H.R. 4351
The AMT Relief Act of 2007

December 11, 2007

I. AMT RELIEF AND ADDITIONAL INDIVIDUAL TAX RELIEF

Extension of AMT relief for 2007. The bill would extend for one year AMT relief for nonrefundable personal credits and increases the AMT exemption amount to $66,250 for joint filers and $44,350 for individuals. The bill would also provide relief for AMT taxpayers who have exercised incentive stock options and would make changes to the refundable AMT credit. *This proposal is estimated to cost $52.85 billion over 10 years.*

Change in refundable child credit. The bill would increase the eligibility for the refundable child tax credit in 2008. The child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of approximately $11,000 as a result of inflation adjustments to the original floor of $10,000. The bill would reduce this floor to $8,500 for 2008. *This proposal is estimated to cost $2.87 billion over 10 years.*

II. REVENUE PROVISIONS

Current inclusion of deferred compensation paid by certain offshore entities. The bill would tax individuals on a current basis if such individuals receive deferred compensation from certain offshore entities. Current law generally allows executives and other employees to defer paying tax on compensation until the compensation is paid. This deferral is made possible by rules that require the corporation paying the deferred compensation to defer the deduction that relates to this compensation until the compensation is paid. Matching the timing of the deduction with the income inclusion ensures that the executive is not able to achieve the tax benefits of deferred compensation at the expense of the Treasury. Instead, the corporation paying the compensation bears the expense of paying deferred compensation as a result of the deferred deduction. Where an individual is paid deferred compensation by certain offshore entities, there is no offsetting deduction that can be deferred. As a result, individuals receiving deferred compensation from certain offshore entities are able to achieve the tax benefits of deferred compensation at the expense of the Treasury. *This proposal is estimated to raise $23.71 billion over 10 years.*

Delay implementation of worldwide allocation of interest. In 2004, Congress provided taxpayers with an election to take advantage of a liberalized rule for allocating interest expense between United States sources and foreign sources for purposes of determining a taxpayer's foreign tax credit limitation. Although enacted in 2004, this election is not available to taxpayers until taxable years beginning after 2008. The bill would delay the phase-in of this new liberalized rule for eight years (for taxable years beginning after 2017). *This proposal is estimated to raise $26.21 billion over 10 years.*

Clarification of the economic substance doctrine. The bill would clarify the application of the economic substance doctrine but does not change current-law standards used by courts in determining when to utilize an economic substance analysis. Under the provision, in any case in which the economic substance doctrine is relevant to a transaction, the economic substance doctrine would be satisfied only if (1) the transaction changes in a meaningful way (apart from Federal income tax consequences) the taxpayer's economic position, and (2) the taxpayer has a substantial non-Federal tax purpose for entering into such transaction. The provision also imposes a 20% penalty on understatements attributable to a transaction lacking economic substance (penalty increased to 40% in the case of transactions in which the relevant facts affecting the tax treatment of the transaction are not adequately disclosed). *This proposal is estimated to raise $4.08 billion over 10 years.*

Creates uniform penalty for failure to file partnership and S corporation returns. Under current law there is a $50 per partner per month (up to five months) penalty for failure to file a partnership return for a taxable year. The bill would create a uniform $100 per partner/shareholder per month (up to 12 months) penalty for failure to file a partnership return or an S corporation return for a taxable year. *This proposal is estimated to raise $1.62 billion over ten years.*

Increase general failure to file return penalty to take inflation into account. The bill would increase the general penalty for failure to file tax returns to take inflation into account. The bill would increase the failure to file penalty to the lesser of $150 or 100 percent of the amount required to be shown on such return. *This proposal is estimated to raise $118 million over ten years.*