H. R. ______

To amend the Internal Revenue Code of 1986 to provide for comprehensive income tax reform.

IN THE HOUSE OF REPRESENTATIVES

M. ______ introduced the following bill; which was referred to the Committee on ______________________

A BILL

To amend the Internal Revenue Code of 1986 to provide for comprehensive income tax reform.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

(a) Short Title.—This Act may be cited as the “Tax Reform Act of 2011”.

(b) Amendment of 1986 Code.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment
to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) Table of Contents.—The table of contents of this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—TAX REFORM FOR INDIVIDUALS

Sec. 101. [individual tax reforms to be provided].

TITLE II—TAX REFORM FOR BUSINESSES

Subtitle A—Corporate Income Tax Rate Reduction

Sec. 201. Corporate income tax rate reduction.

Subtitle B—[other Business Reforms to Be Provided]

TITLE III—PARTICIPATION EXEMPTION SYSTEM FOR THE TAXATION OF FOREIGN INCOME

Subtitle A—Establishment of Exemption System

Sec. 301. Deduction for dividends received by domestic corporations from certain foreign corporations.

Sec. 302. Treatment of gains and losses on disposition by United States shareholders of stock of certain active foreign corporations.

Sec. 303. Treatment of deferred foreign income upon transition to participation exemption system of taxation.

Subtitle B—Modifications Related to Foreign Tax Credit System

Sec. 311. Repeal of section 902 indirect foreign tax credits; determination of section 960 credit on current year basis.

Sec. 312. Foreign tax credit limitation applied by allocating only directly allocable deductions to foreign source income.

Sec. 313. Elimination of foreign tax credit baskets.

Sec. 314. Repeal of rule suspending foreign taxes and credits until related income is taken into account.

Subtitle C—Rules Related to Passive Income

PART 1—MODIFICATION OF SUBPART F PROVISIONS

Sec. 321. Termination of current year inclusion based on investments in United States property.

Sec. 322. Repeal of exclusion of previously taxed earnings and profits.

PART 2—PREVENTION OF BASE EROSION

Sec. 331A. [Option A:] Excess income from transfers of intangibles to low-taxed affiliates treated as subpart F income.
Sec. 331B. [Option B:] Low-taxed cross-border foreign income treated as sub-part F income.
Sec. 331C. [Option C:] Foreign intangible income subject to taxation at reduced rate; intangible income treated as subpart F income.
Sec. 332. Denial of deduction for interest expense of United States shareholders which are members of worldwide affiliated groups with excess domestic indebtedness.

TITLE IV—OTHER REFORMS

Sec. 401. [other reforms to be provided].

TITLE I—TAX REFORM FOR INDIVIDUALS

SEC. 101. [INDIVIDUAL TAX REFORMS TO BE PROVIDED].

TITLE II—TAX REFORM FOR BUSINESSES

Subtitle A—Corporate Income Tax Rate Reduction

SEC. 201. CORPORATE INCOME TAX RATE REDUCTION.

(a) GENERAL RULE.—Paragraph (1) of section 11(b) (relating to amount of tax) is amended—

(1) by inserting “and” at the end of subparagraph (A),

(2) by striking subparagraphs (B), (C), and (D) and inserting the following:

“(B) 25 percent of so much of the taxable income as exceeds $50,000.”, and

(3) by striking “$11,750” and all that follows and inserting “$5,000.”.

(b) CONFORMING AMENDMENTS.—
(1) Paragraph (2) of section 11(b) is amended by striking “35 percent” and inserting “25 percent”.

(2) Paragraphs (1) and (2) of section 1445(e) are each amended by striking “35 percent” and inserting “25 percent”.

(3) Subparagraph (A) of section 7518(g)(6) is amended by striking “34 percent” and inserting “25 percent”.

(4) Paragraph (2) of section 53511(f) of title 46, United States Code, is amended by striking “34 percent” and inserting “25 percent”.

(c) Repeal of Deadwood Alternative Capital Gains Tax for Corporations.—

(1) In general.—Part I of subchapter P of chapter 1 is amended by striking section 1201 (and by striking the item relating to such section in the table of sections for such part).

(2) Conforming amendments.—

(A) Section 12 is amended by striking paragraph (4) and by redesignating paragraphs (5) through (7) as paragraphs (4) through (6) respectively.

(B) Section 55(b) is amended by striking paragraph (4).
(C) Section 453A(c)(3) is amended by striking “or 1201 (whichever is appropriate)”.

(D) Section 527(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes “is hereby imposed” and inserting:

“(b) TAX IMPOSED.—A tax”.

(E) Sections 594(a) is amended by striking “taxes imposed by section 11 or 1201(a)” and inserting “tax imposed by section 11”.

(F) Section 691(c)(4) is amended by striking “1201,”.

(G) Section 801(a) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes “is hereby imposed” and inserting:

“(a) TAX IMPOSED.—A tax”.

(H) Section 831(d) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(I) Sections 832(c)(5) and 834(b)(1)(D) are each amended by striking “see. 1201 and following,”.
(J) Sections 852(b)(3)(A) and 857(b)(3)(A)(ii) are each amended by striking “section 1201(a)” and inserting “section 11(b)”.

(K) Section 882(a)(1) is amended by striking “, or 1201(a)”.

(L)(i) Section 904(b)(2)(B) is amended by inserting “any taxpayer other than a corporation for” after “In the case of”.

(ii) Subparagraph (D) of section 904(b)(3) is amended to read as follows:

“(D) CAPITAL GAIN RATE DIFFERENTIAL.—There is a capital gain rate differential for any taxable year if section 1(h) applies to such taxable year.”.

(iii) Subparagraph (E) of section 904(b)(3) is amended to read as follows:

“(E) RATE DIFFERENTIAL PORTION.—The rate differential portion of foreign source net capital gain, net capital gain, or the excess of net capital gain from sources within the United States over net capital gain, as the case may be, is the same proportion of such amount as—

“(i) the excess of—
“(I) the highest rate of tax set forth in subsection (a), (b), (e), (d), or (e) of section 1 (whichever applies), over

“(II) the alternative rate of tax determined under section 1(h), bears to

“(ii) that rate referred to in subclause (I).”.

(M) Section 954(b)(2)(C) is amended by striking “or 1201(a)”.

(N) Section 1374(b) is amended by striking paragraph (4).

(O) Section 1381(b) is amended by striking “or 1201”.

(P) Sections 6425(c)(1)(A)(i) and 6655(g)(1)(A)(i) are each amended by striking “or 1201(a),”.

(Q) Section 7518(g)(6)(A) is amended by striking “or section 1201(a)”.

(R) Section 53511(f)(2) of title 46, United States Code, is amended by striking “section 1(h) or 1201(a) of such Code (26 U.S.C. 1(h), 1201(a))” and inserting “section 1(h) of such Code (26 U.S.C. 1(h))”.

(d) **Effective Date.**—

(1) In general.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2012.

(2) Amendments related to withholding.—The amendments made by paragraphs (2), (3), and (4) of subsection (b) shall take effect on January 1, 2013.

**Subtitle B**—[Other Business Reforms to Be Provided]

**Title III**—Participation Exemption System for the Taxation of Foreign Income

**Subtitle A**—Establishment of Exemption System

**Sec. 301.** Deduction for Dividends Received by Domestic Corporations from Certain Foreign Corporations.

(a) In general.—Part VIII of subchapter B of chapter 1 is amended by inserting after section 245 the following new section:
SEC. 245A. DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM CERTAIN FOREIGN CORPORATIONS.

(a) In General.—In the case of any dividend received from a controlled foreign corporation by a domestic corporation which is a United States shareholder with respect to such controlled foreign corporation, there shall be allowed as a deduction an amount equal to 95 percent of the foreign-source portion of such dividend.

(b) Treatment of Certain Entities as Controlled Foreign Corporations.—

(1) Electing 10/50 Corporations Treated as Controlled Foreign Corporations.—

(A) In General.—Each noncontrolled 10/50 corporation with respect to a domestic corporation shall be treated for purposes of this title as a controlled foreign corporation with respect to such domestic corporation if such domestic corporation elects the application of this paragraph. Any domestic corporation which elects the application of this paragraph shall be treated for purposes of this title as a United States shareholder with respect to each such noncontrolled 10/50 corporation.

(B) Election.—
“(i) Time of Election.—Any election under this paragraph shall be made not later than the due date for filing the return of tax for the first taxable year of the taxpayer described in section 301(f) of the Tax Reform Act of 2011 with respect to which there are one or more noncontrolled 10/50 corporations with respect to the taxpayer.

“(ii) Revocation of Election.—Any election under this paragraph, once made, may be revoked only with the consent of the Secretary.

“(iii) Controlled Groups.—If a domestic corporation making an election under this subsection is a member of a controlled group of corporations (within the meaning of section 1563(a), except that ‘more than 50 percent’ shall be substituted for ‘at least 80 percent’ each place it appears therein), then, except as otherwise provided by the Secretary, such election shall apply to all members of such group.
“(2) FOREIGN BRANCHES OF DOMESTIC CORPORATIONS.—

“(A) IN GENERAL.—In the case of a foreign branch of a domestic corporation—

“(i) such branch shall be treated for purposes of this title as a separate corporation which is a controlled foreign corporation, and

“(ii) such domestic corporation shall be treated for purposes of this title as a United States shareholder with respect to such controlled foreign corporation.

“(B) FOREIGN BRANCH DEFINED.—For purposes of this paragraph, a foreign branch of a domestic corporation is any trade or business of such domestic corporation in a foreign country.

“(C) APPLICATION TO PARTNERSHIPS, ETC.—To the extent provided by the Secretary, rules similar to the rules of this paragraph shall apply with respect to any interest held by a domestic corporation in a partnership (or other pass-thru entity specified by the Secretary) with a trade or business in a foreign country. The preceding sentence shall not apply with respect
to any interest held by a domestic corporation unless such domestic corporation would be a United States shareholder if such interest were stock in a foreign corporation.]

“(c) FOREIGN-SOURCE PORTION.—For purposes of this section—

“(1) IN GENERAL.—The foreign-source portion of any dividend is an amount which bears the same ratio to such dividends as—

“(A) the undistributed foreign earnings, bears to

“(B) the undistributed earnings.

“(2) UNDISTRIBUTED EARNINGS.—The term ‘undistributed earnings’ means the amount of the earnings and profits of the controlled foreign corporation (computed in accordance with sections 964(a) and 986)—

“(A) as of the close of the taxable year of the controlled foreign corporation in which the dividend is distributed, and

“(B) without diminution by reason of dividends distributed during such taxable year.

“(3) UNDISTRIBUTED FOREIGN EARNINGS.—

The term ‘undistributed foreign earnings’ means the
portion of the undistributed earnings which is attributable to neither—

“(A) income described in subparagraph (A) of section 245(a)(5), nor

“(B) dividends described in subparagraph (B) of such section.

“(d) NONCONTROLLED 10/50 CORPORATION.—

“(1) IN GENERAL.—For purposes of this section, the term ‘noncontrolled 10/50 corporation’ means, with respect to any domestic corporation, any foreign corporation if—

“(A) such domestic corporation meets the ownership requirements of paragraph (2) or (3) with respect to such foreign corporation, and

“(B) such corporation is not a controlled foreign corporation with respect to such domestic corporation (determined without regard to subsection (b)).

“(2) DIRECT OWNERSHIP.—A domestic corporation meets the ownership requirements of this paragraph with respect to a foreign corporation if such domestic corporation owns 10 percent or more of the voting stock of such foreign corporation.

“(3) INDIRECT OWNERSHIP.—
“(A) IN GENERAL.—A domestic corporation meets the ownership requirements of this paragraph with respect to a foreign corporation if such foreign corporation is a member of the same qualified group as a foreign corporation described in paragraph (2) with respect to such domestic corporation.

“(B) QUALIFIED GROUP.—For purposes of subparagraph (A), the term ‘qualified group’ means—

“(i) the foreign corporation described in paragraph (2), and

“(ii) any other foreign corporation if—

“(I) the domestic corporation owns at least 5 percent of the voting stock of such other foreign corporation indirectly through a chain of foreign corporations connected through stock ownership of at least 10 percent of their voting stock,

“(II) the foreign corporation described in paragraph (2) is the first tier corporation in such chain, and
“(III) such other foreign corporation is not below the third tier in such chain.

“(e) Disallowance of Foreign Tax Credit, etc.—

“(1) In general.—No credit shall be allowed under section 901 for any taxes paid or accrued (or treated as paid or accrued) with respect to any dividend for which a deduction is allowed under this section.

“(2) Denial of deduction.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1).

“(f) Application to Tiered Controlled Foreign Corporations.—

“(1) In general.—The amount which would otherwise be included in the gross income of any domestic corporation under section 951(a)(1) as such corporation’s pro rata share of any controlled foreign corporation’s subpart F income shall be reduced by so much of such pro rata share as is attributable to dividends received by such controlled foreign corporation from any other controlled foreign corpora-
tion with respect to which such domestic corporation
is also a United States shareholder.

“(2) HOLDING PERIOD REQUIREMENT.—Para-
graph (1) shall not apply with respect to any divi-
dend on any share of stock unless the holding period
requirements under section 246(c) (other than para-
graph (5)(B) thereof) which apply for purposes of
this section are satisfied with respect to such stock.

For purposes of the preceding sentence, the holding
period shall be determined by including any period
such stock was held by a related person (within the
meaning of section 954(d)(3)).

“(g) REGULATIONS.—The Secretary shall prescribe
such regulations as may be necessary or appropriate to
carry out the provisions of this section.”.

(b) APPLICATION OF HOLDING PERIOD REQUIRE-
MENT.—Subsection (c) of section 246 is amended—

(1) by striking “or 245” in paragraph (1) and
inserting “245, or 245A”, and

(2) by adding at the end the following new
paragraph:

“(5) SPECIAL RULES FOR FOREIGN SOURCE
PORTION OF DIVIDENDS RECEIVED FROM CON-
TROLLED FOREIGN CORPORATIONS.—
“(A) 1-YEAR HOLDING PERIOD REQUIREMENT.—For purposes of section 245A—

“(i) paragraph (1)(A) shall be applied—

“(I) by substituting ‘365 days’ for ‘45 days’ each place it appears, and

“(II) by substituting ‘731-day period’ for ‘91-day period’, and

“(ii) paragraph (2) shall not apply.

“(B) STATUS MUST BE MAINTAINED DURING HOLDING PERIOD.—For purposes of section 245A, the holding period requirement of this subsection shall be treated as met only if—

“(i) the controlled foreign corporation referred to in section 245A(a) is a controlled foreign corporation at all times during such period, and

“(ii) the taxpayer is a United States shareholder with respect to such controlled foreign corporation at all times during such period.”.

(c) APPLICATION OF RULES GENERALLY APPLICABLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

(1) TREATMENT OF DIVIDENDS FROM CERTAIN CORPORATIONS.—Paragraph (1) of section 246(a) is
amended by striking “and 245” and inserting “245, and 245A”.

(2) ASSETS GENERATING TAX-EXEMPT PORTION OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLOCATING AND APPORTIONING DEDUCTIBLE EXPENSES.—Paragraph (3) of section 864(e) is amended by striking “or 245(a)” and inserting “, 245(a), or 245A”.

(3) COORDINATION WITH SECTION 1059.—Subparagraph (B) of section 1059(b)(2) is amended by striking “or 245” and inserting “245, or 245A”.

(d) CONFORMING AMENDMENTS.—

(1) Clause (vi) of section 56(g)(4)(C) is amended by inserting “245A or” before “965”.

(2) Paragraph (3) of section 245(a) is amended—

(A) by striking “post-1986” in subparagraph (A), and

(B) by striking “total post-1986” in subparagraph (B).

(3) Paragraph (4) of section 245(a) is amended to read as follows:

“(4) UNDISTRIBUTED EARNINGS.—For purposes of this subsection, the term ‘undistributed
earnings’ has the meaning given such term by section 245A(e)(2).

(4) Paragraph (5) of section 245(a) is amended—

(A) by striking “post-1986” both places it appears in the matter preceding subparagraph (A), and

(B) by striking “POST-1986 UNDISTRIBUTED” in the heading thereof and inserting “UNDISTRIBUTED”.

(5) Paragraph (6) of section 245(a) is amended—

(A) by striking “beginning after December 31, 1986” and inserting “which is after the first taxable year of such corporation”, and

(B) by striking “post-1986” both places it appears.

(6) Subsection (b) of section 951 is amended—

(A) by striking “subpart” and inserting “title”, and

(B) by adding at the end the following: “Such term shall include, with respect to any entity treated as a controlled foreign corporation under section 245A(b), any domestic corporation treated as a United States shareholder
with respect to such entity under such section.”.

(7) Subsection (a) of section 957 is amended—

(A) by striking “subpart” in the matter preceding paragraph (1) and inserting “title”, and

(B) by adding at the end the following:

“Such term shall include any entity treated as a controlled foreign corporation under section 245A(b).”.

(8) The table of sections for part VIII of subchapter B of chapter 1 is amended by inserting after the item relating to section 245 the following new item:

“Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.
SEC. 302. TREATMENT OF GAINS AND LOSSES ON DISPOSITION BY UNITED STATES SHAREHOLDERS OF STOCK OF CERTAIN ACTIVE FOREIGN CORPORATIONS.

(a) In General.—Part IV of subchapter P of chapter 1 is amended by inserting before section 1248 the following new section:

“SEC. 1247. SALE OR EXCHANGE OF QUALIFIED STOCK BY UNITED STATES SHAREHOLDERS OF CERTAIN ACTIVE FOREIGN CORPORATIONS.

“(a) In General.—In the case of any sale or exchange of stock of a qualified foreign corporation held for 1 year or more by a domestic corporation which is a United States shareholder (within the meaning of section 245A) with respect to such qualified foreign corporation—

“(1) gross income shall not include [95] percent of any gain from such sale or exchange, and

“(2) no deduction shall be allowed in respect of any loss from such sale or exchange.

“(b) Qualified Foreign Corporation.—

“(1) In General.—For purposes of this section, the term ‘qualified foreign corporation’ means any controlled foreign corporation (within the meaning of section 245A) if at least [70] percent of the assets of such corporation were active assets determined—
“(A) at the time of the sale or exchange referred to in subsection (a), and

“(B) as of the close of each quarter of any taxable year of the taxpayer if such quarter ends during the 3-year period ending on the date of such sale or exchange.

“(2) Active Assets.—For purposes of this subsection, the term ‘active asset’ means any asset of a kind which does not produce foreign personal holding company income (as defined in section 954(e)).

“(3) Not in Existence for Entire 3-Year Period.—If a corporation was not in existence for the entire 3-year period referred to in paragraph (1), such paragraph shall be applied on the basis of the period during which such corporation was in existence.

“(4) Treatment of Predecessors.—Any reference in this subsection to a corporation shall include a reference to any predecessor of such corporation.

“(c) Coordination With Section 1248.—Section 1248 shall not apply with respect to any sale or exchange to which this section applies.”.
(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by inserting before the item relating to section 1248 the following new item:

"Sec. 1247. Sale or exchange of qualified stock by United States shareholders of certain active foreign corporations.”.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to sales and exchanges after December 31, 2012.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to the sale or exchange of stock of a foreign corporation in existence on December 31, 2012, if such sale or exchange is before the beginning of the first taxable year of such foreign corporation beginning after December 31, 2012.

SEC. 303. TREATMENT OF DEFERRED FOREIGN INCOME UPON TRANSITION TO PARTICIPATION EXEMPTION SYSTEM OF TAXATION.

(a) IN GENERAL.—Section 965 is amended to read as follows:
SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME
UPON TRANSITION TO PARTICIPATION EX-
EMPTION SYSTEM OF TAXATION.

“(a) Treatment of Deferred Foreign Income
as Subpart F Income.—In the case of the last taxable
year of a specified 10-percent owned foreign corporation
which ends before January 1, 2013, the subpart F income
of such foreign corporation (as otherwise determined for
such taxable year under section 952) shall be increased
by the accumulated deferred foreign income of such cor-
poration determined as of the close of such taxable year.

“(b) Application of Participation Exemption
to Included Income.—In the case of a United States
shareholder with respect to a specified 10-percent owned
foreign corporation to which subsection (a) applies, there
shall be allowed as a deduction for the taxable year in
which the income described in subsection (a) is included
in the gross income of such United States shareholder
under section 951 an amount equal to [85] percent of
the amount of the income so included.

“(c) Accumulated Deferred Foreign In-
come.—For purposes of this section—

“(1) In General.—The term ‘accumulated de-
ferred foreign income’ means the portion of the un-
distributed earnings which is not attributable to in-
come of the specified 10-percent owned foreign corporation which is—

"(A) effectively connected with the conduct of a trade or business within the United States and subject to tax under this chapter, or

"(B) in the case of a controlled foreign corporation, subpart F income (determined without regard to this section)—

"(i) which is included in the gross income of a United States shareholder of such controlled foreign corporation under section 951, and

"(ii) with respect to which the controlled foreign corporation has not made distributions which are excludable from gross income under section 959.

"(2) UNDISTRIBUTED EARNINGS.—The term ‘undistributed earnings’ means the earnings and profits of the foreign corporation (computed in accordance with sections 964(a) and 986) as of the close the taxable year referred to in subsection (a).

"(d) SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION.—
“(1) In general.—For purposes of this section, the term ‘specified 10-percent owned foreign corporation’ means—

“(A) any controlled foreign corporation, and

“(B) any noncontrolled 10/50 corporation (as defined in section 245A(e)(3), without regard to whether such section is in effect for the taxable year to which this section applies).

“(2) Application to noncontrolled 10/50 corporations.—For purposes of this subpart, a noncontrolled 10/50 corporation (as so defined) shall be treated as a controlled foreign corporation solely for purposes of taking into account the subpart F income of such corporation under subsection (a).

“(e) Disallowance of Foreign Tax Credit, etc.—

“(1) In general.—No credit shall be allowed under section 901 for 85 percent of any taxes paid or accrued (or treated as paid or accrued) with respect to any amount for which a deduction is allowed under this section.

“(2) Denial of deduction.—No deduction shall be allowed under this chapter for any tax for
which credit is not allowable under section 901 by
reason of paragraph (1).

“(3) COORDINATION WITH SECTION 78.—Sec-
tion 78 shall not apply to any tax for which credit
is not allowable under section 901 by reason of para-
graph (1).

“(f) ELECTION TO PAY LIABILITY IN INSTALL-
MENTS.—

“(1) IN GENERAL.—In the case of a United
States shareholder with respect to one or more spec-
ified 10-percent owned foreign corporations to which
subsection (a) applies, such United States share-
holder may elect to pay the net tax liability under
this section in 2 or more (but not exceeding \[8\])
equal installments.

“(2) DATE FOR PAYMENT OF INSTALLMENTS.—
If an election is made under paragraph (1), the first
installment shall be paid on the due date (deter-
mined without regard to any extension of time for
filing the return) for the return of tax for the taxable
year described in subsection (b) and each suc-
ceeding installment shall be paid on the due date (as
so determined) for the return of tax for the taxable
year following the taxable year with respect to which
the preceding installment was made.
“(3) ACCELERATION OF PAYMENT.—If there is an addition to tax for failure to pay timely assessed with respect to any installment required under this subsection, a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case), a cessation of business by the taxpayer, or any similar circumstance, then the unpaid portion of all remaining installments shall be due on the date of such event (or in the case of a title 11 or similar case, the day before the petition is filed).

“(4) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under paragraph (1) to pay the net tax liability under this section in installments and a deficiency has been assessed, the deficiency shall be prorated to the installments payable under paragraph (1). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard
of rules and regulations, or to fraud with intent to evade tax.

“(5) TIME FOR PAYMENT OF INTEREST.—Interest payable under section 6601 on the unpaid portion of any amount of tax the time for payment of which as been extended under this subsection shall be paid annually at the same time as, and as part of, each installment payment of such tax. In the case of a deficiency to which paragraph (4) applies, interest with respect to such deficiency which is assigned under the preceding sentence to any installment the date for payment of which has arrived on or before the date of the assessment of the deficiency, shall be paid upon notice and demand from the Secretary.

“(6) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in subsection (b) and shall be made in such manner as the Secretary may provide.

“(7) NET TAX LIABILITY UNDER THIS SECTION.—For purposes of this subsection—

“(A) IN GENERAL.—The net tax liability under this section with respect to any United States shareholder is the excess (if any) of—
“(i) such taxpayer’s net income tax for the taxable year described in subsection (b), over
“(ii) such taxpayer’s net income tax for such taxable year determined without regard to this section.
“(B) NET INCOME TAX.—The term ‘net income tax’ means the net income tax (as defined in section 38(e)(1)) reduced by the credit allowed under section 38.”.

(b) CONFORMING AMENDMENTS.—

(1) Clause (vi) of section 56(g)(4)(C), as amended by section 301, is amended—

(A) by striking “965” and inserting “965(b)”, and

(B) by inserting “AND INCLUSIONS” after “CERTAIN DISTRIBUTIONS” in the heading thereof.

(2) Paragraph (2) of section 6601(b) is amended—

(A) by striking “section 6156(a)” in the matter preceding subparagraph (A) and inserting “section 965(f)(1) or 6156(a)”, and
(B) by striking “section 6156(b)” in sub-
paragraph (A) and inserting “section 965(f)(2)
or 6156(b), as the case may be”.

(3) The table of section for subpart F of part
III of subchapter N of chapter 1 is amended by
striking the item relating to section 965 and insert-
ing the following:

“Sec. 965. Treatment of deferred foreign income upon transition to participa-
tion exemption system of taxation.”.

Subtitle B—Modifications Related
to Foreign Tax Credit System

SEC. 311. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX
CREDITS; DETERMINATION OF SECTION 960
CREDIT ON CURRENT YEAR BASIS.

(a) Repeal of Section 902 Indirect Foreign
Tax Credits.—Subpart A of part III of subchapter N
of chapter 1 is amended by striking section 902.

(b) Determination of Section 960 Credit on
Current Year Basis.—Section 960 is amended to read
as follows:

“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-
sIONS.

“(a) In General.—For purposes of this subpart, if
there is included in the gross income of a domestic cor-
poration any amount under section 951(a) with respect
to any controlled foreign corporation with respect to which
such domestic corporation is a United States shareholder, such domestic corporation shall be deemed to have paid so much of such foreign corporation’s foreign income taxes as are properly attributable to the amount so included.

“(b) FOREIGN INCOME TAXES.—The term ‘foreign income taxes’ means any income, war profits, or excess profits taxes paid or accrued by the controlled foreign corporation to any foreign country or possession of the United States.

“(c) REGULATIONS.—The Secretary shall provide such regulations as may be necessary or appropriate to carry out the provisions of this section.”.

(e) CONFORMING AMENDMENTS.—

(1) Subclause (III) of section 56(g)(4)(C)(iii) is amended by inserting “as in effect before its repeal” after “section 902”.

(2) Section 78 is amended by striking “section 902(a) (relating to credit for corporate stockholder in foreign corporation) or under section 960(a)(1) (relating to taxes paid by foreign corporation)” and inserting “section 960”.

(3) Sections 535(b)(1) and 545(b)(1) are each amended by striking “section 902(a) or 960(a)(1)” and inserting “section 960”.

(4) Paragraph (1) of section 814(f) is amended by striking subparagraph (B).

(5) Subsection (a) of section 901 is amended by striking “sections 902 and 960” and inserting “section 960”.

(6) Paragraph (2) of section 901(e) is amended by striking “but is not limited to—” and all that follows through “that portion” and inserting “but is not limited to that portion”.

(7) Subsection (f) of section 901 is amended by striking “sections 902 and 960” and inserting “section 960”.

(8) Subparagraph (A) of section 901(j)(1) is amended by striking “902 or”.

(9) Subparagraph (A) of section 904(h)(10) is amended by striking “sections 902, 907, and 960” and inserting “sections 907 and 960”.

(10) Subsection (l) of section 904 is amended to read as follows:

“(l) CROSS REFERENCE.—For modification of limitation under subsection (a) for purposes of determining the amount of credit which can be taken against the alternative minimum tax, see section 59(a).”.

(11) Paragraph (1) of section 905(c) is amended by striking the last sentence.
(12) Subclause (I) of section 905(c)(2)(B) is amended by striking “902 or”.

(13) Subsection (a) of section 906 is amended by striking “(or deemed, under section 902, paid or accrued during the taxable year)”.

(14) Subsection (b) of section 906 is amended by striking paragraph (5).

(15) Subparagraph (B) of section 907(b)(2) is amended by striking “902 or”.

(16) Paragraph (3) of section 907(c) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and

(B) by striking “section 960(a)” in subparagraph (A) (as so redesignated) and inserting “section 960”.

(17) Paragraph (5) of section 907(c) is amended by striking “902 or”.

(18) Clause (i) of section 907(f)(2)(B) is amended by striking “902 or”.

(19) Subsection (a) of section 908 is amended by striking “902 or”.

(20) Paragraph (1) of section 958(a) is amended by striking “960(a)(1)” and inserting “960”.
(21) Subparagraph (A) of section 1291(g)(2) is amended by striking “any distribution—” and all that follows through “but only if” and inserting “any distribution, any withholding tax imposed with respect to such distribution, but only if”.

(22) Section 1293 is amended by striking subsection (f).

(23) Subparagraph (B) of section 6038(c)(1) is amended by striking “sections 902 (relating to foreign tax credit for corporate stockholder in foreign corporation) and 960 (relating to special rules for foreign tax credit)” and inserting “section 960”.

(24) Paragraph (4) of section 6038(c) is amended by striking subparagraph (C).

(25) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 902.

(26) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 960 and inserting the following:

“Sec. 960. Deemed paid credit for subpart F inclusions.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable
years of United States shareholders in which or with which such taxable years of foreign corporations end.

**SEC. 312. FOREIGN TAX CREDIT LIMITATION APPLIED BY ALLOCATING ONLY DIRECTLY ALLOCABLE DEDUCTIONS TO FOREIGN SOURCE INCOME.**

(a) In General.—Subsection (b) of section 904 is amended by redesignating paragraphs (3) and (4) as paragraphs (4) and (5) and by inserting after paragraph (2) the following new paragraph:

“(3) Deductions allocable to foreign source income only if directly allocable.—For purposes of subsection (a), the taxpayer’s taxable income from sources without the United States shall be determined by allocating deductions to such income only if such deductions are directly allocable to such income.”.

(b) Effective Date.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

**SEC. 313. ELIMINATION OF FOREIGN TAX CREDIT BASKETS.**

(a) In General.—Section 904 is amended by striking subsection (d).

(b) Conforming Amendments.—
Clause (iii) of 56(g)(4)(C) is amended by striking subclause (IV) and redesignating subclauses (V) and (VI) as subclauses (IV) and (V), respectively.

(2) Subsection (a) of section 245(a) is amended by striking paragraph (10).

(3) Subparagraph (C) of section 367(d)(3) is amended by striking the last sentence thereof.

(4) Subsection (d) of section 864 is amended—

(A) by striking “the provisions set forth in paragraph (2)” in paragraph (1) and inserting “subpart F of part III (relating to controlled foreign corporations)”;

(B) by striking paragraph (2), and

(C) by striking clause (i) of paragraph (5)(A) and redesignating clauses (ii), (iii), and (iv) of such paragraph as clauses (i), (ii), and (iii), respectively.

(5) Subparagraph (C) of section 864(e)(7) is amended by striking “and various categories of income described in section 904(d)(1)”.

(6) Subparagraph (B) of section 864(f)(5) is amended by inserting “(as in effect before its repeal)” after “section 904(d)(2)(D)(ii)”.
(7) Paragraph (1) of section 865(h) is amended by striking “applies—” and all that follows and inserting “applies, such gain shall be sourced outside the United States.”.

(8) Paragraph (1) of section 901(j) is amended by striking all that follows subparagraph (A) and inserting the following:

“(B) section 245A shall be applied by reducing (but not below zero) the undistributed foreign earnings by any income attributable to such a period from sources within such country.”.

(9) Subsection (c) of section 907 is amended by inserting “as in effect before its repeal” after “section 904(d)(2)(A)” both places it appears.

(10) Paragraph (5) of section 954(b) is amended by inserting “as in effect before its repeal” after “section 904(d)(2)”.

(11) Subparagraph (B) of section 954(c)(2) is amended by inserting “as in effect before its repeal” after “section 904(d)(2)(G)”.

(12) Subparagraph (A) of section 954(c)(6) is amended by inserting “as in effect before its repeal” after “section 904(d)(3)”.
(13) Clause (ii) of section 1291(g)(1)(C) is amended by striking “(subject to the principles of section 904(d) and not below zero)” and inserting “(but not below zero)”.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) TREATMENT OF CARRYFORWARDS AND CARRYBACKS.—For purposes of section 904 of the Internal Revenue Code of 1986—

(A) the amendments made by this section shall apply to any taxes carried from any taxable year beginning before January 1, 2013, to any taxable year beginning on or after such date, and

(B) the Secretary of the Treasury, or his designee, may by regulations provide for the allocation of any carryback of taxes with respect to income from a taxable year beginning on or after January 1, 2013, to a taxable year beginning before such date for purposes of allocating
such income among the separate categories in effect under section 904(d) for the taxable year to which carried.

SEC. 314. REPEAL OF RULE SUSPENDING FOREIGN TAXES AND CREDITS UNTIL RELATED INCOME IS TAKEN INTO ACCOUNT.

(a) In General.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 909.

(b) Clerical Amendment.—The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 909.

(c) Effective Date.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

Subtitle C—Rules Related to Passive Income

PART 1—MODIFICATION OF SUBPART F PROVISIONS

SEC. 321. TERMINATION OF CURRENT YEAR INCLUSION BASED ON INVESTMENTS IN UNITED STATES PROPERTY.

(a) In General.—Subpart F of part III of subchapter N of chapter 1 is amended by striking section 956.
(b) CONFORMING AMENDMENTS.—

(1) Paragraph (8) of section 864(d) is amended by striking “or section 956(b)(3)”.

(2) Paragraph (1) of section 951(a) is amended—

(A) by striking “, and” at the end of subparagraph (A)(iii) and inserting a period, and

(B) by striking subparagraph (B).

(3) Clause (ii) of section 954(c)(2)(C) is amended by inserting “as in effect before its repeal” after “section 956(c)(2)(I)”.

(4) Subsection (b) of section 958 is amended—

(A) by striking “to treat the stock of a domestic corporation as owned by a United States shareholder of the controlled foreign corporation for purposes of section 956(c)(2),”, and

(B) by striking the last sentence thereof.

(5) Section 960 is amended by striking subsection (c).

(6) Subsection (b) of section 964 is amended by striking “952, 955, and 956” and inserting “952 and 955”.

(7) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 956.
(c) Effective Date.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

6 SEC. 322. REPEAL OF EXCLUSION OF PREVIOUSLY TAXED EARNINGS AND PROFITS.

(a) In General.—Subpart F of part III of subchapter N of chapter 1 is amended by striking section 959.

(b) Repeal of Adjustments to Basis.—Subpart F of part III of subchapter N of chapter 1 is amended by striking section 961.

(c) Conforming Amendments.—

(1) Paragraph (6) of section 304(b) is amended by striking “(including modifications to the application of sections 959 and 961)”.

(2) Subsection (b) of section 851 is amended by striking the first sentence of the flush material which follows paragraph (3) thereof.

(3) Section 951 is amended by striking subsection (c).

(4) Subsection (d) of section 962 is amended by striking “, notwithstanding the provisions of section 959(a)(1),”.

Section 986 is amended by striking subsection (c).

Subsection (a) of section 1016 is amended by striking paragraph (18).

Subsection (d) of section 1248 is amended by striking paragraph (1).

Section 1248 is amended by striking subsection (j).

Subparagraph (B) of section 1291(d)(2) is amended by striking clause (iii).

Section 1293 is amended by striking subsection (c).

Paragraph (5) of section 1298(b) is amended to read as follows:

"(5) APPLICATION OF PART WHERE STOCK HELD BY OTHER ENTITY.—Under regulations, in any case in which a United States person is treated as owning stock in a passive foreign investment company by reason of subsection (a)—

"(A) any disposition by the United States person or the person owning such stock which results in the United States person being treated as no longer owning such stock, or
“(B) any distribution of property in respect of such stock to the person holding such stock, shall be treated as a disposition by, or distribution to, the United States person with respect to the stock in the passive foreign investment company.”.

(12) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the items relating to sections 959 and 961.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

PART 2—PREVENTION OF BASE EROSION

SEC. 331A. [OPTION A:] EXCESS INCOME FROM TRANSFERS OF INTANGIBLES TO LOW-TAXED AFFILIATES TREATED AS SUBPART F INCOME.

(a) IN GENERAL.—Subsection (a) of section 954 is amended by inserting after paragraph (3) the following new paragraph:

“(4) the foreign base company excess intangible income for the taxable year (determined under subsection (f) and reduced as provided in subsection (b)(5)), and”.

“(b) the United States person with respect to the stock in the passive foreign investment company.”.
(b) **FOREIGN BASE COMPANY EXCESS INTANGIBLE INCOME.**—Section 954 is amended by inserting after subsection (e) the following new subsection:

“(f) **FOREIGN BASE COMPANY EXCESS INTANGIBLE INCOME.**—For purposes of subsection (a)(4) and this subsection:

“(1) **FOREIGN BASE COMPANY EXCESS INTANGIBLE INCOME DEFINED.**—

“(A) **IN GENERAL.**—The term ‘foreign base company excess intangible income’ means, with respect to any covered intangible, the excess of—

“(i) the sum of—

“(I) gross income from the sale, lease, license, or other disposition of property in which such covered intangible is used directly or indirectly, and

“(II) gross income from the provision of services related to such covered intangible or in connection with property in which such covered intangible is used directly or indirectly, over

“(ii) 150 percent of the costs properly allocated and apportioned to the gross in-
come taken into account under clause (i)
other than expenses for interest and taxes
and any expenses which are not directly al-
locable to such gross income.

“(B) Same country income not taken
into account.—If—

“(i) the sale, lease, license, or other
disposition of the property referred to in
subparagraph (A)(i)(I) is for use, con-
sumption, or disposition in the country
under the laws of which the controlled for-
eign corporation is created or organized, or

“(ii) the services referred to in sub-
paragraph (A)(i)(II) are performed in such
country,

the gross income from such sale, lease, license,
or other disposition, or provision of services,
shall not be taken into account under subpara-
graph (A)(i).

“(C) Special rule for research and
development expenses.—Research and de-
velopment costs for any taxable year shall be
treated for purposes of subparagraph (A) as
properly allocable to gross income derived from
a covered intangible if such costs are properly
allocable to the line of business in which such
gross income is earned.

“(2) Exception based on effective foreign income tax rate.—

“(A) In general.—Foreign base company excess intangible income shall not include the applicable percentage of any item of income received by a controlled foreign corporation if the taxpayer establishes to the satisfaction of the Secretary that such income was subject to an effective rate of income tax imposed by a foreign country in excess of 10 percent.

“(B) Applicable percentage.—For purposes of subparagraph (A), the term ‘applicable percentage’ means the ratio (expressed as a percentage), not greater than 100 percent, of—

“(i) the number of percentage points by which the effective rate of income tax referred to in subparagraph (A) exceeds 10 percentage points, over

“(ii) 5 percentage points.

“(C) Treatment of losses in determining effective rate of foreign income tax.—For purposes of determining the effective
rate of income tax imposed by any foreign
country—

“(i) such effective rate shall be deter-
mined without regard to any losses carried
to the relevant taxable year, and

“(ii) to the extent the income with re-
spect to such intangible reduces losses in
the relevant taxable year, such effective
rate shall be treated as being the effective
rate which would have been imposed on
such income without regard to such losses.

“(3) COVERED INTANGIBLE.—The term ‘cov-
ered intangible’ means, with respect to any con-
trolled foreign corporation, any intangible property
(as defined in section 936(h)(3)(B))—

“(A) which is sold, leased, licensed, or oth-
erwise transferred (directly or indirectly) to
such controlled foreign corporation from a
United States related person, or

“(B) with respect to which such controlled
foreign corporation and one or more related
persons has (directly or indirectly) entered into
any shared risk or development agreement (in-
cluding any cost sharing agreement).
“(4) RELATED PERSON.—The term ‘related person’ has the meaning given such term in subsection (d)(3).”.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 954(b) is amended by inserting “foreign base company excess intangible income described in subsection (a)(4) or” before “foreign base company oil-related income” in the last sentence thereof.

(2) Paragraph (5) of section 954(b) is amended by inserting “the foreign base company excess intangible income,” before “and the foreign base company oil related income”.

(3) Subsection (b) of section 954 is amended by adding at the end the following new paragraph:

“(7) FOREIGN BASE COMPANY EXCESS INTANGIBLE INCOME NOT TREATED AS ANOTHER KIND OF BASE COMPANY INCOME.—Income of a corporation which is foreign base company excess intangible income shall not be considered foreign base company income of such corporation under paragraph (2), (3), or (5) of subsection (a).”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to income from transactions con-
nected with or benefitting from covered intangibles in taxable years beginning on or after January 1, 2013.

SEC. 331B. [OPTION B:] LOW-TAXED CROSS-BORDER FOREIGN INCOME TREATED AS SUBPART F INCOME.

(a) In General.—Subsection (a) of section 952 is amended by redesignating paragraphs (3), (4), and (5) as paragraphs (4), (5), and (6), respectively, and by inserting after paragraph (2) the following new paragraph:

“(3) low-taxed cross-border income (as defined under subsection (e)),”.

(b) Low-Taxed Cross-Border Income.—Section 952 is amended by adding at the end the following new subsection:

“(e) Low-Taxed Cross-Border Income.—

“(1) In General.—For purposes of subsection (a), the term ‘low-taxed cross-border income’ means the gross income of the controlled foreign corporation unless the taxpayer establishes to the satisfaction of the Secretary that—

“(A) such income was derived in the home country of the controlled foreign corporation, or

“(B) such income was subject to an effective rate of income tax imposed by a foreign country in excess of [10] percent.
“(2) Rules related to income derived in home country.—For purposes of paragraph (1)(A), income shall be treated as derived in the home country of a controlled foreign corporation only if—

“(A) such income is derived in the conduct of a trade or business of such corporation in the country in which such corporation is created or organized,

“(B) such corporation maintains an office or other fixed place of business in such country, and

“(C) such income is derived in connection with—

“(i) property which is sold for use, consumption, or disposition in such country, or

“(ii) services provided with respect to persons or property located in such country.

“(3) Rules related to determination of effective rate of foreign income tax.—

“(A) Country-by-country determination.—Paragraph (1)(B) shall be applied—
“(i) separately with respect to each foreign country in which a controlled foreign corporation conducts any trade or business, and

“(ii) with respect to the aggregate gross income derived with respect to such country.

“(B) TREATMENT OF LOSSES.—For purposes of determining the effective rate of income tax imposed by any foreign country under paragraph (1)(B)—

“(i) such effective rate shall be determined without regard to any losses carried to the relevant taxable year, and

“(ii) to the extent the income of the controlled foreign corporation reduces losses in the relevant taxable year, such effective rate shall be treated as being the effective rate which would have been imposed on such income without regard to such losses.

“(4) DEDUCTIONS TO BE TAKEN INTO ACCOUNT.—The gross income of a controlled foreign corporation taken into account under this subsection shall be reduced, under regulations prescribed by the
Secretary, so as to take into account deductions (including taxes) properly allocable to such income.”.

(c) Effective Date.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 331C. [OPTION C:] FOREIGN INTANGIBLE INCOME SUBJECT TO TAXATION AT REDUCED RATE; INTANGIBLE INCOME TREATED AS SUBPART F INCOME.

(a) In General.—Part VIII of subchapter B of chapter 1 is amended by adding at the end the following new section:

"SEC. 250. FOREIGN INTANGIBLE INCOME.

"(a) In General.—In the case of a domestic corporation, there shall be allowed as a deduction an amount equal to [40] percent of the sum of—

"(1) the foreign intangible income of such domestic corporation for the taxable year, plus

"(2) in the case of a domestic corporation which is a United States shareholder with respect to any controlled foreign corporation, the lesser of—

"(A) any foreign base company intangible income (as defined in section 954(f)) of such
controlled foreign corporation which is included
in the gross income of such United States
shareholder under section 951 for the taxable
year, or

“(B) the amount of foreign base company
intangible income which would be so included
with respect to such controlled foreign corpora-
tion if ‘foreign intangible income (as defined in
section 250(b))’ were substituted for ‘intangible
income’ in section 954(f)(1).

“(b) FOREIGN INTANGIBLE INCOME.—For purposes
of this section, the term ‘foreign intangible income’ means
any intangible income (as defined in section 954(f)(2))
which is derived in connection with—

“(1) property which is sold for use, consump-
tion, or disposition outside the United States, or

“(2) services provided with respect to persons
or property located outside the United States.”.

(b) FOREIGN BASE COMPANY INTANGIBLE IN-
COME.—

(1) TREATMENT AS SUBPART F INCOME.—Sub-
section (a) of section 954 is amended by inserting
after paragraph (3) the following new paragraph:

“(4) the foreign base company intangible in-
come for the taxable year (determined under sub-
section (f) and reduced as provided in subsection (b)(5)), and”.

(2) FOREIGN BASE COMPANY INTANGIBLE INCOME DEFINED.—Section 954 of such Code is amended by inserting after subsection (e) the following new subsection:

“(f) FOREIGN BASE COMPANY INTANGIBLE INCOME.—For purposes of this section—

“(1) IN GENERAL.—The term ‘foreign base company intangible income’ means the intangible income of the controlled foreign corporation for the taxable year.

“(2) INTANGIBLE INCOME.—The term ‘intangible income’ means gross income from—

“(A) the sale, lease, license, or other disposition of property in which intangible property is used directly or indirectly, or

“(B) the provision of services related to intangible property or in connection with property in which intangible property is used directly or indirectly,

to the extent that such gross income is properly attributable to such intangible property.
“(3) INTANGIBLE PROPERTY.—The term ‘intangible property’ has the meaning given such term by section 936(h)(3)(B).”.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 954(b) is amended by adding at the end the following: “In the case of foreign base company intangible income, this paragraph shall be applied by treating the maximum rate of tax specified in section 11 as being [60] percent of such rate.”.

(2) Paragraph (5) of section 954(b) is amended by inserting “the foreign base company intangible income,” before “and the foreign base company oil related income”.

(3) Subsection (b) of section 954 is amended by adding at the end the following new paragraph:

“(7) FOREIGN BASE COMPANY EXCESS INTANGIBLE INCOME NOT TREATED AS ANOTHER KIND OF BASE COMPANY INCOME.—Income of a corporation which is foreign base company intangible income shall not be considered foreign base company income of such corporation under paragraph (2), (3), or (5) of subsection (a).”.

(d) EFFECTIVE DATE.—
(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2012, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) DEDUCTION FOR FOREIGN INTANGIBLE INCOME EARNED DIRECTLY BY DOMESTIC CORPORATION.—The deduction provided under paragraph (1) of section 250(a) of the Internal Revenue Code of 1986, as added by this section, shall apply to taxable years of the domestic corporation beginning after December 31, 2012.

SEC. 332. DENIAL OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS WITH EXCESS DOMESTIC INDEBTEDNESS.

(a) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

“(n) DISALLOWANCE OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH
ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS
WITH EXCESS DOMESTIC INDEBTEDNESS.—

“(1) IN GENERAL.—In the case of any domestic
corporation which is a United States shareholder (as
defined in section 951(b)) with respect to any for-
eign corporation both of which are members of the
same worldwide affiliated group, the deduction al-
lowed under this chapter for interest paid or accrued
by such domestic corporation during the taxable year
shall be reduced by the lesser of—

“(A) the product of—

“(i) such net interest expense, multi-
plied by

“(ii) the debt-to-equity differential
percentage of such worldwide affiliated
group, or

“(B) the excess (if any) of—

“(i) such net interest expense, over

“(ii) [(x)] percent of the adjusted tax-
able income (as defined in subsection
(j)(6)(A)) of such domestic corporation.

“(2) CARRYFORWARD.—Any amount disallowed
under paragraph (1) for any taxable year shall be
treated as interest paid or accrued in the succeeding
taxable year (and shall not be treated as disqualified interest for purposes of applying subsection (j)).

“(3) **Debt-to-equity differential percentage.**—

“(A) **In general.**—For purposes of this subsection, the term ‘debt-to-equity differential percentage’ means, with respect to any worldwide affiliated group, the percentage which the excess domestic indebtedness of such group bears to the total indebtedness of the domestic corporations which are members of such group.

“(B) **Excess domestic indebtedness.**—For purposes of subparagraph (A), the term ‘excess domestic indebtedness’ means, with respect to any worldwide affiliated group, the excess (if any) of—

“(i) the total indebtedness of the domestic corporations which are members of such group, over

“(ii) \[100\] percent of the amount which the total indebtedness of such domestic corporations would be if the ratio of such indebtedness to the total equity of such domestic corporations equaled the ratio which—
“(I) the total indebtedness of
such group, bears to
“(II) the total equity of such
group.
“(C) TOTAL EQUITY.—For purposes of
subparagraph (B), the term ‘total equity’
means, with respect to one or more corpora-
tions, the excess (if any) of—
“(i) the money and all other assets of
such corporations, over
“(ii) the total indebtedness of such
corporations.
“(D) SPECIAL RULES FOR DETERMINING
DEBT AND EQUITY.—For purposes of this para-
graph—
“(i) APPLICATION OF CERTAIN GEN-
ERAL RULES.—Rules similar to the rules
of clauses (i), (ii), and (iii) of subsection
(j)(2)(C) shall apply.
“(ii) INTRAGROUP DEBT AND EQUITY
INTERESTS DISREGARDED.—The total in-
debtedness, and the assets, of any group of
corporations shall be determined by treat-
ing all members of such group as one cor-
poration.
“(iii) Determination of Assets of Domestic Group.—The assets of the domestic corporations which are members of any worldwide affiliated group shall be determined by disregarding any interest held by any such domestic corporation in any foreign corporation which is a member of such group.

“(4) Other Definitions.—For purposes of this subsection—

“(A) Worldwide Affiliated Group.—The term ‘worldwide affiliated group’ has the meaning which would be given such term by section 864(f)(1)(C) if section 1504(a) were applied by substituting ‘more than 50 percent’ for ‘at least 80 percent’ each place it appears.

“(B) Net Interest Expense.—The term ‘net interest expense’ has the meaning given such term by subsection (j)(6)(B).”.

(b) Coordination With Limitation on Related Party Indebtedness.—Paragraph (1) of section 163(j) is amended by adding at the end the following new sub-paragraph:

“(C) Coordination with limitation on excess domestic indebtedness.—The
amount disallowed under subparagraph (A) with respect to any corporation for any taxable year shall be reduced by any amount disallowed under subsection (n)(1) with respect to such corporation for such taxable year.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2012.

TITLE IV—OTHER REFORMS

SEC. 401. [OTHER REFORMS TO BE PROVIDED].