

112TH CONGRESS
1ST SESSION

H. R. 1140

To amend the Internal Revenue Code of 1986 to repeal taxes on the income of senior citizens and to improve income security of senior citizens.

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 2011

Mr. POSEY (for himself, Mr. RIVERA, Mr. ROSS of Florida, Mr. WEST, and Mrs. BLACKBURN) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to repeal taxes on the income of senior citizens and to improve income security of senior citizens.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Senior Citizens Income
5 Security Act of 2011”.

1 **SEC. 2. REPEAL OF 1993 INCOME TAX INCREASE ON SOCIAL**
2 **SECURITY BENEFITS.**

3 (a) RESTORATION OF PRIOR LAW FORMULA.—Sub-
4 section (a) of section 86 of the Internal Revenue Code of
5 1986 is amended to read as follows:

6 “(a) IN GENERAL.—Gross income for the taxable
7 year of any taxpayer described in subsection (b) (notwith-
8 standing section 207 of the Social Security Act) includes
9 Social Security benefits in an amount equal to the lesser
10 of—

11 “(1) one-half of the Social Security benefits re-
12 ceived during the taxable year, or

13 “(2) one-half of the excess described in sub-
14 section (b)(1).”.

15 (b) REPEAL OF ADJUSTED BASE AMOUNT.—Sub-
16 section (c) of section 86 of such Code is amended to read
17 as follows:

18 “(c) BASE AMOUNT.—For purposes of this section,
19 the term ‘base amount’ means—

20 “(1) except as otherwise provided in this sub-
21 section, \$25,000,

22 “(2) \$32,000 in the case of a joint return, and

23 “(3) zero in the case of a taxpayer who—

24 “(A) is married as of the close of the tax-
25 able year (within the meaning of section 7703)

1 but does not file a joint return for such year,
2 and

3 “(B) does not live apart from his spouse at
4 all times during the taxable year.”.

5 (e) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 871(a)(3) of
7 such Code is amended by striking “85 percent” and
8 inserting “50 percent”.

9 (2)(A) Subparagraph (A) of section 121(e)(1)
10 of the Social Security Amendments of 1983 (Public
11 Law 98–21) is amended—

12 (i) by striking “(A) There” and inserting
13 “There”;

14 (ii) by striking “(i)” immediately following
15 “amounts equivalent to”; and

16 (iii) by striking “, less (ii)” and all that
17 follows and inserting a period.

18 (B) Paragraph (1) of section 121(e) of such Act
19 is amended by striking subparagraph (B).

20 (C) Paragraph (3) of section 121(e) of such Act
21 is amended by striking subparagraph (B) and by re-
22 designating subparagraph (C) as subparagraph (B).

23 (D) Paragraph (2) of section 121(e) of such
24 Act is amended in the first sentence by striking
25 “paragraph (1)(A)” and inserting “paragraph (1)”.

1 (d) MAINTENANCE OF TRANSFERS TO HOSPITAL IN-
2 SURANCE TRUST FUND.—

3 (1) IN GENERAL.—There are hereby appro-
4 priated to the Hospital Insurance Trust Fund estab-
5 lished under section 1817 of the Social Security Act
6 amounts equal to the reduction in revenues to the
7 Treasury by reason of the enactment of this section.
8 Amounts appropriated by the preceding sentence
9 shall be transferred from the general fund at such
10 times and in such manner as to replicate to the ex-
11 tent possible the transfers which would have oc-
12 curred to such Trust Fund had this section not been
13 enacted.

14 (2) REPORTS.—The Secretary of the Treasury
15 or the Secretary's delegate shall annually report to
16 the Committee on Ways and Means of the House of
17 Representatives and the Committee on Finance of
18 the Senate the amounts and timing of the transfers
19 under this subsection.

20 (e) EFFECTIVE DATES.—

21 (1) IN GENERAL.—Except as otherwise pro-
22 vided in this subsection, the amendments made by
23 this section shall apply to taxable years beginning
24 after December 31, 2010.

1 (2) SUBSECTION (c)(1).—The amendment made
2 by subsection (c)(1) shall apply to benefits paid after
3 December 31, 2010.

4 (3) SUBSECTION (c)(2).—The amendments
5 made by subsection (c)(2) shall apply to tax liabil-
6 ities for taxable years beginning after December 31,
7 2010.

8 **SEC. 3. ELIMINATE MANDATORY WITHDRAWALS ON IRAS.**

9 (a) IN GENERAL.—Subsection (a) of section 401 of
10 the Internal Revenue Code of 1986 is amended by striking
11 paragraph (9).

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 402(c) of such Code is amended—

14 (A) in paragraph (4) by striking subpara-
15 graph (B), by inserting “and” at the end of
16 subparagraph (A), and by redesignating sub-
17 paragraph (C) as subparagraph (B), and

18 (B) in paragraph (11)(A)—

19 (i) by inserting “(as in effect on the
20 day before the date of the enactment of
21 this phrase)” after “section 401(a)(9)(E)”,
22 and

23 (ii) by inserting “and” at the end of
24 clause (i), by striking “, and” at the end

1 of clause (ii) and inserting a period, and
2 by striking clause (iii).

3 (2) Section 403(b)(10) of such Code is amend-
4 ed by striking “ sections 401(a)(9)” and inserting “
5 section”.

6 (3) Subsections (a)(6) and (b)(3) of section 408
7 of such Code are both amended by striking “section
8 401(a)(9) and”.

9 (4) Section 408A(c)(5) of such Code is amend-
10 ed to read as follows:

11 “(5) MANDATORY DISTRIBUTION RULES NOT
12 TO APPLY BEFORE DEATH.—Notwithstanding sub-
13 sections (a)(6) and (b)(3) of section 408 (relating to
14 required distributions), the incidental death benefit
15 requirements of section 401(a) shall not apply to
16 any Roth IRA.”.

17 (5) Section 409(d) of such Code is amended by
18 striking “to any distribution required under section
19 401(a)(9) or”.

20 (6) Section 457(d) of such Code is amended—

21 (A) in paragraph (1) by striking subpara-
22 graph (B), by inserting “and” at the end of
23 subparagraph (A), and be redesignating sub-
24 paragraph (C) as subparagraph (B), and

1 (B) by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

3 (7) Section 4974(b) of such Code is amended
4 by striking “401(a)(9)”.

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply with respect to distributions after
7 the date of the enactment of this Act.

8 **SEC. 4. ELIMINATE PAYROLL TAX FOR MEDICARE AND SO-**
9 **CIAL SECURITY BENEFICIARIES.**

10 (a) IN GENERAL.—Section 3101 of the Internal Rev-
11 enue Code of 1986 is amended by adding at the end the
12 following:

13 “(d) EXCEPTION.—Subsections (a) and (b) shall not
14 apply to any individual who—

15 “(1) is entitled to benefits under part A of title
16 XVIII of the Social Security Act or is enrolled under
17 part B of such title, or

18 “(2) is entitled to a monthly insurance benefit
19 under title II of the Social Security Act based on
20 such individual’s wages and self-employment in-
21 come.”.

22 (b) SELF-EMPLOYMENT.—Section 1401 of such Code
23 is amended by adding at the end the following new sub-
24 section:

1 “(d) EXCEPTION.—In the case of any individual
2 who—

3 “(1) is entitled to benefits under part A of title
4 XVIII of the Social Security Act or is enrolled under
5 part B of such title, or

6 “(2) is entitled to a monthly insurance benefit
7 under title II of the Social Security Act based on
8 such individual’s wages and self-employment income,
9 subsections (a) and (b) shall be applied for the taxable
10 year by substituting one-half of the percent otherwise
11 specified in such subsections.”.

12 (c) EFFECTIVE DATES.—

13 (1) The amendment made by subsection (a)
14 shall apply to wages paid after December 31, 2010.

15 (2) The amendment made by subsection (b)
16 shall apply to enumeration paid in taxable years
17 ending after the date of the enactment of this Act.

18 (d) TRUST FUNDS HELD HARMLESS.—There is
19 hereby appropriated (out of any money in the Treasury
20 not otherwise appropriated) for each fiscal year to each
21 fund under the Social Security Act an amount equal to
22 the reduction in the transfers to such fund for such fiscal
23 year by reason of the amendments made by this section.

1 **SEC. 5. AUTHORITY TO ELECT VOUCHER PROGRAM IN-**
2 **STEAD OF MEDICARE PART A ENTITLEMENT.**

3 (a) IN GENERAL.—Section 226 of the Social Security
4 Act (42 U.S.C. 426) is amended by adding at the end the
5 following new subsections:

6 “(k) WAIVER OF ENTITLEMENT AND ELECTION OF
7 VOUCHER PROGRAM.—

8 “(1) IN GENERAL.—Notwithstanding the pre-
9 vious provisions of this section, the Secretary shall
10 establish a procedure under which an individual oth-
11 erwise entitled under subsection (a) to benefits
12 under part A of title XVIII may waive such entitle-
13 ment and be automatically enrolled in the Medicare
14 Alternative Voucher Program established under sub-
15 section (l) if—

16 “(A) at the time such waiver is made the
17 individual—

18 “(i) has a health savings account de-
19 scribed in subsection (d) of section 223 of
20 the Internal Revenue Code of 1986; and

21 “(ii) is enrolled under a high deduct-
22 ible health plan, as defined in subsection
23 (c)(2) of such section; and

24 “(B) the individual waives such entitlement
25 during the individual’s initial enrollment period
26 described in section 1837(d).

1 “(2) TREATMENT UNDER THE INTERNAL REV-
2 ENUE CODE OF 1986.—An individual who waives en-
3 titlement under paragraph (1) shall not be treated
4 as entitled to benefits under title XVIII for purposes
5 of section 223(b)(7) of the Internal Revenue Code of
6 1986.

7 “(3) INELIGIBILITY FOR PART B OR D BENE-
8 FITS.—An individual shall not be eligible for benefits
9 under part B or D of title XVIII during the period
10 for which the individual waives entitlement under
11 part A of such title under paragraph (1).

12 “(4) TERMINATION OF WAIVER AND REENROLL-
13 MENT UNDER MEDICARE PROGRAM.—The Secretary
14 shall establish a procedure under which an individual
15 who waives entitlement under paragraph (1) may
16 terminate such waiver during an annual period that
17 shall be the same as the annual general enrollment
18 period described in section 1837(e). For purposes of
19 applying parts B and D of title XVIII, such indi-
20 vidual shall be treated as if the individual were enti-
21 tled to benefits under part A of such title as of the
22 date such individual terminates the waiver under
23 this paragraph. An individual who has terminated
24 such a waiver may not subsequently make such a
25 waiver.

1 “(1) MEDICARE ALTERNATIVE VOUCHER PRO-
2 GRAM.—

3 “(1) ESTABLISHMENT OF PROGRAM.—The Sec-
4 retary shall establish a program to be known as the
5 Medicare Alternative Voucher Program (in this sub-
6 section referred to as the ‘voucher program’) con-
7 sistent with this subsection.

8 “(2) AUTOMATIC ENROLLMENT.—An individual
9 who waives entitlement under subsection (k)(1) shall
10 be enrolled in the voucher program for the period
11 during which such waiver is in effect.

12 “(3) AMOUNT OF VOUCHER.—

13 “(A) AMOUNT BASED ON AGE COHORT.—

14 “(i) IN GENERAL.—Subject to clause
15 (ii), for each month that an individual
16 within an age cohort is enrolled in the
17 voucher program, the Secretary shall pro-
18 vide a voucher to such individual in an
19 amount that is equal to the monthly actu-
20 arial rate for that month computed under
21 section 1818(d)(1) multiplied by the age
22 cohort adjustment factor for such age co-
23 hort under subparagraph (B).

1 “(ii) MONTHLY LIMIT.—The amount
2 of a voucher provided to an individual for
3 a month may not exceed \$200.

4 “(B) AGE COHORT ADJUSTMENT FAC-
5 TOR.—For each age cohort the Secretary shall
6 determine an age cohort adjustment factor
7 equal to the ratio of—

8 “(i) the monthly actuarial rate de-
9 scribed in section 1818(d)(1) as deter-
10 mined by the Secretary for individuals in
11 such age cohort, to

12 “(ii) the monthly actuarial rate de-
13 scribed in such section.

14 “(C) AGE COHORT DEFINED.—For pur-
15 poses of this paragraph, an ‘age cohort’ means
16 a group of individuals whose age falls within a
17 span of 5 consecutive years, consistent with the
18 following:

19 “(i) The first such span begins at age
20 65.

21 “(ii) Other spans follow consecutively.

22 “(4) PERMISSIBLE USE OF VOUCHER.—A
23 voucher under paragraph (3) may be used only for
24 the following purposes:

1 “(A) As a contribution into a health sav-
2 ings account established by such individual, as
3 described in subsection (k)(1)(A).

4 “(B) For payment of premiums for enroll-
5 ment of such individual under a high deductible
6 health plan described in such subsection.

7 “(5) EFFECT OF SUBSEQUENT TERMINATION
8 OF WAIVER.—If an individual terminates a waiver
9 under subsection (k)(3), the enrollment of such indi-
10 vidual in the voucher program shall be terminated
11 on the date on which the termination becomes effec-
12 tive.”.

13 (b) AMENDMENT OF INTERNAL REVENUE CODE OF
14 1986.—Paragraph (7) of section 223(b) of the Internal
15 Revenue Code of 1986 (relating to Medicare eligible indi-
16 viduals) is amended to read as follows:

17 “(7) MEDICARE ELIGIBLE INDIVIDUALS.—

18 “(A) IN GENERAL.—The limitation under
19 this subsection for any month with respect to
20 an individual shall be zero for any month such
21 individual is entitled to benefits under title
22 XVIII of the Social Security Act.

23 “(B) MEDICARE ALTERNATIVE VOUCHER
24 PROGRAM.—In the case of an individual who is
25 enrolled in the Medicare Alternative Voucher

1 industrial loan association or bank, or credit
2 union, or

3 “(B) any other savings or thrift institution
4 which is chartered and supervised under Fed-
5 eral or State law, the deposits or accounts in
6 which are insured under Federal or State law
7 or which are protected and guaranteed under
8 State law,

9 “(3) interest on—

10 “(A) evidences of indebtedness (including
11 bonds, debentures, notes, and certificates)
12 issued by a domestic corporation in registered
13 form, and

14 “(B) to the extent provided in regulations
15 prescribed by the Secretary, other evidences of
16 indebtedness issued by a domestic corporation
17 of a type offered by corporations to the public,

18 “(4) interest on obligations of the United
19 States, a State, or a political subdivision of a State
20 (not excluded from gross income of the taxpayer
21 under any other provision of law), and

22 “(5) interest attributable to participation shares
23 in a trust established and maintained by a corpora-
24 tion established pursuant to Federal law.

1 “(d) DIVIDENDS.—For purposes of this section, the
2 term ‘dividend’ means qualified dividend income (as de-
3 fined in paragraph (11)(B) of section 1(h)) (determined
4 without regard to paragraph (13) thereof).

5 “(e) SPECIAL RULES.—For purposes of this sec-
6 tion—

7 “(1) DISTRIBUTIONS FROM REGULATED IN-
8 VESTMENT COMPANIES AND REAL ESTATE INVEST-
9 MENT TRUSTS.—Subsection (a) shall apply with re-
10 spect to distributions by—

11 “(A) regulated investment companies to
12 the extent provided in section 854(c), and

13 “(B) real estate investment trusts to the
14 extent provided in section 857(c)(3).

15 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
16 poses of subsection (a), the amount of interest prop-
17 erly allocable to a beneficiary under section 652 or
18 662 shall be deemed to have been received by the
19 beneficiary ratably on the same date that the inter-
20 est was received by the estate or trust.

21 “(3) CERTAIN NONRESIDENT ALIENS INELI-
22 GIBLE FOR EXCLUSION.—In the case of a non-
23 resident alien individual, subsection (a) shall apply
24 only—

1 “(A) in determining the tax imposed for
2 the taxable year pursuant to section 871(b)(1)
3 and only in respect of interest which are effec-
4 tively connected with the conduct of a trade or
5 business within the United States, or

6 “(B) in determining the tax imposed for
7 the taxable year pursuant to section 877(b).”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) The table of sections for part III of sub-
10 chapter B of chapter 1 of such Code is amended by
11 inserting after the item relating to section 115 the
12 following new item:

“Sec. 116. Partial exclusion for interest, dividends, and capital gains received
by individuals.”.

13 (2) Subsection (h) of section 1 of such Code is
14 amended by adding at the end the following:

15 “(12) COORDINATION WITH PARTIAL EXCLU-
16 SION FOR INTEREST, DIVIDENDS, AND CAPITAL
17 GAINS RECEIVED BY INDIVIDUALS.—For purposes of
18 this section, dividends and capital gains excluded
19 from gross income by section 116 shall not be taken
20 into account.”.

21 (3) Paragraph (2) of section 265(a) of such
22 Code is amended by inserting before the period at
23 the end thereof the following: “, or to purchase or
24 carry obligations or shares, or to make deposits, to

1 the extent the interest thereon is excludable from
2 gross income under section 116”.

3 (4) Subsection (c) of section 584 of such Code
4 is amended by adding at the end thereof the fol-
5 lowing new sentence: “The proportionate share of
6 each participant in the amount of interest received
7 by the common trust fund and to which section 116
8 applies shall be considered for purposes of such sec-
9 tion as having been received by such participant.”.

10 (5) Subsection (a) of section 643 of such Code
11 is amended by redesignating paragraph (7) as para-
12 graph (8) and by inserting after paragraph (6) the
13 following new paragraph:

14 “(7) INTEREST.—There shall be included the
15 amount of any interest excluded from gross income
16 pursuant to section 116.”.

17 (6) Section 854 of such Code is amended by
18 adding at the end thereof the following new sub-
19 section:

20 “(c) TREATMENT UNDER SECTION 116 FOR OTHER
21 DIVIDENDS AND TAXABLE INTEREST.—

22 “(1) IN GENERAL.—For purposes of section
23 116, in the case of any dividend (other than a divi-
24 dend described in subsection (a)) received from a
25 regulated investment company which meets the re-

1 requirements of section 852 for the taxable year in
2 which it paid the dividend—

3 “(A) the entire amount of such dividend
4 shall be treated as interest if the aggregate in-
5 terest received by such company during the tax-
6 able year equals or exceeds 75 percent of its
7 gross income,

8 “(B) the entire amount of such dividend
9 shall be treated as interest if the aggregate in-
10 terest received by such company during the tax-
11 able year equals or exceeds 75 percent of its
12 gross income, or

13 “(C) if subparagraphs (A) and (B) do not
14 apply, a portion of such dividend shall be treat-
15 ed as a dividend (and a portion of such divi-
16 dend shall be treated as interest) based on the
17 portion of the company’s gross income which
18 consists of aggregate dividends or aggregate in-
19 terest, as the case may be.

20 For purposes of the preceding sentence, gross in-
21 come and aggregate interest received shall each be
22 reduced by so much of the deduction allowable by
23 section 163 for the taxable year as does not exceed
24 aggregate interest received for the taxable year.

1 “(2) NOTICE TO SHAREHOLDERS.—The amount
2 of any distribution by a regulated investment com-
3 pany which may be taken into account as a dividend
4 and as interest for purposes of the exclusion under
5 section 116 shall not exceed the amount so des-
6 ignated by the company in a written notice to its
7 shareholders mailed not later than 45 days after the
8 close of its taxable year.

9 “(3) DEFINITIONS.—For purposes of this sub-
10 section—

11 “(A) The term ‘gross income’ does not in-
12 clude gain from the sale or other disposition of
13 stock or securities.

14 “(B) The term ‘aggregate dividends re-
15 ceived’ includes only dividends described in sec-
16 tion 116(d).

17 “(C) The term ‘aggregate interest received’
18 includes only interest described in section
19 116(c).”.

20 (7) Subsection (e) of section 857 of such Code
21 is amended by adding at the end the following new
22 paragraph:

23 “(3) TREATMENT AS INTEREST.—

24 “(A) IN GENERAL.—For purposes of sec-
25 tion 116, in the case of a dividend (other than

1 a capital gain dividend, as defined in subsection
2 (b)(3)(C)) received from a real estate invest-
3 ment trust which meets the requirements of
4 this part for the taxable year in which it paid
5 the dividend—

6 “(i) such dividend shall be treated as
7 interest if the aggregate interest received
8 by the real estate investment trust for the
9 taxable year equals or exceeds 75 percent
10 of its gross income, or

11 “(ii) if clause (i) does not apply, the
12 portion of such dividend which bears the
13 same ratio to the amount of such dividend
14 as the aggregate interest received bears to
15 gross income shall be treated as interest.

16 “(B) ADJUSTMENTS TO GROSS INCOME
17 AND AGGREGATE INTEREST RECEIVED.—For
18 purposes of paragraph (2)—

19 “(i) gross income does not include the
20 net capital gain,

21 “(ii) gross income and aggregate in-
22 terest received shall each be reduced by so
23 much of the deduction allowable by section
24 163 for the taxable year (other than for in-
25 terest on mortgages on real property

1 owned by the real estate investment trust)
2 as does not exceed aggregate interest re-
3 ceived by the taxable year, and

4 “(iii) gross income shall be reduced by
5 the sum of the taxes imposed by para-
6 graphs (4), (5), and (6) of section 857(b).

7 “(C) AGGREGATE INTEREST RECEIVED.—
8 The term ‘aggregate interest received’ includes
9 only interest described in section 116(c).

10 “(D) NOTICE TO SHAREHOLDERS.—The
11 amount of any distribution by a real estate in-
12 vestment trust which may be taken into account
13 as interest for purposes of the exclusion under
14 section 116 shall not exceed the amount so des-
15 ignated by the trust in a written notice to its
16 shareholders mailed not later than 45 days
17 after the close of its taxable year.”.

18 (8) The heading for subsection (c) of section
19 857 of such Code is amended by inserting “AND IN-
20 TEREST” after “DIVIDENDS”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2010.

1 **SEC. 7. PRIORITIZE OBLIGATIONS ON THE DEBT HELD BY**
2 **THE PUBLIC AND PAYMENT OF SOCIAL SECU-**
3 **RITY BENEFITS.**

4 In the event that the debt of the United States Gov-
5 ernment, as defined in section 3101 of title 31, United
6 States Code, reaches the statutory limit, the authority of
7 the Department of the Treasury provided in section 3123
8 of title 31, United States Code, to pay with legal tender
9 the principal and interest on debt held by the public and
10 the authority of the Commissioner of Social Security to
11 pay monthly old-age, survivors', and disability insurance
12 benefits under title II of the Social Security Act shall take
13 priority over all other obligations incurred by the Govern-
14 ment of the United States.

○