116th CONGRESS
1st Session

To amend the Internal Revenue Code of 1986 to expand the earned income and child tax credits, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. Brown (for himself, Mr. Bennet, Mr. Durbin, Ms. Baldwin, Mr. Blumenthal, Mr. Booker, Ms. Cantwell, Mr. Cardin, Mr. Carper, Mr. Casey, Mr. Coons, Ms. Cortez Masto, Ms. Duckworth, Mrs. Gillibrand, Ms. Harris, Ms. Hassan, Mr. Heinrich, Ms. Hirono, Mr. Jones, Mr. Kaine, Mr. King, Ms. Klobuchar, Mr. Leahy, Mr. Markey, Mr. Menendez, Mr. Merkley, Mr. Murphy, Mrs. Murray, Mr. Peters, Mr. Reed, Ms. Rosen, Mr. Sanders, Mr. Schatz, Mr. Schumer, Mrs. Shaheen, Ms. Smith, Ms. Stabenow, Mr. Tester, Mr. Udall, Mr. Van Hollen, Mr. Warner, Ms. Warren, Mr. Whitehouse, and Mr. Wyden) introduced the following bill; which was read twice and referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to expand the earned income and child tax credits, and for other purposes.

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

3 SECTION 1. AMENDMENT OF 1986 CODE.

4 Except as otherwise expressly provided, whenever in

5 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.

SEC. 2. EXPANSION OF EARNED INCOME CREDIT.

(a) CREDIT PERCENTAGE; PHASEOUT PERCENTAGE.—The table contained in paragraph (1) of section 32(b) is amended to read as follows:

<table>
<thead>
<tr>
<th>“In the case of an eligible individual with:”</th>
<th>The credit percentage is:</th>
<th>The phase-out percentage is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 qualifying child ....................................................</td>
<td>42.5</td>
<td>15.98</td>
</tr>
<tr>
<td>2 qualifying children ...............................................</td>
<td>50</td>
<td>21.06</td>
</tr>
<tr>
<td>3 or more qualifying children .........................</td>
<td>52.5</td>
<td>21.06</td>
</tr>
</tbody>
</table>
| No qualifying children ............................................ | 20 | 15.98.

(b) EARNED INCOME AMOUNT; PHASEOUT AMOUNT.—

(1) IN GENERAL.—The table contained in subparagraph (A) of section 32(b)(2) is amended to read as follows:

<table>
<thead>
<tr>
<th>“In the case of an eligible individual with:”</th>
<th>The earned income amount is:</th>
<th>The phase-out amount is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 qualifying child ....................................................</td>
<td>$10,180</td>
<td>$18,660</td>
</tr>
<tr>
<td>2 or more qualifying children .........................</td>
<td>$14,290</td>
<td>$18,660</td>
</tr>
</tbody>
</table>
| No qualifying children ............................................ | $10,180 | $11,380."

(2) JOINT Filers.—Subparagraph (B) of section 32(b)(2) is amended by striking “$5,000” and inserting “$5,690”.
(3) ADJUSTMENT FOR INFLATION.—Paragraph (1) of section 32(j) is amended—

(A) by striking “after 2015” and inserting “after 2018”,

(B) by striking “subsections (b)(2)(A) and” in subparagraph (B)(i) and inserting “subsection”,

(C) by striking “the $5,000 amount in subsection (b)(2)(B)” in subparagraph (B)(ii) and inserting “amounts in subsection (b)(2)”, and

(D) by striking “calendar year 2008” in subparagraph (B)(ii) and inserting “calendar year 2017”.

(c) AGE OF ELIGIBLE INDIVIDUAL.—Clause (ii) of section 32(c)(1)(A) is amended—

(1) by striking “age 25” in subclause (II) and inserting “age 19”,

(2) by striking “age 65” in subclause (II) and inserting “age 68”,

(3) by striking “and” at the end of subclause (II),

(4) by striking the period at the end of subclause (III) and inserting “, and”, and
(5) by adding at the end the following new sub-
clause:

“(IV) in the case of an individual
who has not attained age 25 before
the close of the taxable year, such in-
dividual is not a student (as defined
in section 152(f)(2)).”.

(d) ADVANCE PAYMENT OF EARNED INCOME CRED-
IT.—

(1) IN GENERAL.—Chapter 25 of subtitle C is
amended by inserting after section 3506 the fol-
lowing new section:

“SEC. 3507. ADVANCE PAYMENT OF EARNED INCOME CRED-
IT.

“(a) ADVANCE PAYMENT.—

“(1) IN GENERAL.—An employer making pay-
ment of wages to an employee with respect to whom
an eligibility certificate is in effect shall, at the time
of paying such wages for the payroll period elected
by the employee under paragraph (2), make an addi-
tional lump sum payment to such employee equal to
the earned income advance amount (except as pro-
vided in subsection (b)(1)(C)(ii)) of such employee.

“(2) PAYMENTS AVAILABLE AFTER 6 MONTHS
OF EMPLOYMENT DURING CALENDAR YEAR.—For
purposes of paragraph (1), an employee with respect
to whom an eligibility certificate is in effect for the
calendar year may elect to receive the earned income
advance amount at the same time as wages for any
payroll period which begins after the employee has
been paid wages by the employer for a period of not
less than 6 months during such calendar year.

“(b) ELIGIBILITY CERTIFICATE.—

“(1) IN GENERAL.—For purposes of this sec-
tion, an eligibility certificate is a statement sub-
mitted by an employee to the employer which—

“(A) certifies that the employee is eligible
to receive the credit provided by section 32 for
the taxable year,

“(B) certifies that the employee does not
have an eligibility certificate in effect for the
calendar year with respect to the payment of
wages by another employer, and

“(C) certifies that—

“(i) an eligibility certificate has not
been in effect for the spouse of the em-
ployee on any date during the calendar
year, or

“(ii) such a certificate is in effect for
the spouse of the employee, and the em-
ployee is eligible to receive only \( \frac{1}{2} \) the earned income advance amount otherwise determined with respect to the employee.

“(2) Employer not responsible for verification.—For purposes of this section, an employer shall not—

“(A) be required to verify any certification made by an employee in the statement described in paragraph (1), or

“(B) be held liable for any false claims or statements made by an employee in regards to such statement.

“(c) Earned Income Advance Amount.—

“(1) Determination of amount.—

“(A) In general.—Subject to subparagraph (B), the term ‘earned income advance amount’ means, with respect to any payroll period, the amount of the credit provided under section 32 as determined—

“(i) on the basis of the wages of the employee from the employer during such calendar year through such payroll period, and

“(ii) in accordance with tables issued by the Secretary.
“(B) LIMITATION.—For each calendar year, except as provided in subparagraph (C), the earned income advance amount shall not exceed $500.

“(C) ADJUSTMENT FOR INFLATION.—

“(i) IN GENERAL.—In the case of any taxable year beginning after 2019, the $500 amount in subparagraph (B) shall be 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 the calendar year in which the taxable year begins determined by substituting ‘calendar year 2018’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

“(ii) ROUNDING.—If any increase determined under paragraph (1) is not a multiple of $10, such increase shall be rounded to the nearest multiple of $10.

“(2) ARMED FORCES.—In the case of an employee who is a member of the Armed Forces of the United States, the earned income advance amount
shall be determined by taking into account the total wages of such employee, as determined for purposes of section 32.

“(3) Advance amount tables.—For purposes of paragraph (1)(A)(ii), the tables issued by the Secretary shall be similar in form to the tables issued under section 3402 and, to the extent feasible, coordinated with such tables.

“(d) Payments to be treated as payments of withholding and FICA taxes.—

“(1) In general.—Payments made by an employer under subsection (a) to an employee—

“(A) shall not be treated as payment of compensation, and

“(B) shall be treated as made out of—

“(i) amounts required to be deducted and withheld for the payroll period under section 3401,

“(ii) amounts required to be deducted for the payroll period under section 3102, and

“(iii) amounts of the taxes imposed for the payroll period under section 3111,
as if the employer had paid to the Secretary, on
the day on which the wages are paid to the em-
ployee, an amount equal to such payments.

“(2) ADVANCE PAYMENTS EXCEED TAXES
DUE.—In the case of any employer, if for any pay-
roll period the aggregate amount of earned income
advance payments exceeds the sum of the amounts
referred to in paragraph (1)(B), the employer shall
pay only so much of such earned income advance
payment as does not exceed such sum, and shall not
make any further advance payments to the employee
for the calendar year.

“(3) FAILURE TO MAKE ADVANCE PAY-
MENTS.—Failure to make any payment of an earned
income advance amount as required under this sec-
tion shall be treated as the failure at such time to
deduct and withhold under chapter 24 an amount
equal to the earned income advance amount.

“(e) SUBMISSION OF CERTIFICATE.—

“(1) EFFECTIVE PERIOD.—An eligibility certifi-
cate submitted to an employer at any time during
the calendar year shall continue in effect with re-
spect to the employee during such calendar year
until revoked by the employee or until another such
certificate takes effect under this section.
“(2) Requirement to revoke certificate.—In the case of an employee who has submitted an eligibility certificate under this section and subsequently becomes ineligible for the credit provided under section 32 for the taxable year, the employee shall, not later than 10 days after becoming ineligible for such credit, submit to the employer a revocation of such certificate.

“(3) Form and contents of certificate.—Eligibility certificates shall be in such form and contain such other information as the Secretary may by regulations prescribe.

“(f) Taxpayers making prior fraudulent or reckless claims.—

“(1) In general.—No earned income advance amount shall be paid under this section for any taxable year in the disallowance period.

“(2) Disallowance period.—For purposes of paragraph (1), the disallowance period is—

“(A) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer’s claim of an earned income advance amount under this section was due to fraud, and
“(B) the period of 2 taxable years after
the most recent taxable year for which there
was a final determination that the taxpayer’s
claim of an earned income advance amount
under this section was due to reckless or inten-
tional disregard of rules and regulations (but
not due to fraud).

“(g) Taxable Year.—The term ‘taxable year’
means the last taxable year of the employee under subtitle
A beginning in the calendar year in which the wages are
paid.

“(h) IRS Notification.—The Internal Revenue
Service shall take such steps as may be appropriate to en-
sure that taxpayers who receive a refund of the credit
under section 32 are aware of the availability of earned
income advance amounts under this section.”.

(2) Coordination with advance payments.—Section 32 is amended by inserting after
subsection (f) the following new subsection:

“(g) Coordination With Advance Payments of
Earned Income Credit.—

“(1) Recapture of advance payments.—If
any payment is made to the individual by an em-
ployer under section 3507 during any calendar year,
then the tax imposed by this chapter for the individ-
ual’s last taxable year beginning in such calendar year shall be increased by the aggregate amount of such payments.

“(2) Reconciliation of payments advanced and credit allowed.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit (other than the credit allowed by subsection (a)) allowable under this part.”.

(3) Filing requirement.—Section 6012(a) is amended—

(A) in paragraph (7), by striking “and” at the end,

(B) in paragraph (8), by adding “and” at the end, and

(C) by inserting after paragraph (8) the following new paragraph:

“(9) Every individual who receives payments during the calendar year in which the taxable year begins under section 3507;”.

(4) Receipts for employees.—Section 6051(a) is amended by inserting after paragraph (6) the following new paragraph:
“(7) the total amount paid to the employee under section 3507 (relating to advance payment of earned income credit),”.

(5) Clerical Amendment.—The table of sections for chapter 25 of subtitle C is amended by inserting after the item relating to section 3506 the following new item:

“Sec. 3507. Advance payment of earned income credit.”.

(e) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2018.

SEC. 3. Permanent Expansion and Modification of Child Tax Credit.

(a) Permanence of Certain Special Rules.—

(1) Credit Amount.—Subsection (a) of section 24 is amended by striking “$1,000” and inserting “$2,000”.

(2) Threshold Amount.—Paragraph (2) of section 24(b) is amended—

(A) by striking “$110,000” in subparagraph (A) and inserting “$200,000”,

(B) by striking “$75,000” in subparagraph (B) and inserting “$150,000”, and

(C) by striking “$55,000” in subparagraph (C) and inserting “$100,000”.


(3) Partial credit allowed for certain other dependents; elimination of maximum amount of refundable credit.—Subsection (h) of section 24 is amended—

(A) by striking paragraphs (1), (2), (3), (5), and (6) and by redesignating paragraphs (4) and (7) as paragraphs (1) and (2), respectively,

(B) by striking “(after the application of paragraph (2))” in subparagraph (A) of paragraph (1), as so redesignated,

(C) by striking “paragraph (7)” in subparagraph (C) of paragraph (1), as so redesignated, and inserting “paragraph (2))”,

(D) by inserting “for a taxable year beginning after December 31, 2017, and before January 1, 2026,” after “under this section” in paragraph (2), as so redesignated, and

(E) by striking “FOR TAXABLE YEARS 2018 THROUGH 2025” in the heading.

(b) Increase in credit for young children.—

Subsection (a) of section 24, as amended by subsection (a)(1), is amended by striking “$2,000” and inserting “$2,000 ($3,000 in the case of a qualifying child who has not attained age 6)”.
(c) Adjustment for Inflation.—Section 24 is amended by redesignating subsection (h), as amended by subsection (a)(3) of this section, as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) Adjustment for Inflation.—

“(1) In general.—In the case of any taxable year beginning after 2019, each of the dollar amounts in subsection (a) 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 the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2018’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

“(2) Rounding.—If any amount as adjusted under paragraph (1) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.”.

(d) Modification of Qualifying Child Definition.—Paragraph (1) of section 24(e) is amended by inserting “, determined without regard to paragraph (1)(D) thereof” after “section 152(e)”.

(e) Treatment as Fully Refundable.—
(1) Credit moved to subpart relating to refundable credits.—

(A) In general.—The Internal Revenue Code of 1986 is amended—

(i) by redesignating section 24, as amended by this section, as section 36C, and

(ii) by moving such section, as so redesignated, from subpart A of part IV of subchapter A of chapter 1 to the location immediately after section 36B in subpart C of part IV of subchapter A of chapter 1.

(B) Technical amendments.—

(i) Subsection (a) of section 36C, as moved and redesignated by subparagraph (A), is amended by striking “this chapter” and inserting “this subtitle”.

(ii) Section 36C, as so moved and redesignated, is amended—

(I) by striking subsection (d), and

(II) by redesignating subsection (i) as subsection (d), and by moving such subsection to the location immediately after subsection (e).
(C) PARTIAL CREDIT FOR OTHER DEPENDENTS NONREFUNDABLE.—Paragraph (1) of subsection (d) of section 36C, as moved and redesignated by subparagraph (B)(ii), is amended by adding at the end the following new subparagraph:

“(D) PORTION OF CREDIT NONREFUNDABLE.—The amount of the credit allowed under this paragraph—

“(i) shall not be treated as a credit allowed under this subpart, and

“(ii) shall not be taken into account in determining the amount of the credit under this section for purposes of section 7527A.”.

(D) CLERICAL AMENDMENTS.—

(i) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking the item relating to section 24.

(ii) The table of sections for subpart C of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 36C. Child tax credit.”.

(2) ADVANCE PAYMENT OF CREDIT.—
(A) In general.—Section 36C, as amended by the preceding provisions of this section, is amended by adding at the end the following new subsection:

“(i) Reconciliation of Credit and Advance Credit.—

“(1) In general.—The amount of the credit allowed under this section for any taxable year shall be reduced (but not below zero) by the aggregate amount of any advance payments of such credit under section 7527A for such taxable year.

“(2) Excess Advance Payments.—If the aggregate amount of advance payments under section 7527A for the taxable year exceed the amount of the credit allowed under this section for such taxable year (determined without regard to paragraph (1)), the tax imposed by this chapter for such taxable year shall be increased by the amount of such excess.”.

(B) Advance Payment.—Chapter 77 is amended by inserting after section 7527 the following new section:
“(a) In General.—As soon as practicable and not later than 1 year after the date of the enactment of this section, the Secretary shall establish a program for making advance payments of the credit allowed under section 36C (determined without regard to subsection (i)(1) of such section) on a monthly basis, or as frequently as the Secretary determines to be administratively feasible, to taxpayers allowed such credit.

“(b) Limitation.—

“(1) In General.—The Secretary may make payments under subsection (a) only to the extent that the total amount of such payments made to any taxpayer during the taxable year does not exceed an amount equal to the excess, if any, of—

“(A) subject to paragraph (2), the amount determined under section 36C with respect to such taxpayer (determined without regard to subsection (i) of such section) for such taxable year, over

“(B) the estimated tax imposed by subtitle A, as reduced by the credits allowable under subparts A and C (with the exception of section 36C) of such part IV, with respect to such taxpayer for such taxable year, as determined in
such manner as the Secretary deems appropriate.

“(2) Application of threshold amount limitation.—The program described in subsection (a) shall make reasonable efforts to apply the limitation of section 36C(b) with respect to payments made under such program.”.

(C) Clerical amendment.—The table of sections for chapter 77 is amended by inserting after the item relating to section 7527 the following new item:

“Sec. 7527A. Advance payment of child tax credit.”.

(3) Conforming amendments.—

(A) Subparagraph (B) of section 45R(f)(3) is amended to read as follows:

“(B) Special rule.—Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A) shall be treated as taxes referred to in such subparagraph.”.

(B) Section 152(f)(6)(B)(ii) is amended by striking “section 24” and inserting “section 36C”.
(C) Paragraph (26) of section 501(c) is amended in the flush matter at the end by striking “section 24(c)” and inserting “section 36C(c))”.

(D) Section 6211(b)(4)(A) is amended—
   (i) by striking “24(d),”, and
   (ii) by striking “and 36B, 168(k)(4)” and inserting “36B, and 36C”.

(E) Section 6213(g)(2) is amended—
   (i) in subparagraph (I), by striking “section 24(e)” and inserting “section 36C(e)”,
   (ii) in subparagraph (L), by striking “24, or 32” and inserting “32, or 36C”, and
   (iii) in subparagraph (P)—
      (I) by striking “24(g)(2)” and inserting “36C(g)(2)”, and
      (II) by striking “section 24” and inserting “section 36C”.

(F) Section 6402(m) is amended by striking “section 24 (by reason of subsection (d) thereof) or 32” and inserting “section 32 or 36C”.
(G) Section 6695(g)(2) is amended by striking “24, 25A(a)(1), or 32” and inserting “25A(a)(1), 32, or 36C”.

(H) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting “, 36C(a)” after “36B”.

(I) Section 1613(a)(11) of the Social Security Act (42 U.S.C. 1382b(a)(11)) is amended by striking “section 24 of the Internal Revenue Code of 1986 (relating to child tax credit) by reason of subsection (d) thereof” and inserting “section 36C of the Internal Revenue Code of 1986 (relating to child tax credit), and any payment made to such individual (or such spouse) under section 7527A of such Code (relating to advance payment of child tax credit)”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2018.

SEC. 4. EARNED INCOME CREDIT EXPANSION FOR PUERTO RICO.

(a) IN GENERAL.—Subsequent to an amendment of the Puerto Rico Internal Revenue Code of 2011 expanding the earned income credit added by Act 257 in a similar manner as the amendments made by section 2 of this Act,
the Secretary of the Treasury shall make annual payments
to Puerto Rico in the amount determined under subsection
(b). Such payments shall be made within a reasonable pe-
riod of time before the due date for the income tax in
Puerto Rico each year, and shall be made only if Puerto
Rico provides to the Secretary of the Treasury—

(1) an estimate, certified by the Financial Over-
sight and Management Board for Puerto Rico, of
the cost of such expansion in the first year, and

(2) annually thereafter, a report of the actual
cost of such expansion in the preceding year and an
estimate, certified by such Board, of the cost of such
expansion in the year of the report.

(b) Amount Determined.—For purposes of sub-
section (a), the amount determined with respect to any
year is so much of the estimated cost (as reported under
subsection (a)) of the expansion of the earned income
credit in Puerto Rico for such year as does not exceed
$204,000,000, as applicable—

(1) reduced by the excess, if any, of—

(A) the amount of the payments made to
Puerto Rico under this section for the preceding
year, over

(B) the actual cost (as reported under sub-
section (a)) of the expansion of the earned in-
come credit in Puerto Rico for such preceding year, or

(2) increased by the excess, if any, of the amount described in paragraph (1)(B) over the amount described in paragraph (1)(A).

(c) COST OF EXPANSION.—For purposes of this section, the cost of expanding the earned income credit in Puerto Rico as described in subsection (a) shall include only the cost of the amendments made as described in such subsection, and shall not include the cost of laws in effect as of the date of the enactment of this Act.

(d) REPORTING REQUIREMENTS.—The Treasury of Puerto Rico shall submit to the Secretary of the Treasury an annual report on the earned income credit of Puerto Rico, including the number of beneficiaries, average benefits for different households, participation rates for eligible populations, error rates and other compliance matters, and the effects of the credit on labor force participation and poverty reduction.

(e) OUTREACH GRANT.—In addition to the payments under subsection (a), the Secretary of the Treasury shall make a one-time grant in the amount of $5,000,000 to Puerto Rico for the purpose of taxpayer education efforts relating to the earned income credit, including education of paid preparers.
25

(f) Appropriations.—Such sums as are necessary, not to exceed—

(1) $209,000,000 in the first year after enactment of the amendment described in subsection (a); and

(2) except as provided in subsection (g), $204,000,000 in each year thereafter (as long as Puerto Rico maintains an earned income credit as described in subsection (a));

are hereby appropriated to the Secretary of the Treasury to carry out the purposes of this section.

(g) Adjustment for Inflation.—

(1) In general.—For each calendar year beginning after the year described in subsection (f)(1), the $204,000,000 amount under subsections (b) and (f)(2) 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) of the Internal Revenue Code of 1986, determined by substituting the calendar year preceding the year described in subsection (f)(1) for calendar year 2016 in subparagraph (A)(ii) thereof.

(2) Rounding.—If any amount adjusted under paragraph (1) is not a multiple of $500, such
amount shall be rounded to the next lowest multiple of $500.

SEC. 5. REGULATION OF TAX RETURN PREPARERS.

(a) IN GENERAL.—Subsection (a) of section 330 of title 31, United States Code, is amended—

(1) by striking paragraph (1) and inserting the following:

“(1) regulate—

“(A) the practice of representatives of persons before the Department of the Treasury; and

“(B) the practice of tax return preparers; and”, and

(2) in paragraph (2)—

(A) by inserting “or a tax return preparer to prepare tax returns” after “practice”,

(B) by inserting “or tax return preparer” before “demonstrate”, and

(C) by inserting “or in preparing their tax returns, claims for refund, or documents in connection with tax returns or claims for refund” after “cases” in subparagraph (D).

(b) AUTHORITY TO SANCTION REGULATED TAX RETURN PREPARERS.—Subsection (c) of section 330 of title 31, United States Code, is amended—
(1) by striking “before the Department”,
(2) by inserting “or tax return preparer” after “representative” each place it appears, and
(3) in paragraph (4), by striking “misleads or threatens” and all that follows and inserting “misleads or threatens—

“(A) any person being represented or any prospective person being represented; or
“(B) any person or prospective person whose tax return, claim for refund, or document in connection with a tax return or claim for refund, is being or may be prepared.”.

(e) Minimum Competency Standards for Tax Return Preparers.—Section 330 of title 31, United States Code, is amended by adding at the end the following new subsection:

“(f) Tax Return Preparers.—

“(1) In general.—Any tax return preparer shall demonstrate minimum competency standards under this subsection by—

“(A) obtaining an identifying number for securing proper identification of such preparer as described in section 6109(a)(4) of the Internal Revenue Code of 1986;
“(B) satisfying any examination and annual continuing education requirements as prescribed by the Secretary; and

“(C) completing a background check administered by the Secretary.

“(2) EXEMPTION.—The Secretary shall exempt tax return preparers who have been subject to comparable examination, continuing education requirements, and background checks administered by the Secretary or any comparable State licensing program. Such exemption shall extend directly to individuals who are supervised by such preparers and are not required to secure an identification number under section 6109(a)(4).”.

(d) TAX RETURN PREPARER DEFINED.—Section 330 of title 31, United States Code, as amended by subsection (c), is amended by adding at the end the following new subsection:

“(g) TAX RETURN PREPARER.—For purposes of this section—

“(1) IN GENERAL.—The term ‘tax return preparer’ has the meaning given such term under section 7701(a)(36) of the Internal Revenue Code of 1986.
“(2) TAX RETURN.—The term ‘tax return’ has the meaning given to the term ‘return’ under section 6696(e)(1) of the Internal Revenue Code of 1986.

“(3) CLAIM FOR REFUND.—The term ‘claim for refund’ has the meaning given such term under section 6696(e)(2) of such Code.”.

(e) AMENDMENTS WITH RESPECT TO IDENTIFYING NUMBER.—

(1) IN GENERAL.—Section 6109(a) is amended by striking paragraph (4) and inserting the following:

“(4) FURNISHING IDENTIFYING NUMBER OF TAX RETURN PREPARER.—

“(A) IN GENERAL.—Any return or claim for refund prepared by a tax return preparer shall bear such identifying number for securing proper identification of such preparer, his employer, or both, as may be prescribed. For purposes of this paragraph, the terms ‘return’ and ‘claim for refund’ have the respective meanings given to such terms by section 6696(e).

“(B) EXCEPTION.—Subparagraph (A) shall not apply to any tax return preparer who prepares a return or claim for refund under the supervision and direction of a tax return pre-
parer who signs the return or claim for refund and is a certified public accountant, an attorney or enrolled agent.”.

(2) Clarification of rescission authority.—Section 6109 is amended by inserting after subsection (d) the following new subsection:

“(e) Authority to rescind identifying number of tax return preparer.—

“(1) In general.—The Secretary may rescind an identifying number issued under subsection (a)(4) if—

“(A) after notice and opportunity for a hearing, the preparer is shown to be incompetent or disreputable (as such terms are used in subsection (c) of section 330 of title 31, United States Code), and

“(B) rescinding the identifying number would promote compliance with the requirements of this title and effective tax administration.

“(2) Records.—If an identifying number is rescinded under paragraph (1), the Secretary shall place in the file in the Office of the Director of Professional Responsibility the opinion of the Secretary with respect to the determination, including—
“(A) a statement of the facts and circumstances relating to the determination, and
“(B) the reasons for the rescission.”.

(f) GAO Study and Report on the Exchange of Information Between the IRS and State Taxation Authorities.—

(1) In General.—Not later than 18 months after the date of the enactment of this Act, the Comptroller General shall conduct a study and submit to Congress a report on the sharing of information between the Secretary of the Treasury and State authorities, as authorized under section 6103(d) of the Internal Revenue Code of 1986, regarding identification numbers issued to paid tax return preparers and return preparer minimum standards.

(2) Increased Information Sharing.—The study and report described in paragraph (1) shall include an analysis of the impact that increased information sharing between Federal and State authorities would have on efforts to enforce minimum standards on paid tax return preparers.