taxable year period), or

13 “(B) which is—

14 “(i) an applicable trust, or

15 “(ii) the estate of an individual who
16 was an applicable taxpayer for any taxable
17 year during the 4-taxable year period end-
18 ing with the taxable year in which the indi-
19 vidual died.

20 “(2) INCOME TEST.—The requirements of this
21 paragraph are met for any taxable year if the appli-
22 cable adjusted gross income of the taxpayer for the
23 taxable year exceeds \$100,000,000 (\$50,000,000 in
24 the case of a married individual filing separately).

25 “(3) ASSET TEST.—The requirements of this
26 paragraph are met for any taxable year if the aggre-

1 gate applicable value of all tradable and nontradable
2 covered assets held by the taxpayer as of the close
3 of the taxable year exceeds \$1,000,000,000
4 (\$500,000,000 in the case of a married individual
5 filing separately) .

6 “(4) SPECIAL RULES RELATING TO APPLICABLE
7 TAXPAYER STATUS.—

8 “(A) TERMINATION OF STATUS OF INDI-
9 VIDUAL TAXPAYERS.—A taxpayer who is treat-
10 ed as an applicable taxpayer under paragraph
11 (1)(A) for any taxable year shall continue to be
12 so treated until the first taxable year with re-
13 spect to which—

14 “(i) the taxpayer does not, for each of
15 the 3 taxable years immediately preceding
16 such taxable year, meet either—

17 “(I) the income test of paragraph
18 (2) in effect for such preceding tax-
19 able year, or

20 “(II) the asset test of paragraph
21 (3) in effect for such preceding tax-
22 able year,

23 except that each such paragraph shall be
24 applied for purposes of this clause by sub-
25 stituting an amount equal to one-half of

1 the dollar amount otherwise in effect for
2 such taxpayer under such paragraph for
3 each such preceding taxable year for such
4 dollar amount, and

5 “(ii) the taxpayer elects, in such man-
6 ner and form and at such time as the Sec-
7 retary may prescribe, not to be so treated
8 for such first taxable year.

9 “(B) EARLIER TERMINATION ELECTION OF
10 APPLICABLE TAXPAYER STATUS FOR DIVORCED
11 INDIVIDUALS.—If—

12 “(i) an applicable taxpayer ceases to
13 be a married individual by reason of a de-
14 cree of divorce or separate maintenance
15 issued during any taxable year, and

16 “(ii) such taxpayer, for the first tax-
17 able year following the taxable year de-
18 scribed in clause (i), does not meet ei-
19 ther—

20 “(I) the income test of paragraph
21 (2), except that such paragraph shall
22 be applied for purposes of this sub-
23 clause by substituting ‘\$1,000,000’
24 for the dollar amount otherwise in ef-

1 fect for such taxpayer under such
2 paragraph, or

3 “(II) the asset test of paragraph
4 (3), except that such paragraph shall
5 be applied for purposes of this sub-
6 clause by substituting ‘\$10,000,000’
7 for the dollar amount otherwise in ef-
8 fect for such taxpayer under such
9 paragraph,

10 then such taxpayer may elect, in such manner
11 and form and at such time as the Secretary
12 may prescribe, not to be treated as an applica-
13 ble taxpayer beginning with such first taxable
14 year.

15 “(C) ELECTION.—An election under sub-
16 paragraph (A) or (B)—

17 “(i) shall be made with the taxpayer’s
18 return of tax for the taxable year to which
19 such election first applies (or such other
20 time as the Secretary shall prescribe) and
21 shall be in such form and manner as the
22 Secretary may prescribe, and

23 “(ii) shall apply to such first taxable
24 year and all subsequent taxable years until
25 the first taxable year for which the tax-

1 payer is again treated as an applicable tax-
2 payer by reason of meeting the require-
3 ments of paragraph (1)(A).

4 “(5) SPECIAL RULES FOR MARRIED INDIVID-
5 UALS.—

6 “(A) APPLICABLE TAXPAYERS BECOMING
7 MARRIED INDIVIDUALS.—If an individual was
8 an applicable taxpayer for the taxable year be-
9 fore the individual became a married individual
10 (within the meaning of section 7703), such indi-
11 vidual and the individual’s spouse shall be
12 treated as applicable taxpayers for such taxable
13 year of marriage and subsequent taxable years
14 until such status is otherwise terminated under
15 this section.

16 “(B) MARRIED INDIVIDUALS FILING SEPA-
17 RATELY.—If a married individual filing sepa-
18 rately is treated as an applicable taxpayer for
19 any taxable year, such individual’s spouse shall
20 be treated as an applicable taxpayer for such
21 taxable year.

22 “(C) FIRST-YEAR ELECTIONS.—Under
23 rules prescribed by the Secretary, if an indi-
24 vidual is first treated as an applicable taxpayer
25 for a taxable year by reason of the application

1 of subparagraph (A) or (B), section 496 shall
2 apply to such taxpayer for such first taxable
3 year only with respect to assets held separately
4 by such individual unless such taxable year is
5 also the first taxable year for which the individ-
6 ual's spouse is an applicable taxpayer.

7 “(6) REGULATORY AUTHORITY.—The Secretary
8 shall prescribe such regulations and guidance as may
9 be necessary to carry out the provisions of this sub-
10 section, including—

11 “(A) rules waiving the application of para-
12 graph (5)(B) in cases where the Secretary de-
13 termines equitable relief is appropriate,

14 “(B) rules providing for the application of
15 this subsection in cases where the filing status
16 of a taxpayer changes between any taxable year
17 and any of the 3 immediately preceding taxable
18 years, including the first taxable year in which
19 a taxpayer files a joint return after becoming
20 married, and

21 “(C) rules requiring such information re-
22 porting as the Secretary determines necessary
23 to determine whether a taxpayer is an applica-
24 ble taxpayer

1 “(b) APPLICABLE ADJUSTED GROSS INCOME.—For
2 purposes of this section, the term ‘applicable adjusted
3 gross income’ means modified adjusted gross income as
4 defined in section 36B(d)(2)(B), except that—

5 “(1) clause (i) thereof shall be applied by sub-
6 stituting ‘sections 911, 931, and 933’ for ‘section
7 911’, and

8 “(2) in the case of a trust, no deduction under
9 section 651 or 661 shall be allowed.

10 “(c) APPLICABLE TRUST.—For purposes of this sec-
11 tion—

12 “(1) IN GENERAL.—The term ‘applicable trust’
13 means a trust (other than a grantor trust) which,
14 for each of the 3 taxable years immediately pre-
15 ceding such taxable year (including taxable years be-
16 ginning before the date of the enactment of this part
17 which are included in any such 3-taxable year pe-
18 riod), meets either—

19 “(A) the income test of subsection (a)(2),
20 except that such subsection shall be applied for
21 purposes of this subparagraph by substituting
22 ‘\$10,000,000’ for the dollar amount otherwise
23 in effect for such taxable year under such para-
24 graph, or

1 “(B) the asset test of subsection (a)(3), ex-
2 cept that such subsection shall be applied for
3 purposes of this subparagraph by substituting
4 ‘\$100,000,000’ for the dollar amount otherwise
5 in effect for such taxable year under such para-
6 graph.

7 “(2) EXCEPTIONS.—Such term shall not in-
8 clude—

9 “(A) a qualified disability trust (as defined
10 in section 642(b)(2)(C)(ii)),

11 “(B) any portion of a trust which consists
12 of property permanently set aside for the exclu-
13 sive use of an organization described in section
14 170(c),

15 “(C) a pooled income fund (as defined in
16 section 642(e)(5)) or a cemetery perpetual care
17 fund (as described in section 642(i)),

18 “(D) a settlement trust (as defined in sec-
19 tion 646),

20 “(E) any charitable remainder annuity
21 trust (as defined in section 664),

22 “(F) any charitable remainder unitrust (as
23 defined in section 664), or

1 “(G) any other category of trust identified
2 in regulations or guidance provided by the Sec-
3 retary.

4 “(3) GRANTOR TRUSTS.—

5 “(A) GRANTOR TRUST DEFINED.—For
6 purposes of this section, the term ‘grantor
7 trust’ means any portion of a trust with respect
8 to which the grantor or any other person is con-
9 sidered the owner under subpart E of part I of
10 subchapter J.

11 “(B) ASSETS OF GRANTOR TRUST TAKEN
12 INTO ACCOUNT.—For purposes of subsection
13 (a)(1)(A), the assets of a grantor trust shall be
14 included in the assets of—

15 “(i) the grantor of such trust if the
16 grantor is considered the owner of such as-
17 sets, and

18 “(ii) if a person other than the grant-
19 or is considered the owner of such assets,
20 both the grantor and such person.

21 “(d) SPECIAL RULES FOR FOREIGN PERSONS AND
22 EXPATRIATES.—For purposes of this part—

23 “(1) NONRESIDENT ALIEN INDIVIDUALS.—The
24 following rules shall apply in determining whether a

1 nonresident alien individual is an applicable tax-
2 payer:

3 “(A) INCOME TEST.—For purposes of the
4 income test under subsection (a)(2)—

5 “(i) such subsection shall be applied
6 for purposes of this subparagraph by sub-
7 stituting ‘\$50,000,000’ for the dollar
8 amount otherwise in effect for such taxable
9 year under such paragraph, and

10 “(ii) the applicable adjusted gross in-
11 come of such individual shall be equal to
12 the taxable income of such individual, de-
13 termined by only taking into account items
14 of income, gain, deduction, and loss which
15 are effectively connected with the conduct
16 of trades or businesses within the United
17 States.

18 “(B) ASSET TEST.—For purposes of the
19 asset test under subsection (a)(3)—

20 “(i) such subsection shall be applied
21 for purposes of this subparagraph by sub-
22 stituting ‘\$500,000,000’ for the dollar
23 amount otherwise in effect for such taxable
24 year under such paragraph, and

1 “(ii) only assets which produce income
2 described in subparagraph (A) shall be
3 taken into account.

4 “(2) EXPATRIATES.—

5 “(A) IN GENERAL.—If, for the taxable
6 year which includes a covered expatriate’s ex-
7 patriation date, such expatriate—

8 “(i) was an applicable taxpayer (with-
9 out regard to this paragraph), or

10 “(ii) is an applicable taxpayer under
11 the rules of subparagraph (B),

12 such expatriate shall be treated as an applicable
13 taxpayer during each of the taxable years dur-
14 ing the 10-taxable-year period beginning with
15 such taxable year (and such status shall not be
16 terminated during such period by reason of any
17 other provision of this part).

18 “(B) SPECIAL RULES FOR DETERMINING
19 STATUS.—For purposes of subparagraph
20 (A)(ii), a covered expatriate not otherwise treat-
21 ed as an applicable taxpayer shall be treated as
22 an applicable taxpayer if, during any of the 5
23 taxable years immediately preceding the taxable
24 year which includes the covered expatriate’s ex-
25 patriation date (including taxable years begin-

1 ning before the date of the enactment of this
2 part which are included in any such 5-taxable
3 year period), the expatriate meets either—

4 “(i) the income test of subsection
5 (a)(2), except that such subsection shall be
6 applied for purposes of this subparagraph
7 by substituting ‘\$50,000,000’ for the dollar
8 amount otherwise in effect for such taxable
9 year under such paragraph, or

10 “(ii) the asset test of subsection
11 (a)(3), except that such subsection shall be
12 applied for purposes of this subparagraph
13 by substituting ‘\$500,000,000’ for the dol-
14 lar amount otherwise in effect for such
15 taxable year under such paragraph.

16 “(C) DEFINITIONS.— Any term used in
17 this paragraph which is also used in section
18 877A shall have the same meaning as when
19 used in such section.

20 **“SEC. 496. SPECIAL RULES FOR TAXPAYERS ENTERING OR**
21 **CHANGING STATUS AS APPLICABLE TAX-**
22 **PAYERS.**

23 “(a) INITIAL TREATMENT AS APPLICABLE TAX-
24 PAYER.—

1 “(1) IN GENERAL.—In the case of the first tax-
2 able year for which a taxpayer is an applicable tax-
3 payer—

4 “(A) the taxpayer may make the election
5 under paragraph (3) with respect to
6 nontradable covered assets, and

7 “(B) if the taxpayer elects the application
8 of this subparagraph, the net first-year tax li-
9 ability of the taxpayer for such taxable year
10 shall be payable in 5 equal annual installments
11 over the 5-taxable year period beginning with
12 such taxable year.

13 “(2) NET FIRST-YEAR TAX LIABILITY.—For
14 purposes of this section—

15 “(A) IN GENERAL.—The term ‘net first-
16 year tax liability’ means, with respect to the
17 first taxable year described in paragraph (1),
18 the excess (if any) of—

19 “(i) such taxpayer’s net income tax
20 for such taxable year, over

21 “(ii) such taxpayer’s net income tax
22 for such taxable year determined without
23 regard to gain or loss of the taxpayer
24 taken into account for such taxable year by

1 reason of a taxable event described in sec-
2 tion 491(b)(1).

3 “(B) NET INCOME TAX.—The term ‘net
4 income tax’ means the regular tax liability re-
5 duced by the credits allowed under subparts A,
6 B, and D of part IV of subchapter A.

7 “(3) ELECTION TO PAY AND DEFER TAX ON
8 NONTRADABLE ASSETS.—

9 “(A) IN GENERAL.—Except as provided in
10 subparagraph (C), a taxpayer may elect to treat
11 any nontradable covered asset held by the tax-
12 payer as of the end of the first taxable year de-
13 scribed in paragraph (1) as a tradable covered
14 asset for purposes of applying section 491(b)(1)
15 and this subsection.

16 “(B) DETERMINATION OF GAIN.—

17 “(i) IN GENERAL.—For purposes of
18 applying section 491(a)(1)(A), the fair
19 market value of any asset with respect to
20 which an election is in effect under sub-
21 paragraph (A) shall be the amount speci-
22 fied by the taxpayer in such election, ex-
23 cept that such value may not, unless other-
24 wise provided by the Secretary, be less
25 than the taxpayer’s adjusted basis in such

1 asset as of the end of the first taxable year
2 described in paragraph (1).

3 “(ii) NO DEDUCTIONS OR CREDITS
4 FOR BASIS INCREASES.—If there is any in-
5 crease under this part in the taxpayer’s ad-
6 justed basis of any asset by reason of an
7 election under this paragraph, no deduc-
8 tion or credit shall be allowed under this
9 title with respect to the portion of such ad-
10 justed basis attributable to such increase.

11 “(C) ONLY SIGNIFICANT OWNER OF APPLI-
12 CABLE ENTITY MAY ELECT.—In the case of a
13 nontradable covered asset which is a
14 nontradable interest in an applicable entity, an
15 applicable taxpayer may make an election under
16 subparagraph (A) with respect to such asset
17 only if such taxpayer is a significant owner (as
18 defined in section 493(b)(4)(A)) of such entity
19 with respect to whom a notice is in effect under
20 section 493(b)(2)(A) for the taxable year for
21 which the election is being made.

22 “(4) SPECIAL RULE WHERE DELAY IN REPORT-
23 ING BY APPLICABLE ENTITY.—

24 “(A) IN GENERAL.—If—

1 “(i) there is a delay in reporting to an
2 applicable taxpayer by 1 or more applicable
3 entities by reason of section 493(c)(4), and

4 “(ii) any gain or loss is reported by
5 such entities to such taxpayer under sec-
6 tion 493(c)(1)(A)(i) and is taken into ac-
7 count in such taxpayer’s taxable year im-
8 mediately succeeding the first taxable year
9 described in paragraph (1),

10 then, subject to such rules as the Secretary may
11 prescribe, the taxpayer may elect under para-
12 graph (1)(B) to treat the net tax liability de-
13 scribed in subparagraph (B) as net first-year
14 tax liability payable in 5 equal annual install-
15 ments beginning with such succeeding taxable
16 year. The rules of paragraph (5) shall apply to
17 such installments in the same manner as such
18 rules apply to installments for such first taxable
19 year.

20 “(B) NET TAX LIABILITY.—For purposes
21 of subparagraph (A), the net tax liability de-
22 scribed in this subparagraph is, with respect to
23 the taxable year described in such subpara-
24 graph, the excess (if any) of—

1 poses of an asset with respect to
2 which an election is in effect under
3 paragraph (1)(B), then the applicable
4 percentage of the unpaid portion of all
5 remaining installments described in
6 paragraph (1)(B) shall be due on the
7 date of such disposition (or such later
8 date as the Secretary may prescribe).

9 “(II) APPLICABLE PERCENT-
10 AGE.—For purposes of this subpara-
11 graph, the applicable percentage is the
12 percentage determined by dividing the
13 gain not taken into account in deter-
14 mining net income tax under para-
15 graph (2)(A)(ii) with respect to the
16 asset described in subclause (I) by the
17 aggregate amount of all gain not so
18 taken into account.

19 “(ii) FAILURE TO PAY, ETC.—In the
20 case of an addition to tax for failure to
21 timely pay any installment required under
22 this subsection, the death of the taxpayer,
23 or the filing of a petition by the taxpayer
24 in a title 11 or similar case, then the un-
25 paid portion of all remaining installments

1 shall be due on the date of such event (or
2 in the case of a title 11 or similar case, the
3 day before the petition is filed).

4 “(C) PRORATION OF DEFICIENCY TO IN-
5 STALLMENTS.—If an election is made under
6 paragraph (1) to pay the net first-year tax li-
7 ability under this section in installments and a
8 deficiency has been assessed with respect to
9 such net tax liability, the deficiency shall be
10 prorated to the installments payable under
11 paragraph (1). The part of the deficiency so
12 prorated to any installment the date for pay-
13 ment of which has not arrived shall be collected
14 at the same time as, and as a part of, such in-
15 stallment. The part of the deficiency so pro-
16 rated to any installment the date for payment
17 of which has arrived shall be paid upon notice
18 and demand from the Secretary. This sub-
19 section shall not apply if the deficiency is due
20 to negligence, to intentional disregard of rules
21 and regulations, or to fraud.

22 “(D) INSTALLMENTS NOT TO PREVENT
23 CREDIT OR REFUND OF OVERPAYMENTS OR IN-
24 CREASE ESTIMATED TAXES.—If an election is
25 made under paragraph (1) to pay the net first-

1 year tax liability under this subsection in in-
2 stallments—

3 “(i) no installment of such liability
4 shall—

5 “(I) in the case of a request for
6 credit or refund, be taken into ac-
7 count as a liability for purposes of de-
8 termining whether an overpayment ex-
9 ists for purposes of section 6402 be-
10 fore the date on which such install-
11 ment is due, or

12 “(II) be treated as a tax imposed
13 by section 1 for purposes of section
14 6654, and

15 “(ii) the first sentence of section 6403
16 shall not apply with respect to any such in-
17 stallment.

18 “(6) ELECTIONS.—

19 “(A) IN GENERAL.—Any election under
20 paragraph (1), (3)(A), or (4)(A) shall be made
21 not later than the due date for the return of tax
22 for the first taxable year described in paragraph
23 (1) and shall be made in such manner as the
24 Secretary shall provide.

1 “(B) EXTENSIONS.—The Secretary shall
2 by regulation prescribe such circumstances and
3 procedures under which extensions of time will
4 be granted to make any election under para-
5 graph (1), (3)(A), or (4)(A). In determining
6 whether to grant relief under this subpara-
7 graph, the Secretary shall take into account all
8 relevant circumstances and the time for making
9 the election shall be treated as not expressly
10 provided by statute.

11 “(b) TREATMENT OF TAXPAYERS LEAVING AND RE-
12 ENTERING APPLICABLE STATUS.—If a taxpayer’s status
13 as an applicable taxpayer is terminated under section
14 495(a)(4) and the taxpayer is again treated as an applica-
15 ble taxpayer for a subsequent taxable year by reason of
16 meeting the requirements of section 495(a)(1)(A), the fol-
17 lowing rules shall apply:

18 “(1) SUBSEQUENT YEAR NOT TREATED AS
19 FIRST YEAR OF APPLICABLE TAXPAYER STATUS.—
20 Subsection (a) shall not apply to any taxable year in
21 which the taxpayer is again treated as an applicable
22 taxpayer and such subsequent taxable year shall not
23 be treated as the first taxable year for which the
24 taxpayer is an applicable taxpayer for any other pur-
25 pose of this part.

1 “(2) NONTRADABLE ASSETS.—If there is an
2 applicable transfer by a taxpayer of a nontradable
3 covered asset after the taxpayer is again treated as
4 an applicable taxpayer, the taxpayer’s holding period
5 of such asset for purposes of section 492 shall in-
6 clude all periods during which the taxpayer’s status
7 as an applicable taxpayer was previously terminated
8 and the taxpayer held such asset.

9 “(c) SPECIAL RULES RELATING TO OWNERSHIP OF
10 NONTRADABLE INTERESTS IN APPLICABLE ENTITIES.—

11 “(1) IN GENERAL.—For purposes of subsection
12 (a), if an applicable taxpayer elects under subsection
13 (a)(3) to treat a nontradable interest in an applica-
14 ble entity held directly as a tradable covered asset
15 for the first taxable year described in subsection
16 (a)(1), the amount of the gain taken into account
17 under subsection (a) with respect to such interest
18 shall be equal to the excess (if any) of—

19 “(A) the value of such interest specified by
20 the taxpayer under subsection (a)(3)(B), over

21 “(B) the taxpayer’s adjusted basis in such
22 interest as of the close of such taxable year.

23 “(2) ADJUSTMENTS TO BASES OF ENTITY’S
24 NONTRADABLE ASSETS.—

25 “(A) PARTNERSHIPS.—

1 “(i) IN GENERAL.—If the applicable
2 entity is a partnership, the partnership
3 shall increase the adjusted bases of the
4 partnership’s assets by the amount de-
5 scribed in paragraph (1). Such increase
6 shall constitute an adjustment to the bases
7 of partnership assets solely for determining
8 the applicable taxpayer’s share of such
9 bases.

10 “(ii) ALLOCATION.—The Secretary
11 shall prescribe rules for the allocation of
12 the increase in adjusted bases among part-
13 nership assets in a manner which has the
14 effect of reducing the difference between
15 the value and such adjusted bases. Such
16 rules shall also provide proper adjustments
17 to adjusted bases where ownership is held
18 through tiered entities.

19 “(B) OTHER APPLICABLE ENTITIES.—
20 Rules similar to the rules of clause (i) shall
21 apply to applicable entities other than partner-
22 ships.

23 “(C) NO DEDUCTIONS OR CREDITS FOR
24 BASIS INCREASES.—If there is any increase in
25 the applicable entity’s adjusted basis of any

1 asset by reason of subparagraph (A), no deduc-
2 tion or credit shall be allowed under this title
3 with respect to the portion of such adjusted
4 basis attributable to such increase.

5 “(3) DEFINITIONS.—Any term used in this sub-
6 section which is also used in section 493 shall have
7 the same meaning as when used in such section.

8 “(d) SPECIAL ELECTION FOR CERTAIN TRADABLE
9 ASSETS OF APPLICABLE TAXPAYERS.—

10 “(1) IN GENERAL.—If a qualified taxpayer
11 makes an election under this subsection, then any
12 stock held by such qualified taxpayer which would
13 (but for such election) be a tradable covered asset
14 and which is specified in such election shall be treat-
15 ed as a as a nontradable capital asset of the tax-
16 payer for purposes of this part.

17 “(2) LIMITATIONS.—

18 “(A) ONLY STOCK OF A SINGLE ENTITY
19 TAKEN INTO ACCOUNT.—An election made
20 under this subsection may not specify stock in
21 more than one C corporation or specify more
22 than one class of stock in such corporation.

23 “(B) VALUE.—

24 “(i) IN GENERAL.—The aggregate
25 value of stock specified in an election made

1 under this subsection shall not exceed
2 \$1,000,000,000.

3 “(ii) DETERMINATION.—For purposes
4 of clause (i), the value of any stock speci-
5 fied in an election made under this section
6 shall be determined as of the last day of
7 the first taxable year for which the tax-
8 payer is an applicable taxpayer.

9 “(3) QUALIFIED TAXPAYER.—For purposes of
10 this subsection, the term ‘qualified taxpayer’ means
11 any taxpayer—

12 “(A) which is not an estate or trust, and

13 “(B) for which the first taxable year for
14 which such taxpayer is an applicable taxpayer is
15 a taxable year that begins before January 1,
16 2025.

17 “(4) ELECTION.—

18 “(A) IN GENERAL.—Any election under
19 this subsection shall be made not later than the
20 due date for the return of tax for the first tax-
21 able year for which the taxpayer is an applica-
22 ble taxpayer and shall be made in such manner
23 as the Secretary shall provide.

24 “(B) EXTENSIONS.—The Secretary shall
25 by regulation prescribe such circumstances and

1 procedures under which extensions of time will
2 be granted to make any election under this sub-
3 section. In determining whether to grant relief
4 under this subparagraph, the Secretary shall
5 take into account all relevant circumstances and
6 the time for making the election shall be treat-
7 ed as not expressly provided by statute.

8 **“Subpart C—Other Definitions and Rules**

“Sec. 497. Terms and rules relating to covered assets.

“Sec. 498. Other definitions; coordination with title.

9 **“SEC. 497. TERMS AND RULES RELATING TO COVERED AS-**
10 **SETS.**

11 “(a) COVERED ASSET.—For purposes of this part,
12 except as otherwise provided in this part, the term ‘cov-
13 ered asset’ means any asset other than—

14 “(1) any interest of the taxpayer in an applica-
15 ble savings plan or in a defined benefit plan,

16 “(2) any cash or cash equivalent, or

17 “(3) any private placement life insurance or an-
18 nuity contract described in section 72(e)(12)(D).

19 “(b) TRADABLE COVERED ASSET.—For purposes of
20 this part, except as provided in section 496(d), the term
21 ‘tradable covered asset’ means—

22 “(1) any covered asset if—

23 “(A) interests in such asset are traded on
24 an established securities market,

1 “(B) interests in such assets are readily
2 tradable on a secondary market (or the sub-
3 stantial equivalent thereof),

4 “(C) interests in such assets are available
5 on an online or electronic platform that regu-
6 larly matches, or facilitates the matching of,
7 buyers and sellers of such assets, or

8 “(D) such asset is an asset for which the
9 Secretary determines there is a reasonable basis
10 to determine the asset’s fair market value annu-
11 ally, and

12 “(2) any derivative with respect to an under-
13 lying investment which—

14 “(A) is an asset described in paragraph
15 (1), or

16 “(B) is a nontradable covered asset which
17 is identified in regulations or other guidance
18 provided by the Secretary.

19 “(c) NONTRADABLE COVERED ASSET.—For pur-
20 poses of this part—

21 “(1) IN GENERAL.—The term ‘nontradable cov-
22 ered asset’ means any covered asset which is not a
23 tradable covered asset.

24 “(2) CERTAIN ASSETS ONLY COUNTED FOR DE-
25 TERMINING AGGREGATE VALUE OF ASSETS.—

1 “(A) IN GENERAL.—Any asset excluded
2 from treatment as a covered asset under para-
3 graph (1), (2), or (3) of subsection (a) shall be
4 taken into account as a nontradable covered
5 asset in computing the aggregate applicable
6 value of all tradable and nontradable covered
7 assets held by the taxpayer as of the close of
8 any taxable year for purposes of section
9 495(a)(3).

10 “(B) PRIVATE PLACEMENT LIFE INSUR-
11 ANCE AND ANNUITY CONTRACTS.—For pur-
12 poses of subparagraph (A)—

13 “(i) IN GENERAL.—The applicable
14 value of an private placement life insur-
15 ance or annuity contract (as defined in sec-
16 tion 72(e)(12)(D)) as of any date shall be
17 its cash surrender value (as determined
18 under section 7702(f)(2)(A)) on such date.

19 “(ii) ADJUSTMENTS.—The Secretary
20 shall by regulation provide for adjustments
21 to the cash surrender value determined
22 under clause (i) with respect to any con-
23 tract to the extent necessary to prevent the
24 avoidance of the purposes of this part, in-
25 cluding regulations which ensure that such

1 value as of any time properly reflects the
2 value of any underlying investments with
3 respect to such contract as of such time.

4 “(3) INVESTMENTS IN QUALIFIED OPPOR-
5 TUNITY FUNDS.—Notwithstanding subsection (b),
6 any investment in a qualified opportunity fund (as
7 defined in section 1400Z–2(d)) shall be treated as a
8 nontradable covered asset.

9 “(d) APPLICABLE VALUE.—For purposes of this
10 part—

11 “(1) TRADABLE COVERED ASSETS.—The appli-
12 cable value of any tradable covered asset as of any
13 date shall be its fair market value on such date.

14 “(2) NONTRADABLE COVERED ASSETS.—The
15 applicable value of any nontradable covered asset as
16 of any date shall be the greatest of—

17 “(A) the original cost basis of such asset,

18 “(B) the adjusted basis of such asset,

19 “(C) the value determined as of the date of
20 the last event with respect to the asset which
21 establishes such value,

22 “(D) in the case of an asset the value of
23 which is included in an applicable financial
24 statement, the value in the latest available
25 statement,

1 “(E) the value of such asset determined
2 for purposes of using such asset to secure any
3 indebtedness, and

4 “(F) the value of such asset determined
5 under such other valuation method as the Sec-
6 retary may prescribe.

7 If a covered asset would, but for subsection (c)(3) or
8 any other provision of this part, be treated as a
9 tradable covered asset, the asset’s applicable value
10 shall be determined under paragraph (1).

11 “(3) ADJUSTMENT FOR DEBT AND OTHER LI-
12 ABILITIES OF THE TAXPAYER.—Except as provided
13 by the Secretary, the aggregate applicable value of
14 all covered assets of the taxpayer as of any date (de-
15 termined without regard to this paragraph) shall be
16 reduced by the aggregate outstanding amount of—

17 “(A) indebtedness of the taxpayer as of
18 such date, and

19 “(B) any other liabilities (other than in-
20 debtedness) of the taxpayer as of such date
21 which the Secretary determines are appropriate
22 to be taken into account for such purpose.

23 “(4) RELIANCE ON VALUATION.—In deter-
24 mining the applicable value of any tradable covered

1 asset for purposes of this section, the taxpayer may
2 rely on a valuation which is—

3 “(A) provided to the taxpayer by a broker
4 under section 6045(b),

5 “(B) provided to the taxpayer by a dealer
6 in securities or a dealer in commodities, within
7 the meaning of section 475,

8 “(C) determined under an applicable finan-
9 cial statement, or

10 “(D) provided to the taxpayer by such
11 other persons as may be designated by the Sec-
12 retary.

13 “(5) APPLICABLE FINANCIAL STATEMENT.—
14 For purposes of this subsection, the term ‘applicable
15 financial statement’ has the meaning given such
16 term by section 451(b)(3).

17 “(6) SPECIAL RULES FOR APPLICABLE ENTI-
18 TIES.—In the case of an applicable entity—

19 “(A) adjustments to basis of any covered
20 asset under section 493(b)(2) shall be taken
21 into account in determining the adjusted basis
22 of such asset for purposes of paragraph (2)(B),

23 “(B) the value of a partner’s ownership in-
24 terest in such partnership under paragraph
25 (2)(C) shall not be less than the value of the

1 partner's capital account under section 704,
2 and

3 “(C) the Secretary shall provide rules for
4 determining the share of a holder of an owner-
5 ship interest in such an entity of amounts in-
6 cluded in an applicable financial statement of
7 such entity for purposes of applying paragraph
8 (2)(D).

9 “(7) SECRETARIAL AUTHORITY.— The Sec-
10 retary shall prescribe such regulations, rules, and
11 guidance as may be necessary to carry out the pur-
12 poses of this subsection, including regulations, rules,
13 and guidance which—

14 “(A) prevent the avoidance of such pur-
15 poses,

16 “(B) provide rules for the application of
17 paragraph (2)(C), including in cases of trans-
18 actions in which gain or loss is not recognized
19 in connection with contributions, distributions,
20 and sales of substantially similar property from
21 which value may be derived, and

22 “(C) provide rules for determining the ap-
23 plicable value of assets in taxable years begin-
24 ning before the date of the enactment of this
25 part.

1 **“SEC. 498. OTHER DEFINITIONS; COORDINATION WITH**
2 **TITLE.**

3 “(a) **APPLICABLE TRANSFER.**—For purposes of this
4 part—

5 “(1) **IN GENERAL.**—The term ‘applicable trans-
6 fer’ means—

7 “(A) any sale, exchange, disposition, or
8 other transfer if—

9 “(i) gain or loss (if any) is, without
10 regard to this part, recognized under this
11 chapter on such sale, exchange, disposition,
12 or other transfer, and

13 “(ii) such sale, exchange, disposition,
14 or other transfer is not in the ordinary
15 course of a trade or business, and

16 “(B) any disregarded nonrecognition event.

17 “(2) **DISREGARDED NONRECOGNITION**
18 **EVENT.**—The term ‘disregarded nonrecognition
19 event’ means—

20 “(A) any exchange to which section 351
21 applies,

22 “(B) any exchange to which section 1031
23 applies,

24 “(C) any transfer of an asset which—

25 “(i) is identified by the Secretary,

26 “(ii) involves a C corporation, and

1 “(iii) is in connection with an asset
2 with respect to which no gain or loss has
3 been recognized by such corporation, or

4 “(D) any other transaction in which gain
5 or loss is not otherwise recognized and which
6 the Secretary determines is necessary to be
7 treated as a disregarded nonrecognition event in
8 order to prevent the avoidance of the purposes
9 of this part.

10 “(3) CONVERSION OF ASSETS.—

11 “(A) NONTRADABLE TO TRADABLE.—If a
12 taxpayer holds a nontradable covered asset
13 (other than an investment in a qualified oppor-
14 tunity fund (as defined in section 1400Z-2(d)))
15 which, as part of a transaction or series of
16 transactions, is converted to, or exchanged for,
17 a tradable covered asset, such conversion or ex-
18 change shall be treated as a disregarded non-
19 recognition event if gain or loss (if any) on such
20 conversion or exchange is, without regard to
21 this part, not recognized under this chapter.

22 “(B) TRADABLE TO NONTRADABLE.—If a
23 taxpayer holds a tradable covered asset which,
24 as part of a transaction or series of trans-
25 actions, is converted to, or exchanged for, a

1 nontradable covered asset, such conversion or
2 exchange shall be treated as a taxable event
3 with respect to the asset being converted or ex-
4 changed if gain or loss (if any) on such conver-
5 sion or exchange is, without regard to this part,
6 not recognized under this chapter.

7 “(b) APPLICABLE SAVINGS PLAN.—The term ‘appli-
8 cable savings plan’ means—

9 “(1) a defined contribution plan to which sec-
10 tion 401(a) or 403(a) applies,

11 “(2) an annuity contract under section 403(b),

12 “(3) an eligible deferred compensation plan de-
13 scribed in section 457(b) which is maintained by an
14 eligible employer described in section 457(e)(1)(A),

15 “(4) an individual retirement plan.

16 “(5) an Archer MSA (within the meaning of
17 section 220(d)),

18 “(6) a qualified tuition program (as defined in
19 section 529(b),

20 “(7) an ABLE account (as defined in section
21 529A(e)(6)),

22 “(8) a Coverdell education savings account (as
23 defined in section 530), or

24 “(9) a health savings account (within the mean-
25 ing of section 223(d)).

1 “(c) DERIVATIVE; UNDERLYING INVESTMENT.—

2 “(1) DERIVATIVE.—The term ‘derivative’ has
3 the meaning given such term under section
4 59A(h)(4).

5 “(2) UNDERLYING INVESTMENT.—The term
6 ‘underlying investment’ means, with respect to any
7 derivative, any item—

8 “(A) which is described in clauses (i)
9 through (v) of section 59A(h)(4)(A) (or any
10 item substantially the same as any such item),
11 and

12 “(B) by reference to which the value of the
13 derivative, or any payment or other transfer
14 with respect to the derivative, is determined ei-
15 ther directly or indirectly.

16 “(d) REGULATORY AUTHORITY TO PREVENT AVOID-
17 ANCE AND TO COORDINATE WITH OTHER PROVISIONS OF
18 THIS TITLE.—The Secretary shall issue such regulations
19 or other guidance as are necessary to—

20 “(1) prevent taxpayers from avoiding the appli-
21 cation of this part, and

22 “(2) coordinate the provisions of this part with
23 other provisions of this title which require taxpayers
24 to take income into account in the absence of a pay-
25 ment or other distribution.”.

1 (b) CLERICAL AMENDMENT.—The table of parts for
2 subchapter E of chapter 1 is amended by adding at the
3 end the following new item:

“Part IV. Elimination of deferral for applicable taxpayers .”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable events and applicable
6 transfers occurring in taxable years beginning after De-
7 cember 31, 2023.

8 **SEC. 102. CARRYBACK OF CAPITAL LOSSES ATTRIBUTABLE**
9 **TO MARK-TO-MARKET RULES.**

10 (a) IN GENERAL.—Section 1212 is amended by add-
11 ing at the end the following new subsection:

12 “(d) CARRYBACK OF LOSSES OF APPLICABLE TAX-
13 PAYERS FROM ASSETS MARKED TO MARKET.—

14 “(1) IN GENERAL.—If an applicable taxpayer
15 elects to have this subsection apply to any taxable
16 year in which the taxpayer has a net marked-to-mar-
17 ket loss (in this subsection referred to as the ‘loss
18 year’), the amount of such net marked-to-market
19 loss—

20 “(A) shall be a carryback to each of the 3
21 taxable years preceding the loss year, and

22 “(B) to the extent that, after the applica-
23 tion of paragraphs (2) and (3), such loss is al-
24 lowed as a carryback to any such preceding tax-

1 able year, the amount so allowed shall be treat-
2 ed as a long-term capital loss.

3 “(2) AMOUNT CARRIED TO EACH TAXABLE
4 YEAR.—The entire amount of the net marked-to-
5 market loss for any loss year shall be carried to the
6 earliest of the taxable years to which such loss may
7 be carried back under paragraph (1). The portion of
8 such loss which shall be carried to each of the 2
9 other taxable years to which such loss may be car-
10 ried back shall be the excess (if any) of such loss
11 over the portion of such loss which, after the appli-
12 cation of paragraph (3), was allowed as a carryback
13 for any prior taxable year

14 “(3) AMOUNT WHICH MAY BE USED IN ANY
15 PRIOR TAXABLE YEAR.—An amount shall be allowed
16 as a carryback under paragraph (1) from a loss year
17 to any prior taxable year only to the extent—

18 “(A) such amount does not exceed the net
19 marked-to-market gain for such prior year, and

20 “(B) the allowance of such carryback does
21 not increase or produce a net operating loss (as
22 defined in section 172(c)) for such year.

23 “(4) NET MARKED-TO-MARKET LOSS.—For
24 purposes of this subsection, the term ‘net marked-to-

1 market loss' means, with respect to any taxable
2 year, an amount equal to—

3 “(A) the net capital loss for the taxable
4 year determined by taking into account only
5 marked-to-market gains and losses, reduced
6 (but not below zero) by

7 “(B) the aggregate amount of gains from
8 the sale or exchange of capital assets which are
9 not marked-to-market gains.

10 “(5) NET MARKED-TO-MARKET GAIN.—For
11 purposes of this subsection—

12 “(A) IN GENERAL.—The term ‘net
13 marked-to-market gain’ means, with respect to
14 any taxable year, an amount equal to—

15 “(i) the capital gain net income for
16 the taxable year determined by taking into
17 account only marked-to-market gains and
18 losses, reduced (but not below zero) by

19 “(ii) the aggregate amount of losses
20 from the sale or exchange of capital assets
21 which are not marked-to-market losses.

22 “(B) SPECIAL RULE.—The net marked-to-
23 market gain for any taxable year before the loss
24 year shall be computed without regard to the

1 net marked-to-market loss for the loss year or
2 for any taxable year thereafter.

3 “(6) COORDINATION WITH CARRYFORWARD
4 PROVISIONS OF SUBSECTION (B)(1).—

5 “(A) CARRYFORWARD AMOUNT REDUCED
6 BY AMOUNT USED AS CARRYBACK.—For pur-
7 poses of applying subsection (b)(1)(B), if any
8 portion of the net marked-to-market loss for
9 any taxable year is allowed as a carryback
10 under paragraph (1) to any preceding taxable
11 year, the amount allowed as a carryback shall
12 be treated as a long-term capital gain for the
13 loss year.

14 “(B) CARRYOVER LOSS RETAINS CHAR-
15 ACTER AS ATTRIBUTABLE TO MARKED-TO-MAR-
16 KET.—Any amount carried forward as a long-
17 term capital loss to any taxable year under sub-
18 section (b)(1)(B) (after the application of sub-
19 paragraph (A)) shall, to the extent attributable
20 to marked-to market losses, be treated as
21 marked-to-market loss.

22 “(C) COORDINATION WITH REDUCTION IN
23 NET CAPITAL LOSS FOR CREDIT.—For purposes
24 of this paragraph and paragraph (4), any re-
25 duction in net capital loss under section

1 492(c)(3) (relating to reduction for credit
2 against tax attributable to deferral recapture
3 amount) shall, except as provided by the Sec-
4 retary, be applied before the application of such
5 paragraphs.

6 “(7) OTHER DEFINITIONS AND RULES.—For
7 purposes of this subsection—

8 “(A) MARKED-TO-MARKET GAINS AND
9 LOSSES.—

10 “(i) IN GENERAL.—The terms
11 ‘marked-to-market gains’ and ‘marked-to-
12 market losses’ means, with respect to any
13 applicable taxpayer for any taxable year,
14 gains or losses which are recognized and
15 taken into account by such taxpayer for
16 such taxable year under section 491 by
17 reason of taxable events described in sec-
18 tion 491(b)(1) with respect to tradable cov-
19 ered assets which are capital assets. Such
20 terms shall not include gains and losses
21 from nontradable covered assets which are
22 treated as tradable covered assets (and to
23 which section 491 applies) by reason of an
24 election under section 496(a)(3).

1 “(ii) APPLICABLE ENTITIES.—In the
2 case of marked-to-market gains or losses of
3 an applicable entity, this subsection shall
4 be applied at the partner or other owner-
5 ship level.

6 “(B) OTHER TERMS.—Any term used in
7 this subsection which is also used in part IV of
8 subchapter E shall have the same meaning as
9 when used in such part.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to loss years beginning after De-
12 cember 31, 2023.

13 **TITLE II—APPLICATION OF**
14 **OTHER PROVISIONS TO AP-**
15 **PLICABLE TAXPAYERS AND**
16 **ENTITIES**

17 **Subtitle A—Individuals**

18 **SEC. 201. APPLICABLE TAXPAYERS NOT ELIGIBLE FOR AD-**
19 **JUSTED GROSS INCOME LIMITATION ON NET**
20 **INVESTMENT TAX.**

21 (a) IN GENERAL.—Section 1411(a) is amended by
22 adding at the end the following new paragraph:

23 “(3) NO ADJUSTED GROSS INCOME LIMIT FOR
24 APPLICABLE TAXPAYERS.—In the case of an applica-
25 ble taxpayer (as defined in section 495) for any tax-

1 able year, notwithstanding paragraph (1) or (2), the
2 tax under this subsection for such taxable year shall
3 be equal to the product of—

4 “(A) in the case of an individual, the rate
5 of tax in effect under paragraph (1) multiplied
6 by the amount determined under paragraph
7 (1)(A), and

8 “(B) in the case of an estate or trust, the
9 rate of tax in effect under paragraph (2) multi-
10 plied by the amount determined under para-
11 graph (2)(A).”.

12 (b) **EFFECTIVE DATE.**—The amendment made by
13 this section shall apply to taxable years beginning after
14 December 31, 2023.

15 **SEC. 202. TREATMENT OF COVERED EXPATRIATES.**

16 (a) **APPLICATION OF EXPATRIATE RULES TO APPLI-**
17 **CABLE TAXPAYERS.**—Section 877A is amended by redес-
18 ignating subsection (i) as subsection (j) and by inserting
19 after subsection (h) the following new subsection:

20 “(i) **SPECIAL RULES FOR APPLICABLE TAX-**
21 **PAYERS.**—

22 “(1) **IN GENERAL.**—In the case of a covered ex-
23 patriate who is an applicable taxpayer (as defined in
24 section 495) for the taxable year which includes the
25 expatriation date—

1 “(A) no election may be made under sub-
2 section (b) with respect to any property treated
3 as sold by reason of subsection (a) (after appli-
4 cation of subparagraph (B)), and

5 “(B) the covered expatriate shall, for pur-
6 poses of subsection (a)(1), also be treated as
7 having sold on the last day of the 10-taxable
8 year period described in section 495(d)(2)(A)
9 all property held by the covered expatriate as of
10 the close of such day which is not otherwise
11 treated as sold under part IV of subchapter E
12 as of such time.

13 “(2) APPLICATION OF SECTION 877.—Notwith-
14 standing section 877(h)—

15 “(A) a covered expatriate described in
16 paragraph (1) shall be treated as an individual
17 to whom section 877 applies, and

18 “(B) such individual shall be taxable as
19 provided in such section for each of the taxable
20 years in the 10-taxable year period described in
21 section 495(d)(2)(A).”.

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2023.

1 **Subtitle B—Rules for Applicable**
2 **Entities and Trusts**

3 **SEC. 211. TREATMENT OF LIKE-KIND EXCHANGES BY AP-**
4 **PLICABLE ENTITIES.**

5 (a) **IN GENERAL.**—Section 1031 is amended by add-
6 ing at the end the following new subsection:

7 “(i) **SPECIAL RULES FOR APPLICABLE ENTITIES.**—
8 Subsection (a) shall not apply to an exchange by an appli-
9 cable entity if a notice received by the entity under sub-
10 section (b)(2)(A) or (c)(2) of section 493 is in effect at
11 the time of such exchange.”.

12 (b) **EFFECTIVE DATE.**—The amendment made by
13 this section shall apply to exchanges completed after De-
14 cember 31, 2023.

15 **SEC. 212. TREATMENT OF TRANSFERS BY APPLICABLE EN-**
16 **TITIES IN EXCHANGE FOR STOCK.**

17 (a) **IN GENERAL.**—Section 351 is amended by redес-
18 ignating subsection (h) as subsection (i) and by inserting
19 after subsection (g) the following new subsection:

20 “(h) **SPECIAL RULES FOR APPLICABLE ENTITIES.**—

21 “(1) **IN GENERAL.**—Subsection (a) shall not
22 apply to an exchange by an applicable entity if an
23 applicable notice received by the entity is in effect at
24 the time of such exchange.

1 “(2) APPLICABLE NOTICE.—For purposes of
2 paragraph (1)—

3 “(A) IN GENERAL.—The term ‘applicable
4 notice’ means, with respect to any applicable
5 entity, a notice—

6 “(i) which is received by the entity
7 under subsection (b)(2)(A) or (c)(2) of sec-
8 tion 493, and

9 “(ii) which relates to an applicable
10 taxpayer who is a 20-percent owner with
11 respect to such entity.

12 “(B) 20-PERCENT OWNER.—For purposes
13 of subparagraph (A), a 20-percent owner shall
14 be determined in the same manner as a 5-per-
15 cent owner under section 493(b)(4)(B), except
16 that ‘20 percent’ shall be substituted for ‘5 per-
17 cent’ in applying clauses (i) and (ii)(I) thereof.

18 “(3) APPLICABLE ENTITY.—For purposes of
19 this subsection, the term ‘applicable entity’ has the
20 meaning given such term by section 493.”.

21 (b) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to exchanges completed after De-
23 cember 31, 2023.

1 **SEC. 213. SPECIAL RULES FOR APPLICABLE TRUSTS.**

2 (a) IN-KIND DISTRIBUTIONS.—Section 643(e)(3) is
3 amended—

4 (1) in subparagraph (A), by striking “to which
5 an election under this paragraph applies” and in-
6 serting “to which this paragraph applies”, and

7 (2) by striking subparagraph (B) and inserting
8 the following:

9 “(B) DISTRIBUTIONS TO WHICH THIS
10 PARAGRAPH APPLIES.—This paragraph shall
11 apply to—

12 “(i) any distribution of property by an
13 estate which is described in section
14 495(a)(1)(B)(ii) or by an applicable trust
15 (as defined in section 495(c)), and

16 “(ii) any distribution during the tax-
17 able year of any other estate or trust which
18 makes an election under this paragraph.

19 Any election made under clause (ii) shall be
20 made on the return of such estate or trust for
21 such taxable year, and, once made, may be re-
22 voked only with the consent of the Secretary.”.

23 (b) TREATMENT OF LOANS.—Section 643(i) is
24 amended—

1 (1) by inserting “or an applicable trust (as de-
2 fined in section 495(c))” after “foreign trust” in
3 paragraph (1) ,

4 (2) by striking “who is a United States person”
5 in paragraph (1)(A) and inserting “who is not ex-
6 empt from tax under this chapter”,

7 (3) by striking “United States person” in para-
8 graph (1)(B) and inserting “person (other than a
9 person who is exempt from tax under this chapter)”,

10 (4) by striking paragraph (2)(C), and

11 (5) by striking “FOREIGN” in the heading
12 thereof and inserting “CERTAIN”.

13 (c) TREATMENT OF MULTIPLE TRUSTS.—Section
14 643(f)(2) is amended by inserting “or the rules of part
15 IV of subchapter E” after “this chapter”.

16 (d) FOREIGN TRUSTS.—

17 (1) IN GENERAL.—Subpart F of part I of sub-
18 chapter J is amended by adding at the end the fol-
19 lowing new section:

20 **“SEC. 686. SPECIAL RULES FOR APPLICABLE FOREIGN**
21 **TRUSTS.**

22 “(a) IN GENERAL.—For purposes of this part, in the
23 case of any beneficiary of an applicable foreign trust who
24 is required to include in income any amount attributable
25 to gain on an applicable transfer of any covered asset, the

1 amount of tax imposed under this chapter shall be in-
2 creased by the amount which bears the same ratio to the
3 amount of the deferral recapture amount which would be
4 determined on such applicable transfer under section
5 492(a) (determined as if such trust were an applicable tax-
6 payer and section 492 applied to any covered asset of the
7 trust) as—

8 “(1) the amount required to be included in in-
9 come attributable to the gain on such applicable
10 transfer, bears to

11 “(2) the total amount of the gain on such appli-
12 cable transfer.

13 “(b) EXCEPTION.—Subsection (a) shall not apply to
14 any amount to the extent that the applicable foreign trust
15 pays (at such time and in such manner as provided by
16 the Secretary) the tax which would be imposed under sec-
17 tion 492(a) (determined as if such trust were an applicable
18 taxpayer and section 492 applied to any covered asset of
19 the trust) with respect to the applicable transfer described
20 in subsection (a).

21 “(c) APPLICABLE FOREIGN TRUST.—For purposes of
22 this section, the term ‘applicable foreign trust’ means any
23 foreign trust which would be an applicable trust if such
24 trust were a domestic trust.

1 “(d) OTHER TERMS.—Any term used in this section
2 which is also used in part IV of subchapter E shall have
3 the same meaning as when used in such part.”.

4 (2) REPORTING.—Section 6048(c)(1) is amend-
5 ed by striking “and”, at the end of subparagraph
6 (B), by redesignating subparagraph (C) as subpara-
7 graph (D), and by inserting after subparagraph (B)
8 the following new subparagraph:

9 “(C) such information as the Secretary
10 shall require for purposes of determining the in-
11 crease (if any) in tax under section 686, and”.

12 (3) CLERICAL AMENDMENT.—The table of sec-
13 tions for subpart F of part I of subchapter J is
14 amended by adding at the end the following new
15 item:

“Sec. 686. Special rules for applicable foreign trusts.”.

16 (e) COORDINATION WITH THROWBACK RULES.—The
17 Secretary of the Treasury (or the Secretary’s delegate)
18 shall provide such regulations or other guidance as nec-
19 essary to coordinate the amendments made by this section
20 with the rules of subpart D of part I of subchapter J.

21 (f) EFFECTIVE DATES.—

22 (1) IN GENERAL.—Except as provided in para-
23 graph (2), the amendments made by this section
24 shall apply to taxable years beginning after Decem-
25 ber 31, 2023.

1 (2) FOREIGN TRUSTS.—The amendments made
2 by subsection (e) shall apply to applicable transfers
3 occurring in taxable years beginning after December
4 31, 2023.

5 **Subtitle C—Treatment of Deferred**
6 **Compensation and Certain Life**
7 **Insurance and Annuity Con-**
8 **tracts**

9 **SEC. 221. ELIMINATION OF DEFERRAL OF TAX ON CERTAIN**
10 **COMPENSATION.**

11 (a) IN GENERAL.—Subpart A of part I of subchapter
12 D of chapter 1 is amended by adding at the end the fol-
13 lowing new section:

14 **“SEC. 409B. SPECIAL RULES FOR CERTAIN DEFERRED COM-**
15 **PENSATION.**

16 “(a) IN GENERAL.—In the case of an individual who
17 is an applicable taxpayer for any taxable year, the tax-
18 payer’s tax under this chapter for the taxable year (deter-
19 mined without regard to this section) shall be increased
20 by an amount equal to the sum of—

21 “(1) the deferral recapture amount determined
22 under subsection (b)(1) for any applicable deferred
23 compensation which is includible in the gross income
24 of the individual for the taxable year, and

1 6621(b) (plus 1 percentage point), and the
2 method applicable under section 6621, for un-
3 derpayments of tax for such period.

4 “(B) DUE DATE.—For purposes of this
5 paragraph, the term ‘due date’ means, with re-
6 spect to any preceding taxable year, the date
7 prescribed by law (determined without regard to
8 extensions) for filing the return of the tax im-
9 posed by this chapter for such taxable year.

10 “(4) LIMITATION.—In no case shall the deferral
11 recapture amount determined with respect to any
12 applicable deferred compensation which is includible
13 in gross income for a taxable year exceed an amount
14 equal to 10 percent of the amount of such com-
15 pensation.

16 “(c) DEFINITIONS.—For purposes of this section—

17 “(1) APPLICABLE TAXPAYER.—The term ‘appli-
18 cable taxpayer’ has the meaning given such term by
19 section 495.

20 “(2) APPLICABLE DEFERRED COMPENSA-
21 TION.—

22 “(A) IN GENERAL.—Except as provided in
23 subparagraph (B), the term ‘applicable deferred
24 compensation’ means—

1 “(i) any compensation provided under
2 a nonqualified deferred compensation plan,
3 as defined in section 409A(d)(1), except
4 that—

5 “(I) such term shall include stock
6 appreciation rights, and

7 “(II) compensation shall not fail
8 to be treated as deferred solely be-
9 cause such compensation is not treat-
10 ed as deferred for purposes of section
11 409A by reason of such compensation
12 being includible in gross income for
13 the first taxable year after a taxable
14 year in which such compensation is no
15 longer subject to a substantial risk of
16 forfeiture, and

17 “(ii) any other property transferred in
18 connection with the performance of serv-
19 ices which is subject to section 83.

20 “(B) EXCEPTIONS.—Such term does not
21 include—

22 “(i) severance pay, or

23 “(ii) any transfer of a profits interest
24 in a partnership.

1 “(C) EARNINGS AND INTEREST.—Any
2 earnings, interest, or similar adjustment in-
3 cluded in an amount of applicable deferred com-
4 pensation shall not be treated as separately de-
5 ferred from such amount.

6 “(3) SEVERANCE PAY.—The term ‘severance
7 pay’ means any compensation the payment or vest-
8 ing of which is contingent, in whole or in part, upon
9 the termination of employment or other services, in-
10 cluding cash, property, reimbursement or direct pro-
11 vision of living, travel, and business expenses, and
12 life, health, or other insurance, to the extent other-
13 wise includible in gross income.

14 “(4) DEFERRAL PERIOD.—

15 “(A) IN GENERAL.—Except as provided in
16 subparagraphs (B) and (C), the term ‘deferral
17 period’, with respect to any applicable deferred
18 compensation, means the period—

19 “(i) beginning on the date the com-
20 pensation was first deferred, without re-
21 gard to vesting, transferability, or risk of
22 forfeiture, and

23 “(ii) ending on the date such com-
24 pensation is includible in gross income or,
25 if applicable, the date described in section

1 83(a)(1) with respect to such compensa-
2 tion.

3 For purposes of the preceding sentence, com-
4 pensation shall be treated as first deferred as of
5 the date the applicable taxpayer first has a le-
6 gally binding right to the compensation or, in
7 the case of property subject to section 83, the
8 date of transfer of the property.

9 “(B) COMPUTATION OF INTEREST.—Solely
10 for purposes of subsection (b)(3), the deferral
11 period shall end on the last day of the taxable
12 year which includes the date described in sub-
13 paragraph (A)(ii).

14 “(C) PROPERTY TRANSFERRED PURSUANT
15 TO THE EXERCISE OF AN OPTION.—In the case
16 of property acquired pursuant to an option de-
17 scribed in section 83(e)(3), the deferral period
18 shall begin on the date of grant of the option
19 pursuant to which the property was acquired.

20 “(d) REGULATIONS.—The Secretary shall prescribe
21 such regulations as may be necessary or appropriate to
22 carry out the purposes of this section.”.

23 (b) INFORMATION REPORTING WITH RESPECT TO
24 APPLICABLE DEFERRED COMPENSATION.—Subpart B of
25 part III of subchapter A of chapter 61, as in effect after

1 the amendments made by section 334(d) of the SECURE
2 2.0 Act of 2022, is amended by adding at the end the
3 following new section:

4 **“SEC. 6050AA. INFORMATION WITH RESPECT TO APPLICA-**
5 **BLE DEFERRED COMPENSATION.**

6 “(a) IN GENERAL.—Every person making a payment
7 to an individual in excess of \$5,000,000 of—

8 “(1) any applicable deferred compensation de-
9 scribed in section 409B(c)(2)(A), or

10 “(2) any severance pay (as defined in section
11 409B(d)(3)),

12 shall make a return, not later than January 31 of the first
13 calendar year beginning after the close of the taxable year
14 during which such payment is includible in gross income
15 of the individual.

16 “(b) INFORMATION REQUIRED.—The return required
17 by subsection (a) shall include—

18 “(1) the name, taxpayer identification number,
19 and address of the individual to whom the payment
20 of applicable deferred compensation or severance pay
21 is made,

22 “(2) the date any applicable deferred compensa-
23 tion was first deferred (the date of the transfer, in
24 the case of property subject to section 83, or the
25 date of grant of the option, in the case of property

1 acquired pursuant to an option described in section
2 83(e)(3)), without regard to vesting, transferability,
3 or risk of forfeiture,

4 “(3) the amount of such compensation includ-
5 ible in gross income of the individual for the taxable
6 year,

7 “(4) the amount of such severance pay includ-
8 ible in gross income of the individual for the taxable
9 year, and

10 “(5) such other information as the Secretary
11 may require.

12 “(c) SPECIAL RULES.—

13 “(1) SECTION 83 COMPENSATION.—With re-
14 spect to transfers of property to which section 83
15 applies, the information required under paragraphs
16 (2) and (3) of subsection (b) shall be reported sepa-
17 rately for each item of property transferred, except
18 that property for which the information required by
19 such paragraphs is identical may be aggregated.

20 “(2) OTHER COMPENSATION.—With respect to
21 any applicable deferred compensation not described
22 in paragraph (1), if such compensation is paid pur-
23 suant to more than 1 plan or arrangement or in-
24 volves amounts which were first deferred on more
25 than 1 date, the information required under para-

1 graphs (2) and (3) of subsection (b) shall be re-
2 ported separately with respect to each such plan or
3 arrangement and each such date.

4 “(d) STATEMENTS TO BE FURNISHED TO INDIVID-
5 UALS WITH RESPECT TO WHOM INFORMATION IS RE-
6 PORTED.—Every person required to make a return under
7 subsection (a) shall furnish to each individual with respect
8 to whom such a return is required a written statement
9 showing—

10 “(1) the name, address, and phone number of
11 the information contact of the person making such
12 return, and

13 “(2) the information required by paragraphs
14 (2) through (5) of subsection (b).

15 The written statement required under the preceding sen-
16 tence shall be furnished to the individual on or before Jan-
17 uary 31 of the first calendar year beginning after the close
18 of the taxable year for which the return under subsection
19 (a) was made.

20 “(e) ADJUSTMENTS FOR INFLATION.—

21 “(1) IN GENERAL.—In the case of any taxable
22 year beginning after 2024, the \$5,000,000 amount
23 under subsection (a) shall be increased by an
24 amount equal to the product of—

25 “(A) such dollar amount, and

1 “(B) the cost-of-living adjustment under
2 section 1(f)(3) for the calendar year in which
3 such taxable year begins, determined by sub-
4 stituting ‘calendar year 2023’ for ‘calendar year
5 1992’ in subparagraph (B) thereof.

6 “(2) ROUNDING.—If any amount as adjusted
7 under paragraph (1) is not a multiple of \$250,000,
8 such amount shall be rounded to the next lowest
9 multiple of \$250,000.

10 “(f) REGULATIONS.—The Secretary shall prescribe
11 such regulations as may be necessary or appropriate to
12 carry out the purposes of this section, including regula-
13 tions specifying what constitutes a payment to an indi-
14 vidual of applicable deferred compensation for purposes of
15 subsection (a).”.

16 (c) PENALTIES.—

17 (1) RETURNS.—Section 6724(d)(1)(B), as in
18 effect after the amendments made by section 334(d)
19 of the SECURE 2.0 Act of 2022, is amended by
20 striking “or” at the end of clause (xxvii), by striking
21 “and” at the end of clause (xxviii) and inserting
22 “or”, and by inserting after clause (xxviii) the fol-
23 lowing new clause:

1 “(xxix) section 6050AA (a) (relating
2 to returns of information with respect to
3 applicable deferred compensation), and”.

4 (2) STATEMENTS.—Section 6724(d)(2), as so in
5 effect, is amended—

6 (A) by striking “or” at the end of subpara-
7 graph (KK),

8 (B) by striking the period at the end of
9 subparagraph (LL) and inserting “, or”, and

10 (C) by inserting after subparagraph (LL)
11 the following new subparagraph:

12 “(MM) section
13 6050AA(d) (relating to
14 statements of information
15 with respect to applicable
16 deferred compensation).”.

17 (d) CLERICAL AMENDMENTS.—

18 (1) IN GENERAL.—The table of sections for
19 subpart A of part I of subchapter D of chapter 1 is
20 amended by inserting after the item relating to sec-
21 tion 409A the following new item:

“Sec. 409B. Special rules for certain deferred compensation.”.

22 (2) INFORMATION REPORTING.—The table of
23 sections for subpart B of part III of subchapter A
24 of chapter 61, as in effect after the amendments
25 made by section 334(d) of the SECURE 2.0 Act of

1 2022, is amended by inserting after the item relat-
2 ing to section 6050Z the following new item:

 “Sec. 6050AA. Information with respect to applicable deferred compensation.”.

3 (e) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2023.

6 **SEC. 222. RULES RELATING TO CERTAIN LIFE INSURANCE**
7 **AND ANNUITY CONTRACTS OF APPLICABLE**
8 **TAXPAYERS.**

9 (a) **TREATMENT OF AMOUNTS RECEIVED.**—

10 (1) **IN GENERAL.**—Section 72(e) is amended by
11 redesignating paragraph (12) as paragraph (13) and
12 by inserting after paragraph (11) the following:

13 “(12) **TREATMENT OF CERTAIN AMOUNTS RE-**
14 **CEIVED UNDER CERTAIN LIFE INSURANCE AND AN-**
15 **NUITY CONTRACTS OF APPLICABLE TAXPAYERS.**—

16 “(A) **IN GENERAL.**—In the case of any ap-
17 plicable amount which is received during any
18 taxable year, notwithstanding paragraph (5)(A)
19 or (5)(E)—

20 “(i) if such amount is received on or
21 after the annuity starting date, paragraph
22 (2)(A) shall apply, and

23 “(ii) if such amount is received before
24 the annuity starting date or is received
25 with respect to a life insurance contract to

1 which this section applies, the rules of
2 clauses (i) and (ii) of paragraph (2)(B)
3 shall apply.

4 “(B) APPLICABLE AMOUNT.—

5 “(i) IN GENERAL.—For purposes of
6 this paragraph, the term ‘applicable
7 amount’ means—

8 “(I) any amount to which this
9 subsection applies which is received
10 under an applicable private placement
11 life insurance or annuity contract, and

12 “(II) in the case of an applicable
13 taxpayer, notwithstanding paragraph
14 (5)(A), (5)(E), or (10)(A), any
15 amount or portion described in para-
16 graph (4)(A) with respect to a life in-
17 surance or annuity contract, except
18 that ‘any applicable taxpayer or any
19 related person (as defined in section
20 144(a)(3)) to an applicable taxpayer’
21 shall be substituted for ‘an individual’
22 in applying such paragraph.

23 “(ii) TREATMENT OF REFUNDS, SUR-
24 RENDERS, REDEMPTIONS AND MATU-
25 RITIES.—Notwithstanding paragraph

1 (5)(A) or (5)(E), amounts described in
2 clause (i)(I) shall include amounts de-
3 scribed in clause (i) or (ii) of paragraph
4 (5)(E) received under an applicable private
5 placement life insurance or annuity con-
6 tract.

7 “(iii) AMOUNTS UNDER PRE-1982 AND
8 QUALIFIED PLAN CONTRACTS, ETC. EX-
9 CLUDED.—Such term shall not include
10 amounts received—

11 “(I) under a contract which is
12 described in paragraph (5)(B) or
13 (5)(D), or

14 “(II) under a qualified tuition
15 program (as defined in section
16 529(b)) or under a Coverdell edu-
17 cation savings account (as defined in
18 section 530(b)).

19 “(C) APPLICABLE PRIVATE PLACEMENT
20 LIFE INSURANCE OR ANNUITY CONTRACT.—For
21 purposes of this paragraph—

22 “(i) IN GENERAL.—The term ‘applica-
23 ble private placement life insurance or an-
24 nuity contract’ means a private placement
25 life insurance or annuity contract the hold-

1 er of which (whether directly or indirectly)
2 is an applicable taxpayer.

3 “(ii) SECRETARIAL AUTHORITY.—The
4 Secretary shall prescribe regulations or
5 other guidance which treat a private place-
6 ment life insurance or annuity contract as
7 an applicable private placement life insur-
8 ance or annuity contract in cases where an
9 applicable taxpayer (or a related person)
10 has an interest in such contract not de-
11 scribed in clause (i) if such treatment is
12 necessary to prevent the avoidance of the
13 purposes of this paragraph.

14 “(D) PRIVATE PLACEMENT LIFE INSUR-
15 ANCE OR ANNUITY CONTRACT.—For purposes
16 of this paragraph, the term ‘private placement
17 life insurance or annuity contract’ means any
18 contract—

19 “(i) which is an annuity contract or a
20 life insurance contract, and

21 “(ii) with respect to which the holder
22 of the contract is required, for purposes of
23 obtaining a registration exemption under
24 securities laws as in effect on the date of
25 enactment of this section (including the

1 Securities Exchange Act of 1934 and the
2 Investment Advisors Act of 1940), to make
3 a representation that such owner—

4 “(I) has a specified minimum
5 amount of income or assets,

6 “(II) has completed a specified
7 minimum level of education, or

8 “(III) holds a specific license or
9 credential.

10 “(E) APPLICABLE TAXPAYER.—For pur-
11 poses of this paragraph, the term ‘applicable
12 taxpayer’ has the meaning given such term
13 under section 495.”.

14 (2) CONFORMING AMENDMENT.—Section
15 72(e)(5)(C) is amended by inserting “or (12)” after
16 “(10)”.

17 (3) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to amounts received in
19 taxable years beginning after December 31, 2023.

20 (b) 10-PERCENT ADDITIONAL TAX FOR DISTRIBUTIONS FROM APPLICABLE PRIVATE PLACEMENT LIFE INSURANCE OR ANNUITY CONTRACTS.—

23 (1) IN GENERAL.—Section 72(v) is amended—

24 (A) by inserting “or an applicable private
25 placement life insurance or annuity contract (as

1 defined in subsection (e)(12))” after “a modi-
2 fied endowment contract (as defined in section
3 7702A)” in paragraph(1), and

4 (B) by inserting “AND APPLICABLE PRI-
5 VATE PLACEMENT LIFE INSURANCE OR ANNU-
6 ITY CONTRACTS” after “MODIFIED ENDOW-
7 MENT CONTRACTS” in the heading thereof.

8 (2) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to amounts received in
10 taxable years beginning after December 31, 2023.

11 (c) REPEAL OF EXCLUSION FOR DEATH BENE-
12 FITS.—

13 (1) IN GENERAL.—Section 101 is amended by
14 adding at the end the following new subsection:

15 “(k) EXCLUSION NOT TO APPLY.—

16 “(1) IN GENERAL.—Subsection (a)(1) shall not
17 apply to amounts received by reason of the death of
18 the insured under an applicable private placement
19 life or annuity contract (within the meaning of sec-
20 tion 72(e)(12)).

21 “(2) AMOUNTS PREVIOUSLY INCLUDED.—The
22 Secretary shall prescribe rules to ensure that para-
23 graph (1) shall not apply to any portion of any
24 amount received which was previously included in
25 gross income.”.

1 (2) CONFORMING AMENDMENT.—Section
2 101(a)(1) is amended by striking “and subsection
3 (j),” and inserting “subsection (j), and subsection
4 (k),”.

5 (3) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to amounts received in
7 taxable years beginning after December 31, 2023.

8 (d) REPORTING REQUIREMENTS.—

9 (1) IN GENERAL.—Subpart B of part III of
10 subchapter A of chapter 61, as amended by this Act,
11 is amended by adding at the end the following new
12 section:

13 **“SEC. 6050BB. RETURNS RELATING TO AMOUNTS RECEIVED**
14 **UNDER CERTAIN LIFE INSURANCE AND AN-**
15 **NUITY CONTRACTS.**

16 “(a) IN GENERAL.—Every person who issues a life
17 insurance or annuity contract or who reinsures such a con-
18 tract shall make an annual return (at such time and in
19 such manner as the Secretary shall prescribe) setting
20 forth—

21 “(1) the name, address, and TIN of such per-
22 son,

23 “(2) the name, address, and TIN of each per-
24 son who receives an applicable amount (as defined in
25 section 72(e)(12)) during the year with respect to

1 any life insurance or annuity contract issued or rein-
2 sured by such person,

3 “(3) the aggregate applicable amounts received
4 by each person identified in paragraph (2), and

5 “(4) such other information as the Secretary
6 may require.

7 “(b) STATEMENT TO BE FURNISHED TO TAXPAYERS
8 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—

9 “(1) IN GENERAL.—Every person that is re-
10 quired to make a return under subsection (a) shall
11 furnish to each person whose identity is required to
12 be set forth under subsection (a)(2) a written state-
13 ment showing—

14 “(A) the name, address, and phone num-
15 ber of the information contact of the person re-
16 quired to make such return, and

17 “(B) the information required to be shown
18 on such return with respect to the person de-
19 scribed in subsection (a)(2) and with respect to
20 applicable amounts received by such person.

21 “(2) FURNISHING OF INFORMATION.—The
22 written statement required under paragraph (1)
23 shall be furnished to the person on or before Janu-
24 ary 31 of the year following the calendar year for

1 which the return under subsection (a) is required to
2 be made.

3 “(c) REGULATORY AUTHORITY.—The Secretary may
4 prescribe such regulations and other guidance as nec-
5 essary for purposes of carrying out this section, including
6 regulations or other guidance to require reporting under
7 this section by such other persons as necessary to carry
8 out the purposes of section 72(e)(12).”.

9 (2) PENALTIES.—

10 (A) RETURNS.—Section 6724(d)(1)(B), as
11 amended by this Act, is amended by striking
12 “or” at the end of clause (xxviii), by striking
13 “and” at the end of clause (xxix) and inserting
14 “or”, and by inserting after clause (xxix) the
15 following new clause:

16 “(xxx) section 6050BB(a) (relating to
17 returns of information with respect to pri-
18 vate placement life insurance and annuity
19 contracts),”.

20 (B) STATEMENTS.—Section 6724(d)(2), as
21 so amended, is amended—

22 (i) by striking “or” at the end of sub-
23 paragraph (LL),

1 (ii) by striking the period at the end
2 of subparagraph (MM) and inserting “,
3 or”, and

4 (iii) by inserting after subparagraph
5 (MM) the following new subparagraph:

6 “(NN) section
7 6050BB(b) (relating to
8 statements of information
9 with respect to private place-
10 ment life insurance and an-
11 nuity contracts).”.

12 (3) CLERICAL AMENDMENT.—The table of sec-
13 tions for subpart B of part III of subchapter A of
14 chapter 61, as amended by this Act, is amended by
15 inserting after the item relating to section 6050AA
16 the following new item:

“Sec. 6050BB. Returns relating to amounts received under certain life insur-
ance and annuity contracts.”.

17 (4) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to taxable years begin-
19 ning after December 31, 2023.

1 **Subtitle D—Repeal of Special**
2 **Treatment for Certain Investments**

3 **SEC. 231. TREATMENT OF EXCLUSION FOR CERTAIN SMALL**
4 **BUSINESS STOCK.**

5 (a) IN GENERAL.—Section 1202(a) is amended by
6 adding at the end the following new paragraph:

7 “(5) SPECIAL RULES FOR APPLICABLE TAX-
8 PAYERS.—

9 “(A) IN GENERAL.—This subsection shall
10 not apply to any gain from the sale or exchange
11 of qualified small business stock by an applica-
12 ble taxpayer (as defined in section 495).

13 “(B) EXCEPTION.—Subparagraph (A)
14 shall not apply to any qualified small business
15 stock acquired before November 30, 2023.”.

16 (b) EFFECTIVE DATE.—The amendment made by
17 this subsection shall apply to sales or exchanges on or
18 after November 30, 2023.

19 **SEC. 232. MODIFICATIONS FOR INVESTMENTS IN QUALI-**
20 **FIED OPPORTUNITY FUNDS.**

21 (a) TERMINATION OF ELECTION.—

22 (1) IN GENERAL.—Section 1400Z-2(a)(2)(B) is
23 amended to read as follows:

1 “(B) except as provided in paragraph (3),
2 with respect to any sale or exchange after the
3 earlier of—

4 “(i) December 31, 2026, or

5 “(ii) in the case of an applicable tax-
6 payer, the last day of the taxable year pre-
7 ceding the first taxable year for which the
8 taxpayer is an applicable taxpayer.”.

9 (2) SPECIAL RULES.—Section 1400Z-2(a) is
10 amended by adding at the end the following new
11 paragraph:

12 “(3) SPECIAL RULES FOR APPLICABLE TAX-
13 PAYERS AND ENTITIES.—For purposes of paragraph
14 (2)(B)—

15 “(A) APPLICABLE ENTITIES.—No election
16 may be made under paragraph (1) by an appli-
17 cable entity with respect to any sale or ex-
18 change if a notice received by the entity under
19 subsection (b)(2)(A) or (c)(2) of section 493 is
20 in effect at the time of such sale or exchange.

21 “(B) SPECIAL RULE FOR 2023.—In the
22 case of a taxpayer which would be an applicable
23 taxpayer for its first taxable year beginning in
24 2023 (determined as if part IV of subchapter E
25 applied to taxable years beginning in 2023),

1 clause (ii) of paragraph (2)(B) shall be applied
2 by substituting ‘November 30, 2023’ for the
3 date otherwise specified in such clause.

4 “(C) DEFINITIONS.—For purposes of this
5 paragraph and subsection (c), any term used in
6 this paragraph which is also used in part IV of
7 subchapter E shall have the same meaning as
8 when used in such part.”.

9 (b) MODIFICATION OF SPECIAL RULE FOR INVEST-
10 MENTS HELD 10 YEARS.—Section 1400Z-2(c) is amend-
11 ed by striking “shall be equal to” and all that follows and
12 inserting “shall be equal to—

13 “(1) in the case of any taxpayer who is an ap-
14 plicable taxpayer for any taxable year during which
15 such investment was held by the taxpayer or any
16 taxpayer which is an applicable entity, the lesser
17 of—

18 “(A) the fair market value of such invest-
19 ment as of the last day of the taxable year
20 which includes the later of—

21 “(i) the date that such investment has
22 been held for 10 years, or

23 “(ii) in the case of—

1 “(I) an applicable taxpayer, the
2 date that such taxpayer first became
3 an applicable taxpayer, or

4 “(II) an applicable entity, the
5 first date a notice was received by the
6 entity under subsection (b)(2)(A) or
7 (c)(2) of section 493, or

8 “(B) the fair market value of such invest-
9 ment on the date that investment is sold or ex-
10 changed, and

11 “(2) in the case of any other taxpayer, the fair
12 market value of such investment on the date the in-
13 vestment is sold or exchanged.”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to sales or exchanges after Novem-
16 ber 30, 2023, in taxable years ending after such date.