II

116TH CONGRESS
2D SESSION

S. 3883

To amend the Internal Revenue Code of 1986 to make the earned income tax credit available to residents of possessions of the United States.

IN THE SENATE OF THE UNITED STATES

JUNE 3, 2020

Mr. MENENDEZ (for himself, Mr. SCHUMER, Mr. BLUMENTHAL, Ms. WARREN, Mr. SANDERS, and Mrs. GILLIBRAND) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1986 to make the earned income tax credit available to residents of possessions of the United States.

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

SECTION 1. APPLICATION OF EARNED INCOME TAX CREDIT IN POSSESSIONS OF UNITED STATES.

(a) IN GENERAL.—Chapter 77 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

"SEC. 7530. APPLICATION OF EARNED INCOME TAX CREDIT TO POSSESSIONS OF THE UNITED STATES.

"(a) PUERTO RICO.—

"(1) IN GENERAL.—With respect to calendar year 2021 and each calendar year thereafter, the Secretary shall, except as otherwise provided in this subsection, make payments to Puerto Rico equal to—

"(A) the specified matching amount for such calendar year, plus

"(B) in the case of calendar years 2021 through 2025, the lesser of—

"(i) the expenditures made by Puerto Rico during such calendar year for education efforts with respect to individual taxpayers and tax return preparers relating to the earned income tax credit, or

"(ii) $1,000,000.

"(2) REQUIREMENT TO REFORM EARNED INCOME TAX CREDIT.—The Secretary shall not make any payments under paragraph (1) with respect to any calendar year unless Puerto Rico has in effect an earned income tax credit for taxable years beginning in or with such calendar year which (relative to the earned income tax credit which was in effect for taxable years beginning in or with calendar year

2019) increases the percentage of earned income which is allowed as a credit for each group of individuals with respect to which such percentage is separately stated or determined in a manner designed to substantially increase workforce participation.

"(3) SPECIFIED MATCHING AMOUNT.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'specified matching amount' means, with respect to any calendar year, the lesser of—

"(i) the excess (if any) of—

"(I) the cost to Puerto Rico of the earned income tax credit for taxable years beginning in or with such calendar year, over

"(II) the base amount for such calendar year, or

"(ii) the product of 3, multiplied by the base amount for such calendar year.

"(B) BASE AMOUNT.—

"(i) BASE AMOUNT FOR 2020.—In the case of calendar year 2020, the term 'base amount' means the greater of—

"(I) the cost to Puerto Rico of the earned income tax credit for taxable years beginning in or with calendar year 2019 (rounded to the nearest multiple of $1,000,000), or

"(II) $200,000,000.

"(ii) INFLATION ADJUSTMENT.—In the case of any calendar year after 2021, the term 'base amount' means the dollar amount determined under clause (i) increased by an amount equal to—

"(I) such dollar amount, multiplied by—

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2020' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

Any amount determined under this clause shall be rounded to the nearest multiple of $1,000,000.

"(4) RULES RELATED TO PAYMENTS AND REPORTS.—

"(A) TIMING OF PAYMENTS.—The Secretary shall make payments under paragraph (1) for any calendar year—

"(i) after receipt of the report described in subparagraph (B) for such calendar year, and

"(ii) except as provided in clause (i), within a reasonable period of time before the due date for individual income tax returns (as determined under the laws of Puerto Rico) for taxable years which began on the first day of such calendar year.

"(B) ANNUAL REPORTS.—With respect to calendar year 2021 and each calendar year thereafter, Puerto Rico shall provide to the Secretary a report which shall include—

"(i) an estimate of the costs described in paragraphs (1)(B)(i) and (3)(A)(i)(I) with respect to such calendar year, and

"(ii) a statement of such costs with respect to the preceding calendar year.

"(C) ADJUSTMENTS.—

"(i) IN GENERAL.—In the event that any estimate of an amount is more or less than the actual amount as later determined and any payment under paragraph (1) was determined on the basis of such estimate, proper payment shall be made by, or to, the Secretary (as the case may be) as soon as practicable after the determination that such estimate was inaccurate. Proper adjustment shall be made in the amount of any subsequent payments made under paragraph (1) to the extent that proper payment is not made under the preceding sentence before such subsequent payments.

"(ii) ADDITIONAL REPORTS.—The Secretary may require such additional periodic reports of the information described in subparagraph (B) as the Secretary determines appropriate to facilitate timely adjustments under clause (i).

"(D) DETERMINATION OF COST OF EARNED INCOME TAX CREDIT.—For purposes of this subsection, the cost to Puerto Rico of the earned income tax credit shall be determined by the Secretary on the basis of the laws of Puerto Rico and shall include reductions in revenues received by Puerto Rico by reason of such credit and refunds attributable to such credit, but shall not include any administrative costs with respect to such credit.

"(E) PREVENTION OF MANIPULATION OF BASE AMOUNT.—No payments shall be made under paragraph (1) if the earned income tax credit as in effect in Puerto Rico for taxable years beginning in or with calendar year 2019 is modified after the date of the enactment of this subsection.

"(b) POSSESSIONS WITH MIRROR CODE TAX SYSTEMS.—

"(1) IN GENERAL.—With respect to calendar year 2020 and each calendar year thereafter, the Secretary shall, except as otherwise provided in this subsection, make payments to the Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands equal to—

"(A) 75 percent of the cost to such possession of the earned income tax credit for taxable years beginning in or with such calendar year, plus

"(B) in the case of calendar years 2020 through 2024, the lesser of—

"(i) the expenditures made by such possession during such calendar year for education efforts with respect to individual taxpayers and tax return preparers relating to such earned income tax credit, or

"(ii) $50,000.

"(2) APPLICATION OF CERTAIN RULES.—Rules similar to the rules of subparagraphs (A), (B), (C), and (D) of subsection (a)(4) shall apply for purposes of this subsection.

"(c) AMERICAN SAMOA.—

"(1) IN GENERAL.—With respect to calendar year 2020 and each calendar year thereafter, the Secretary shall, except as otherwise provided in this subsection, make payments to American Samoa equal to—

"(A) the lesser of—

"(i) 75 percent of the cost to American Samoa of the earned income tax credit for taxable years beginning in or with such calendar year, or

"(ii) $12,000,000, plus

"(B) in the case of calendar years 2020 through 2024, the lesser of—

"(i) the expenditures made by American Samoa during such calendar year for education efforts with respect to individual taxpayers and tax return preparers relating to such earned income tax credit, or

"(ii) $50,000.

"(2) REQUIREMENT TO ENACT AND MAINTAIN AN EARNED INCOME TAX CREDIT.—The Secretary shall not make any payments under paragraph (1) with respect to any calendar year unless American Samoa has in effect an earned income tax credit for taxable years beginning in or with such calendar year which allows a refundable tax credit to individuals on the basis of the taxpayer's earned income which is designed to substantially increase workforce participation.

"(3) INFLATION ADJUSTMENT.—In the case of any calendar year after 2020, the $12,000,000 amount in paragraph (1)(A)(ii) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by—

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2019' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

Any increase determined under this clause shall be rounded to the nearest multiple of $100,000.

"(4) APPLICATION OF CERTAIN RULES.—Rules similar to the rules of subparagraphs (A), (B), (C), and (D) of subsection (a)(4) shall apply for purposes of this subsection.

"(d) TREATMENT OF PAYMENTS.—For purposes of section 1324 of title 31, United States Code, the payments under this section shall be treated in the same manner as a refund due from a credit provision referred to in subsection (b)(2) of such section.".

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

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