# FEDERAL RECEIPTS AND COLLECTIONS

# 3. FEDERAL RECEIPTS

Receipts (budget and off-budget) are taxes and other collections from the public that result from the exercise of the Government's sovereign or governmental powers. The difference between receipts and outlays determines the surplus or deficit.

***Growth in receipts.***—Total receipts in 1997 are estimated to be $1,495.2 billion, an increase of $68.5 billion or 4.8 percent relative to 1996. This increase is largely due to assumed increases in incomes resulting from both real economic growth and inflation. Receipts are projected to grow at an average annual rate of 5.0 percent between 1997 and 2002, rising to $1912.2 billion.

As a share of GDP, receipts are projected to remain fairly constant, declining from 19.0 percent in 1996 to 18.9 percent in 2002.

**Table 3–1. RECEIPTS BY SOURCE—SUMMARY**

(In billions of dollars)

| Source | 1995 actual | Estimate | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Individual income taxes | 590.2 | 630.9 | 645.1 | 683.4 | 714.2 | 748.7 | 790.0 | 834.5 |
| Corporation income taxes | 157.0 | 167.1 | 185.0 | 201.7 | 212.7 | 225.4 | 236.7 | 245.8 |
| Social insurance taxes and contributions | 484.5 | 507.5 | 536.2 | 560.9 | 589.4 | 618.8 | 647.0 | 679.5 |
| (On-budget) | (133.4) | (140.1) | (148.2) | (154.6) | (161.6) | (168.8) | (175.8) | (184.8) |
| (Off-budget) | (351.1) | (367.4) | (388.0) | (406.3) | (427.8) | (450.0) | (471.2) | (494.6) |
| Excise taxes | 57.5 | 53.9 | 59.6 | 60.4 | 61.7 | 62.8 | 64.2 | 65.6 |
| Estate and gift taxes | 14.8 | 15.9 | 17.1 | 18.1 | 19.5 | 20.9 | 22.5 | 24.1 |
| Customs duties | 19.3 | 19.3 | 20.5 | 20.8 | 20.9 | 21.9 | 22.4 | 24.3 |
| Miscellaneous receipts | 31.9 | 32.1 | 31.8 | 32.7 | 34.2 | 35.3 | 37.1 | 38.4 |
| **Total receipts** | **1,355.2** | **1,426.8** | **1,495.2** | **1,577.9** | **1,652.5** | **1,733.8** | **1,819.8** | **1,912.2** |
| *(On-budget)* | (*1,004.1*) | (*1,059.3*) | (*1,107.2*) | (*1,171.6*) | ( *1,224.8*) | (*1,283.9*) | (*1,348.6*) | (*1,417.6*) |
| *(Off-budget)* | (*351.1*) | (*367.4*) | ( *388.0*) | (*406.3*) | (*427.8*) | (*450.0*) | (*471.2*) | (*494.6*) |

**Table 3–2. CHANGES IN RECEIPTS**

(In billions of dollars)

| | Estimate | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| **Receipts under tax rates and structure in effect January 1, 1996** [1] | 1,423.6 | 1,495.8 | 1,569.0 | 1,640.2 | 1,719.4 | 1,800.3 | 1,886.0 |
| **Telecommunications Act of 1996** | 4.3 | 4.7 | 5.5 | 6.3 | 7.0 | 7.7 | 7.9 |
| **Social security (OASDI) taxable earnings base increases:** | | | | | | | |
| $62,700 to $65,100 on Jan. 1, 1997 | ..... | 1.0 | 2.8 | 3.1 | 3.5 | 3.9 | 4.3 |
| $65,100 to $68,100 on Jan. 1, 1998 | ..... | ..... | 1.3 | 3.5 | 3.9 | 4.3 | 4.9 |
| $68,100 to $71,100 on Jan. 1, 1999 | ..... | ..... | ..... | 1.3 | 3.5 | 3.9 | 4.3 |
| $71,100 to $74,100 on Jan. 1, 2000 | ..... | ..... | ..... | ..... | 1.3 | 3.5 | 3.9 |
| $74,100 to $76,800 on Jan. 1, 2001 | ..... | ..... | ..... | ..... | ..... | 1.2 | 3.2 |
| $76,800 to $80,100 on Jan. 1, 2002 | ..... | ..... | ..... | ..... | ..... | ..... | 1.4 |
| **Proposals** [2] | –1.6 | –11.7 | –6.3 | –7.8 | –11.0 | –11.6 | –10.7 |
| **Extension of expired trust fund excise taxes** [2] | 0.5 | 5.5 | 5.7 | 6.0 | 6.3 | 6.7 | 7.0 |
| **Total, receipts under existing and proposed legislation** | **1,426.8** | **1,495.2** | **1,577.9** | **1,652.5** | **1,733.8** | **1,819.8** | **1,912.2** |

[1] These estimates assume a social security taxable earnings base of $62,700 through 2002.
[2] Net of income offsets.

## ENACTED LEGISLATION

***Self-Employed Health Insurance Act.***—This Act restored the 25 percent health insurance deduction for the self-employed for 1994 and increased it to 30 percent thereafter. The associated revenue losses were more than offset by other revenue and outlay provisions. The major provisions of the Act that affected receipts are described below.

*Restore and increase deduction for health insurance costs of self-employed individuals.*—The 25 percent health insurance deduction for self-employed individuals and their dependents, which had expired for taxable years beginning after December 31, 1993, was retroactively reinstated. In addition, the deduction was permanently increased to 30 percent for taxable years beginning after December 31, 1994.

*Repeal special rules applicable to Federal Communications Commission (FCC) certified sales of broadcast property.*—Under prior law, sellers of FCC-licensed broadcast facilities were allowed to defer taxes on gains realized in the sale or exchange of FCC-licensed broadcast properties to minority owners. Such deferrals were executed through FCC-issued tax certificates. Under this Act, deferral was repealed effective for all sales and exchanges on or after January 17, 1995 and for all sales and exchanges occuring before that date for which the FCC tax certificate was issued on or after January 17, 1995. The repeal did not apply to binding written contracts for which the seller had applied to the FCC for a certificate of deferral before January 17, 1995.

*Modify earned income tax credit (EITC) eligibility.*—Effective for taxable years beginning after December 31, 1995, taxpayers with annual aggregate interest, dividend, tax-exempt interest and net rental and royalty income exceeding $2,350 would no longer be eligible for the EITC.

*Prohibit nonrecognition of gain on involuntary conversions in certain related-party transactions.*—Section 1033 of the Internal Revenue Code allows certain taxpayers to defer a gain realized from certain involuntary conversions of property if the taxpayer purchases similar or related property within a specified period. Under this Act, taxpayers would no longer be allowed to defer gain on involuntary conversions occurring on or after February 6, 1995 if the replacement property or stock were purchased from a related person.

*Extend New York State hospital surcharge provision.*—Under the Omnibus Budget Reconciliation Act of 1993, certain employers were prohibited from receiving a Federal tax deduction for health insurance expenses if they failed to comply with New York State's hospital rate-setting/surcharge laws. This provision, which expired on May 12, 1995, was extended through December 31, 1995.

***Telecommunications Act of 1996.***—This Act, which provided for a major restructuring of the Nation's communications laws, fulfilled this Administration's promise to reform telecommunications laws in a manner that leads to competition and private investment, promotes universal service and open access to information networks, and provides for flexible government regulation. Under the Act, all interstate telecommunications carriers would be required to contribute funds, as prescribed by the FCC, to the preservation and advancement of universal service. The contributions would be used to provide and upgrade facilities and services, as prescribed by the FCC. Telecommunications carriers would receive credit toward their contribution by providing discount service to schools, libraries, and health care providers in rural areas. Because the amounts collected would be spent, the net budget effect would be zero.

## ADMINISTRATION PROPOSALS

### Provide Tax Relief

The President's plan targets tax relief to middle-income Americans through his Middle Class Bill of Rights, which was originally proposed in last year's budget. His plan also includes estate tax relief for small businesses and family farms, expanded expensing for small businesses, pension simplification, and initiatives for economically distressed areas.

***Middle Class Bill of Rights.***—The Administration is again proposing the three features of its Middle Class Bill of Rights designed to give middle-income families the tax relief they need to help them raise their children, save for the future and pay for postsecondary education. These provisions would be subject to trigger-off (that is, would cease to be effective) on January 1, 2001 in the event that the Federal budget deficit is not at least $20 billion below the Congressional Budget Office's (CBO's) estimate for the year 2000.

*Provide tax credit for dependent children.*—A non-refundable credit would be allowed for each dependent child under the age of 13. The credit would equal $300 for 1996, 1997 and 1998, and would rise to $500 for 1999 and subsequent years. The credit would be phased out for taxpayers with adjusted gross income (AGI) between $60,000 and $75,000. Both the credit amount and the phase-out range would be indexed for inflation beginning in 2000. The credit would be applied before the earned income tax credit but could not be used to offset alternative minimum tax liability.

*Expand Individual Retirement Accounts (IRAs).*—Under present law, eligibility for deductible IRAs is phased out for single taxpayers with AGI between $25,000 and $35,000 and for couples filing a joint return with AGI between $40,000 and $50,000, if the

individual (or the individual's spouse) is an active participant in an employer-sponsored retirement plan. Under the Administration's proposal, the AGI thresholds and phase-out ranges would be doubled over time. For 1996 through 1998, eligibility would be phased out for single taxpayers with AGI between $45,000 and $65,000, and for couples filing a joint return with AGI between $70,000 and $90,000. For 1999 and later years, eligibility would be phased out for single taxpayers with AGI between $50,000 and $70,000 and for couples filing a joint return with AGI between $80,000 and $100,000. These thresholds and the present law annual contribution limit of $2,000 would be indexed for inflation. Withdrawals from IRAs would not be subject to the 10 percent early withdrawal tax if the proceeds were used to pay post-secondary education costs, to buy or build a first home, to cover living expenses if unemployed for at least 12 consecutive weeks, or to pay catastrophic medical expenses (including nursing home or other costs associated with caring for an incapacitated parent or grandparent). In addition, each individual eligible for a deductible IRA would have the option of contributing an amount up to the contribution limit to a traditional deductible IRA or to a new back-loaded special IRA. Contributions to this special IRA would not be tax deductible, but distributions of the contributions would be tax-free. If the contributions remained in the account for at least five years, earnings on the contributions also would be tax-free when withdrawn. Withdrawals of account balances from special IRAs during the five-year period would be subject to ordinary income tax and a 10 percent early withdrawal tax. However, withdrawals during the five-year period for the purposes described above (or upon death or disability of the taxpayer) would not be subject to the early withdrawal tax. Individuals whose AGI for a year fell within the eligibility thresholds would be allowed to convert an existing IRA into a special IRA, and for conversions before 1998, income inclusion would be spread over four years.

*Provide tax incentive for education and training.*—Effective January 1, 1996, a deduction would be permitted for up to $5,000 in expenditures on post-secondary school education and training for the taxpayer, the taxpayer's spouse and dependents. The maximum allowable deduction would increase to $10,000 effective January 1, 1999. The maximum allowable deduction would be phased out for taxpayers filing a joint return with AGI (before the proposed deduction) between $100,000 and $120,000. For taxpayers filing a head-of-household or single return, the maximum allowable deduction would be phased out for those with AGI between $70,000 and $90,000. The phase-out ranges would be indexed for inflation beginning in 2000. Qualifying education expenses are those related to post-secondary education paid to institutions and programs eligible for Federal assistance. Deductible expenses would include tuition and fees, but would not include meals, lodging, books or transportation.

***Increase deduction for self-employed health insurance.***—For a discussion of this proposal, see "Other Provisions" category below.

***Increase expensing for small business.***—In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to $17,500 of the cost of qualifying property placed in service during the taxable year. The amount of tangible depreciable property that small businesses can expense each year would be increased to $25,000 under the Administration's proposal. The increase would be effective for property placed in service in taxable years beginning after December 31, 1995 and would be phased in, starting at $19,000 in 1996, and then increasing over a six-year period in annual increments of $1,000. This provision would be subject to trigger-off (that is, the amount of tangible depreciable property that small businesses can expense each year would revert to $17,500) on January 1, 2001 in the event that the Federal budget deficit is not at least $20 billion below CBO's estimate for the year 2000.

***Provide estate tax relief for small business.***—Estate tax attributable to certain interests in closely held businesses may be paid in installments over a period of up to 14 years. A special four percent interest rate is provided for the tax deferred on the first $1 million of value. The $1 million cap has been in effect since 1976. To address the liquidity problems that may arise upon the death of a farmer or small business owner, and to adjust for inflation, the Administration proposes to increase the amount of property eligible for the special interest rate from $1 million to $2.5 million. The proposal also simplifies current law by eliminating distinctions based on the form of ownership, providing alternatives to the estate tax lien, and reducing the interest rate by 50 percent or more in exchange for making the interest payments nondeductible. The proposal would be effective for decedents who die after December 31, 1996.

***Simplify pension plan rules.***—The Administration proposes to simplify the design and administration of retirement plans sponsored by businesses of all sizes, nonprofit organizations, and State and local governments, as well as for multiemployer plans. These measures not only would simplify the rules governing these plans, but also would potentially expand pension coverage and stimulate private savings, particularly for employees of small firms. These measures include, a new, simple retirement savings plan (the National Employee Savings Trust or the NEST) for small businesses. It combines the most attractive features of the IRA and the 401(k) plan, minimizes administrative and compliance costs, and eliminates the need for employer involvement with the Government. The NEST is designed to encourage retirement savings by middle- and low-income workers, not only the highly paid, without complicated forms or calculations.

***Provide tax incentives for distressed areas.***—The Administration is proposing tax incentives for the cleanup of polluted urban and rural areas and is proposing an expansion of the empowerment zone and enterprise community program, as described below. The proposal would be subject to trigger-off for qualified expenses incurred after December 31, 2000 in the event that the Federal budget deficit is not at least $20 billion below CBO's estimate for the year 2000.

*Provide tax incentives to clean up environmentally contaminated areas known as brownfields in distressed communities.*—To encourage the cleanup of polluted urban and rural areas known as brownfields, the Administration proposes to allow certain nondeductible costs incurred by businesses to remediate environmentally contaminated land in certain areas to be capitalized and amortized over a 60-month period. Qualified sites generally would be limited to those properties located in high-poverty areas, Federal empowerment zones and enterprise communities, and areas subject to current Environmental Protection Agency (EPA) Brownfields Pilots. To claim this incentive, taxpayers would be required to obtain from the appropriate State or local agency, or the EPA in certain circumstances, verification that the site satisfies the geographic requirement. The proposal would be effective for qualified expenses incurred after the date of enactment.

*Expand Empowerment Zone and Enterprise Community program.*—Under the Omnibus Budget Reconciliation Act of 1993, certain tax incentives were provided for nine empowerment zones and 95 enterprise communities. The tax incentives were a 20-percent employer wage credit, increased Section 179 expensing, and a new category of tax-exempt financing. Qualifying businesses in empowerment zones were eligible for all three incentives, while businesses in enterprise communities were eligible for the tax-exempt financing. Over 500 communities submitted applications for these 104 designations that were announced in December 1994. The Administration proposes a three-part expansion of this program. First, the designation of two additional urban empowerment zones would be authorized, to be made within 180 days of enactment. Second, the restrictions on the tax-exempt financing would be loosened to make this incentive more accessible. Third, the designation of 40 additional empowerment zones and 65 additional enterprise communities would be authorized. Businesses in the new enterprise communities would be eligible for the current-law tax-exempt financing, as revised, as well as the brownfields tax incentive described above on an additional 500 acres. Businesses in the new empowerment zones would be eligible for the current-law section 179 expensing, the brownfields tax incentive on an additional 1,000 acres, and tax-exempt financing that would not be subject to the current-law State volume caps, but rather would only be subject to zone-by-zone volume caps. The current-law wage credit would not be applicable in any of the new zones and communities. The designations of these new zones and communities would be required to occur before 1998, and the designations would generally be effective for 10 years.

***Provide tax relief for troops involved in the Bosnian peacekeeping operations.***—For a discussion of this proposal, see "Other Provisions" category below.

### Eliminate Unwarranted Benefits and Adopt Other Revenue Measures

The President's plan cuts unwarranted corporate tax subsidies, closes tax loopholes, improves tax compliance and adopts other revenue measures. These reforms, which are estimated to save $43.6 billion during the 7-year period, 1996–2002, are described below.

***Disallow interest deduction for corporate-owned life insurance (COLI) policy loans.***—Under existing law, a company that sets up a COLI program may borrow against the cash value of the life insurance contracts on the lives of its employees. The interest paid on such loans generally is deductible by the company, subject to certain limitations. However, the earnings credited to the COLI policies are not subject to current tax. In addition, benefits that the company receives upon the deaths of insured employees are not taxed, ensuring that the income credited under the contracts is never subject to tax. To restrict further this tax-arbitrage opportunity, the Administration proposes to phase out the deduction of interest on COLI contracts. The proposal generally would be effective with respect to interest paid or accrued after December 31, 1995.

***Deny interest deduction on certain debt instruments.***—If an instrument qualifies as equity, the issuer generally does not receive a deduction for dividends paid. If an instrument qualifies as debt, the issuer may receive a deduction for accrued interest and the holder generally includes interest in income, subject to certain limitations. The line between debt and equity is uncertain and it has proven difficult to formulate general rules of classification. Taxpayers have exploited this lack of guidance by issuing instruments that have substantial equity features, but for which they claim interest deductions. Generally effective for instruments issued on or after December 7, 1995, subject to certain transition rules, the Administration proposes that no deduction be allowed for interest or original issue discount (OID) on an instrument issued by a corporation that has a maximum term of more than 40 years, or is payable in stock of the issuer or a related party. The proposal also modifies the rules for indebtedness that is reflected as equity on the issuer's financial statements.

***Defer original issue discount deduction on convertible debt.***—If a debt instrument is convertible into stock and provides no payment of, or adjustment for, accrued interest on conversion, no deduction is allowed for accrued but unpaid stated interest. In contrast, the accrued but unpaid discount on a convertible debt instrument with OID generally is deductible, even if the

instrument is converted before the issuer pays any OID. The Administration proposal would defer the deduction for OID on convertible debt until payment and would be effective for convertible debt issued on or after December 7, 1995, subject to certain transition rules.

***Reduce dividends-received deduction to 50 percent.***—A corporate holder of stock generally is entitled to a deduction for dividends received on stock in the following amounts: 70 percent if the recipient owns less than 20 percent of the stock of the payor, 80 percent if the recipient owns 20 percent or more of the stock, and 100 percent if the recipient owns 80 percent or more of the stock. The Administration proposes to reduce the deduction to 50 percent for corporations owning less than 20 percent of the stock of a U.S. corporation because the existing 70-percent deduction is too generous for corporations that do not have a sufficient ownership interest in the issuing corporation. The proposal would be effective for dividends paid or accrued more than 30 days after the date of enactment.

***Modify holding period for dividends-received deduction.***—The dividends-received deduction is allowed to a corporate shareholder only if the shareholder satisfies a 46-day holding period for the dividend-paying stock or a 91-day period for certain dividends on preferred stock. The 46- or 91-day holding period generally does not include any time in which the shareholder is protected from the risk of loss otherwise inherent in the ownership of an equity interest. However, the holding period requirement does not have to be proximate to the time the dividend distribution is made. Effective for dividends paid or accrued more than 30 days after the date of enactment, the Administration proposes that in order for a dividend to be eligible for the dividends-received deduction, the holding period requirement must be satisfied with respect to that dividend over a period immediately before or immediately after the taxpayer becomes entitled to receive the dividend.

***Extend pro rata disallowance of tax-exempt interest expense to all corporations.***—No income tax deduction is allowed for interest on debt used directly or indirectly to acquire or hold investments the income on which is tax-exempt. The determination of whether debt is used to acquire or hold tax-exempt investments depends on the holder of the instrument. For financial institutions and dealers in tax-exempt investments, debt generally is treated as financing all of the taxpayer's assets proportionately. For corporations, other than financial institutions and dealers, and for individuals, deductions are disallowed only when indebtedness is incurred or continued for the purpose of purchasing or carrying tax-exempt investments. These corporations are therefore able to reduce their tax liabilities inappropriately through the double Federal tax benefits of interest expense deductions and tax-exempt interest income. Effective for taxable years beginning after the date of enactment, with respect to obligations acquired after December 7, 1995, the Administration proposes that all corporations other than insurance companies be treated the same as financial institutions are treated under current law with regard to deductions for interest on debt used directly or indirectly to acquire or hold tax-exempt obligations. The proposal also would expressly apply these rules to related parties, by treating all members of a consolidated group (other than members that are insurance companies) as a single entity and by tracing debt and tax-exempt holdings among other related parties.

***Require average-cost basis for stocks, securities, etc.***—A taxpayer who sells stock or other securities is allowed to account for the transaction by specifically identifying the stock or securities or by using an accounting system such as first-in, first-out or last-in, first-out. The Administration proposes to require taxpayers to determine their basis in substantially identical securities using the average of all their holdings in the securities. Holding period would be determined on a first-in, first-out basis. The method of determining basis and holding period would apply to all securities, including stocks, notes, bonds, and derivative financial instruments. A special rule would allow the Treasury to treat securities that are substantially identical as not subject to the average-cost rule if they have a special status under a provision of the Code (such as built-in gain with respect to a partnership). Securities not subject to average cost under this rule would be treated as sold on a first-in, first-out basis. The proposal would be effective 30 days after the date of enactment.

***Require recognition of gain on certain stocks, indebtedness and partnership interests.***—Gain and loss are generally taken into account for tax purposes when realized. Gain or loss is usually realized with respect to a capital asset at the time the asset is sold. Many transactions designed to reduce or eliminate risk of loss and opportunity for gain on financial assets generally do not cause realization. For example, taxpayers may lock in gain on securities by entering into a "short against the box," that is, the taxpayer owns securities that are the same as or substantially identical to the securities borrowed and sold short. It is inappropriate for taxpayers to be able to dispose of the economic risks and rewards of owning appreciated property without realizing income for tax purposes. Therefore, the Administration proposes to require a taxpayer to recognize gain (but not loss) upon entering into a constructive sale of any appreciated position in stock, a debt instrument, or a partnership interest. A taxpayer would be treated as making a constructive sale of an appreciated position when the taxpayer (or in certain limited circumstances, a person related to the taxpayer) substantially eliminates risk of loss and opportunity for gain by entering into one or more positions with respect to the same or substantially identical property. The proposal would generally be effective for constructive sales entered into after the date of enactment.

***Change the treatment of gains and losses on extinguishment.***—The tax law distinguishes between the sale of a right or obligation to a third party and the extinguishment or retirement of the right or obligation. A sale to a third party can give rise to capital treatment while an extinguishment is ordinary. Extinguishment treatment has been eliminated for all debt instruments except those issued by natural persons and for most options and other positions in actively traded property. The application of the extinguishment doctrine in other contexts is unclear. The extinguishment doctrine allows taxpayers to control whether gain or loss is capital or ordinary by deciding whether to sell or extinguish a contract. The Administration proposes to eliminate the remaining portions of the extinguishment doctrine so that gain or loss attributable to the cancellation, lapse, expiration, or other termination of any right or obligation with respect to property that is or would be a capital asset in the hands of the taxpayer would be treated as gain or loss from the sale or exchange of a capital asset. In addition, the proposal would repeal the natural person exception for debt instruments. The proposal would be effective 30 days after the date of enactment.

***Require reasonable payment assumptions for interest accruals on certain debt instruments.***—The original issue discount (OID) rules do not measure income appropriately for certain debt instruments that are prepayable. If the instruments are held in large pools, it can be statistically predicted that a certain portion will prepay. Prepayment assumptions are used to account for certain debt instruments with payments based on mortgages, but the OID rules otherwise ignore these probabilities. The proposal would require taxpayers that hold prepayable debt instruments in large pools to use prepayment assumptions similar to the rules that apply for debt instruments with payments based on mortgages. The proposal would be effective for taxable years beginning after the date of enactment.

***Require gain recognition for certain extraordinary dividends.***—A corporate shareholder is generally allowed to deduct a percentage of dividends received from another domestic corporation. Certain dividends and dividend equivalent transactions are treated as "extraordinary" dividends. If a corporate shareholder receives an extraordinary dividend, the corporate shareholder must reduce the basis of the stock to which the distribution relates by the amount of the nontaxed portion of the dividend (generally the amount of the dividend that was deducted). If the nontaxed portion of the dividend exceeds the basis of the stock, the excess is deferred and recognized on a later disposition of the stock. If a shareholder's stock is redeemed, the redemption may be treated as a dividend if the shareholder's interest in the corporation has not been meaningfully reduced. In determining if a shareholder's interest has been meaningfully reduced, the ownership of options to purchase stock may be treated as actual stock ownership. The exclusion of a substantial portion of the amount received by a corporate shareholder on the redemption of its stock is inappropriate in certain cases when options are used to create stock ownership. Also, it is inappropriate to defer gain recognition when the portion of the distribution that is excluded due to the dividends received deduction exceeds the basis of the stock with respect to which the extraordinary dividend is received. The Administration proposes that corporate shareholders will recognize gain on redemptions of stock that are treated as dividends because of options when the nontaxed portion of the dividend exceeds the basis of the shares surrendered. In addition, immediate gain recognition would be required whenever the basis of stock with respect to which any extraordinary dividend was received was reduced below zero. The proposed change generally would be effective for distributions after May 3, 1995.

***Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands.***—Taxpayers are allowed to deduct a reasonable allowance for depletion relating to certain mineral deposits. The depletion deduction for any taxable year is calculated under either the cost depletion method or the percentage depletion method, whichever results in the greater allowance for depletion for the year. The percentage depletion method is viewed as an incentive for mineral production rather than as a normative rule for recovering the taxpayer's investment in the property. This incentive is excessive with respect to minerals mined on Federal and formerly Federal lands under the 1872 mining act, in light of the minimal costs of acquiring the mining rights ($5.00 or less per acre). Effective for taxable years beginning after the date of enactment, the Administration proposes to repeal percentage depletion for non-fuel minerals mined on lands where the mining rights were originally acquired under the 1872 law.

***Modify loss carryback and carryforward rules.***—Net operating losses (NOLs) generally can be used to offset taxable income from the prior three taxable years (carrybacks) and the succeeding 15 taxable years (carryforwards). Because of the increased complexity and administrative burden associated with carrybacks, the carryback period should be shortened. The carryforward period could be lengthened, however, to allow taxpayers more time to utilize their NOLs without increasing either complexity or administrative burdens. The Administration proposes to limit carrybacks of NOLs to one year and to extend carryforwards to 20 years, effective for NOLs arising in taxable years beginning after the date of enactment.

***Treat certain preferred stock as "boot."***—In reorganization transactions, no gain or loss is recognized except to the extent "other property" (boot) is received; that is, property other than certain stock, including preferred stock. Upon the receipt of "other property," gain but not loss can be recognized. Because preferred stock has an enhanced likelihood of recovery of prin-

cipal or of maintaining a dividend or both, such tax-free treatment is inappropriate. The Administration therefore proposes to treat certain preferred stock as "other property," subject to certain exceptions. The proposal generally would be effective for transactions after December 7, 1995.

***Repeal tax-free conversions of large C corporations to S corporations.***—A corporation can avoid the existing two-tier tax by electing to be treated as an S corporation or by converting to a partnership. Converting to a partnership is a taxable event that generally requires the corporation to recognize any built-in gain on its assets and requires the shareholders to recognize any built-in gain on their stock. By contrast, the conversion to an S corporation is generally tax-free, except that the S corporation generally must recognize the built-in gain on assets held at the time of conversion if the assets are sold within 10 years. Under the Administration's proposal, the conversion of a C corporation with a value of more than $5 million into an S corporation would be treated as a liquidation of the C corporation followed by a contribution of the assets to an S corporation by the recipient shareholders. Thus, the proposal would require immediate gain recognition by both the corporation (with respect to its appreciated assets) and its shareholders (with respect to their stock). This proposal makes the tax treatment of conversions to an S corporation generally consistent with conversions to a partnership. The proposal would apply to elections that are first effective for a taxable year beginning after January 1, 1997 and to acquisitions of a C corporation by an S corporation made after December 31, 1996.

***Require gain recognition on certain distributions of controlled corporation stock.***—A corporation is generally required to recognize gain on a distribution of property (including stock of a controlled corporation) unless the distribution meets certain requirements. If various requirements are met, including restrictions relating to acquisitions and dispositions of stock of the distributing corporation or the controlled corporation, a distribution of the stock of a controlled corporation will be tax-free to the distributing corporation. Certain distributions may effectively be dispositions of a business, in which case tax-free treatment for the distributing corporation is inappropriate. Accordingly, the Administration proposes to adopt additional restrictions on acquisitions and dispositions of the stock of a distributing corporation or controlled corporation that are related to the distribution. Under this proposal, the distributing corporation would recognize gain on the distribution of the stock of the controlled corporation if the shareholders of the distributing corporation do not retain a sufficient stock interest (generally 50 percent) in the distributing and controlled corporations during the four-year period commencing two years prior to the distribution. For this purpose, unrelated transactions (such as public trading on the stock market) would be disregarded. This proposal would be effective generally for distributions occurring after the date of announcement.

***Reform the treatment of certain stock transfers.***—Certain sales of stock to a related corporation are treated as the payment of a dividend by the purchaser. In cases where the seller is a corporation that does not actually own stock in the purchaser, taxpayers may take the position that the transaction produces tax benefits that would be unavailable if the purchaser distributed a dividend to its actual shareholders. For example, if a foreign-controlled domestic corporation sells the stock of a subsidiary to a foreign sister corporation, the domestic corporation may take the position that it is entitled to credit foreign taxes that were paid by the foreign sister corporation. In such cases, the Administration proposes to limit the amount treated as a dividend (and the associated foreign tax credits) from the purchaser to the amount of the purchaser's earnings and profits attributable to stock owned by U.S. persons related to the seller. If the purchaser is a domestic corporation, taxpayers may take the position that stock basis need not be reduced by the nontaxed portion of the dividend. The proposal would also clarify that a deemed dividend from a purchaser that is a domestic corporation should generally be treated as an extraordinary dividend requiring a basis reduction. The proposal would further require gain recognition to the extent that the nontaxed portion exceeds the basis of the shares transferred. The proposal generally would be effective for transactions after the date of announcement.

***Reformulate Puerto Rico and possessions tax credit.***—Domestic corporations with business operations in U.S. possessions may elect the Section 936 credit, which generally eliminates the U.S. tax on certain income that is related to their possession-based operations. Income exempt from U.S. tax under this provision falls into two broad categories: (1) possession business income derived from the active conduct of a trade or business within a possession or from the sale or exchange of substantially all of the assets used in such a trade or business; and (2) possession source investment income (QPSII), which is attributable to investment in the possession or in certain Caribbean Basin countries. The amount of the credit attributable to possession business income is subject to limitations enacted under the Omnibus Budget Reconciliation Act of 1993; Section 936 companies may elect either a reduced percentage of the profits-based credit as allowed under prior law (60 percent in 1994, phasing down to 40 percent beginning in 1998), or a limitation based on the company's economic activity in the possessions (measured by wages and other compensation, depreciation, and certain taxes paid). To provide a more efficient tax incentive for the economic development of Puerto Rico and other U.S. possessions, and to continue the effort toward this goal that was begun in the 1993 Act, the Administration proposes to (1) phase out the profits-based branch of the active-business portion of

the credit over five years, beginning in 1997, and (2) allow excess amounts of economic-activity limitation to be carried foward for up to five years. The proposal would retain the economic-activity limitation on the active-business portion of the credit, as well as the passive-income portion of the credit for taxes otherwise payable on QPSII, as under present law. Revenues raised would be made available to Puerto Rico for programs under the Social Security Act and to promote job creation.

***Expand Subpart F provisions regarding income from notional principal contracts and stock lending transactions.***—Subpart F income includes income from notional principal contracts referenced to foreign currency, commodities, or interest rates, or to indices based thereon. It also includes income with respect to the lending of debt securities. Subpart F income does not include income from equity swaps or other types of notional principal contracts or income from transfers of equities. Subpart F income should include income from all types of notional principal contracts and from stock-lending transactions, because such income is indistinguishable on policy grounds from other types of highly mobile income already targeted by Subpart F. The Administration is proposing to include in Subpart F income the net income from equity swaps and certain categories of notional principal contracts that are not reached by current law, as well as income from stock lending transactions. An ordinary-course-of-business exception would be provided for regular dealers in property, forwards, options, notional principal contracts, and similar financial instruments. The proposal would be effective for taxable years beginning after the date of enactment.

***Modify taxation of captive "insurance" companies.***—For tax purposes, "insurance" has been defined by the courts to require "risk shifting" or "risk distribution." In the case of a "captive" insurance company, one court has held that risk-shifting and risk-distribution requirements are satisfied even if the captive's "related person insurance income" accounts for nearly 70 percent of its total business. The Administration proposes that an insurance arrangement between a captive insurer and a large shareholder of the captive generally would not be respected as a valid insurance arrangement if more than 50 percent of the captive's net written premiums were attributable to the insurance or reinsurance of large-shareholder risks. In addition, such a captive would not be considered an insurance company for tax purposes. The proposal would be effective generally for the first taxable year beginning after the date of enactment.

***Reform foreign tax credit.***—The Administration proposes the following foreign tax credit reforms.

*Eliminate interest allocation exception for certain nonfinancial corporation.*—For foreign tax credit purposes, taxpayers generally are required to allocate and apportion interest expense between U.S. and foreign source income based on the proportion of the taxpayer's total assets in each location. Such allocation and apportionment is required to be made for affiliated groups as a whole rather than on a subsidiary-by-subsidiary basis. However, certain types of financial institutions that are members of an affiliated group are treated as members of a separate affiliated group for purposes of the allocation and apportionment of interest expense. The Tax Reform Act of 1986 included a targeted rule that treats a certain corporation as a financial institution for this purpose. The Administration believes that this relief should not be provided. The proposal would repeal the targeted exception provided by the Tax Reform Act of 1986, effective for taxable years beginning after the date of enactment.

*Modify foreign tax credit carryback and carryforward rules.*—The United States permits taxpayers to credit income taxes paid to a foreign government against U.S. tax on foreign source income. Through the foreign tax credit limitations, the Code prevents the use of foreign tax credits to reduce U.S. tax on U.S. source income. Under the foreign tax credit mechanism, current foreign income taxes in excess of the relevant current-year foreign tax credit limitation are not creditable against current U.S. tax liabilities. However, such excess foreign tax credits generally may be carried back for two years and carried forward for five years, and used as a credit to the extent there is excess foreign tax credit limitation (that is, an excess of the foreign tax credit limitation over creditable foreign taxes) in any of those years. Experience over the years has shown, however, that carrybacks are associated with increased complexity and administrative burdens as compared to carryforwards. Therefore, to reduce such complexity and burdens, the proposal would limit foreign tax credit carrybacks to one year and extend foreign tax credit carryforwards to seven years. The proposal would be effective for foreign taxes paid or accrued or deemed paid or accrued in taxable years beginning after December 31, 1996.

***Modify rules relating to foreign oil and gas extraction income.***—To be eligible for the U.S. foreign tax credit, a foreign levy must be the substantial equivalent of an income tax in the U.S. sense, regardless of the label the foreign government attaches to it. Under regulations, a foreign levy is a tax if it is a compulsory payment under the authority of a foreign government to levy taxes and is not compensation for a specific economic benefit provided by the foreign country. Taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country are referred to as "dual capacity" taxpayers and may not claim a credit for that portion of the foreign levy paid as compensation for the specific economic benefit received. The proposal would treat as taxes payments by a dual-capacity taxpayer to a foreign country that would otherwise qualify as income taxes or "in lieu of" taxes, only if there is a "generally applicable income tax" in that country. For this purpose, a generally applicable income tax is

an income tax (or a series of income taxes) that applies to trade or business income from sources in that country, so long as the levy has substantial application both to non-dual-capacity taxpayers and to persons who are citizens or residents of that country. Where the foreign country does generally impose an income tax, as under present law, credits would be allowed up to the level of taxation that would be imposed under that general tax, so long as the tax satisfies the new statutory definition of a "generally applicable income tax." The proposal would treat foreign oil and gas income as Subpart F income. It also would create a new foreign tax credit basket within Section 904 for foreign oil and gas income. The proposal would be effective for taxable years beginning after the date of enactment. The proposal would yield to U.S. treaty obligations that allow a credit for taxes paid or accrued on certain oil or gas income.

***Require thrifts to account for bad debts in the same manner as banks.***—A thrift institution that holds at least 60 percent of its portfolio in home mortgages, cash, and government obligations is permitted to maintain a reserve for bad debts. Annual additions to its bad debt reserve may be calculated under either the "percentage of taxable income" method or the "experience" method. These methods can be more generous than the rules applicable to commercial banks. As a result of the increasing convergence of the banking and thrift industries, the special rules applicable to thrifts are no longer warranted. The Administration proposes that effective for taxable years beginning after the date of enactment, thrifts must account for bad debts in the same manner as banks. Specifically, the percentage-of-taxable-income method of computing bad debt reserves would no longer be available; thrifts with $500 million or less of adjusted bases in their assets would be permitted to use the experience method and thrifts with greater than $500 million in adjusted bases in their assets would be required to use the specific charge-off method. Post-1987 reserves would be recaptured over six years, unless the former thrift meets mortgage loan requirements, in which case recapture would be delayed up to two years.

***Reform depreciation under the income forecast method.***—All estimated income from the use of property or the sale of merchandise would be taken into account in determining depreciation under the income forecast method. This change, which would generally be effective for property placed in service after September 13, 1995, would eliminate the inappropriate acceleration of depreciation of the cost of motion picture films, video tapes, sound recordings, and other similar property that occurs under current law. Interest would be charged or credited to compensate for errors in estimates.

***Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting.***—Under the Revenue Act of 1987, family farm corporations were required to change to the accrual method of accounting if their gross receipts exceeded $25 million in any taxable year beginning after 1985. However, in lieu of including in gross income the entire amount of the adjustment attributable to the change in accounting method, a family farm corporation could establish a suspense account. The amount of the suspense account was to be included in gross income if the corporation ceased to be a family corporation or to the extent the gross receipts of the corporation from farming declined. To eliminate the potential indefinite deferral of the adjustment, the Administration proposes to repeal the ability of family farm corporations to establish such suspense accounts. Any taxpayer subsequently required to change to the accrual method of accounting would be required to take the adjustment into account generally over a ten-year period. Any existing suspense accounts would be restored to income ratably over a ten-year period, or sooner to the extent provided under existing law. This provision would be effective for taxable years beginning after September 13, 1995.

***Repeal lower of cost or market inventory accounting method.***—Taxpayers required to maintain inventories are permitted to use a variety of methods to determine the cost of their ending inventories, including the last-in, first-out (LIFO) method, the first-in, first-out (FIFO) method, and the retail method. Taxpayers not using a LIFO method may determine the carrying values of their inventories by applying the lower of cost or market (LCM) method and by writing down the cost of goods that are unsalable at normal prices or unusable in the normal way because of damage, imperfection or other causes (subnormal goods method). The allowance of write-downs under the LCM and subnormal goods methods is essentially a one-way mark-to-market method that understates taxable income. The Administration proposes to repeal the LCM and subnormal goods methods, effective for taxable years beginning after the date of enactment.

***Repeal components of cost inventory accounting method.***—Taxpayers that use the LIFO method to determine the cost of their ending inventories may use a variety of dollar-value methods, including double extension, link-chain and other index methods, in order to determine whether an increment has occurred and the cost of that increment. Certain taxpayers are permitted to use simplified LIFO methods based on externally developed price indexes. Some taxpayers that use a dollar-value, double-extension method make their computations with respect to the three components of cost (materials, labor and overhead) of their finished goods and work-in-process inventories (the COC method), rather than the aggregate cost of these goods (the total product cost method). The COC method, in many cases, does not adequately account for technological efficiencies in which skilled labor is substituted for less-skilled labor or where overhead costs replace direct labor costs. The Administration is proposing to repeal

the COC method effective for taxable years beginning after the date of enactment.

***Modify basis adjustment rules under Section 1033.***—The Administration proposes that when a taxpayer acquires a controlling interest in the stock of a corporation as replacement property after an involuntary conversion, the corporation must be required to reduce its adjusted bases in its assets by the same amount as the taxpayer is required to reduce its basis in the acquired stock. The corporation's adjusted bases in its assets would not be reduced, in the aggregate, below the taxpayer's basis in its stock. In addition, the basis of any individual asset would not be reduced below zero. This proposal, which would allow deferral of gain recognition, but not the avoidance of that gain, would generally be effective for involuntary conversions occurring after September 13, 1995.

***Expand requirement that involuntarily converted property be replaced with property acquired from an unrelated party.***—Gain realized by taxpayers from certain involuntary conversions is deferred to the extent the taxpayer purchases property similar or related in service or use to the converted property within a specified period of time. C corporations (and partnerships with one or more corporate partners that own more than 50 percent of the capital or profits interest in the partnership) generally are not entitled to defer gain if the replacement property is purchased from a related person. The Administration proposes to extend this rule to any other taxpayer, including an individual, that acquires replacement property from a related person, unless the taxpayer has an aggregate realized gain of $100,000 or less during the year as a result of involuntary conversions. In the case of a partnership or S corporation, the $100,000 annual limitation would apply to the entity and each partner or shareholder. The proposal would generally be effective for involuntary conversions occurring after September 13, 1995.

***Place further restrictions on like-kind exchanges involving personal property.***—An exchange of property, like a sale, is generally a taxable transaction. However, no gain or loss is recognized if property held for productive use in a trade or business or for investment is exchanged for property of a like kind that is to be held for productive use in a trade or business or for investment. In general, any kind of real estate is treated as of a like kind with other real property; however real property located in the United States and real property located outside the United State are not of a like kind. For personal property, property of a "like class" is treated as being of a like kind; no restrictions apply with regard to location in or outside the United States. To conform the limitations on exchanges of personal property to the limitations on exchanges of real property, the Administration proposes that effective generally for exchanges after December 6, 1995, personal property located in the United States and personal property located outside the United States would not be treated as like kind.

***Disallow rollover and one-time exclusion on sale of residence to the extent of previously claimed depreciation.***—Generally, under Section 1034, no gain is recognized on the sale or exchange of a principal residence to the extent that the amount of the sales price is reinvested in a new residence within a specified period. In addition, Section 121 generally provides a taxpayer with a one-time election to exclude from gross income up to $125,000 of gain from the sale of a principal residence if the taxpayer has attained the age of 55 before the sale and has used the residence as a principal residence for three or more of the five years preceding the sale. Because depreciation is allowed with respect to a portion of a residence when that portion is used for business purposes and those deductions reduce the owner's basis in the residence, the Administration is proposing to require gain recognition on the sale of a principal residence to the extent of any depreciation allowable after December 31, 1995. Similarly, the amount of otherwise allowable one-time exclusion would be reduced to the extent of depreciation allowable after December 31, 1995.

***Require registration of certain confidential corporate tax shelters.***—Many corporate tax shelters are not registered with the Internal Revenue Service (IRS). Requiring registration of corporate tax shelters would allow the IRS to make better informed judgments regarding the audit of corporate tax returns and to monitor whether legislation or administrative action is necessary regarding the type of transactions being registered. The Administration is therefore proposing the registration of any investment, plan, arrangement or transaction: (1) a significant purpose of the structure of which is tax avoidance or evasion by a corporate participant, (2) that is offered to any potential participant under conditions of confidentiality, and (3) for which the tax shelter promoter may receive total fees in excess of $100,000. The proposal would be effective for any tax shelter offered to potential participants after the date the Secretary of the Treasury prescribes guidance regarding the filing requirements.

***Require reporting of payments to corporations rendering services to Federal agencies.***—All persons engaged in a trade or business and making payments of $600 or more to another person in remuneration for services generally must report those payments to the IRS and to the recipient. No reporting is required if the recipient is a corporation, permitting significant amounts of income to escape the tax system. To ensure that corporations that do business with the Federal Government appropriately report as income their payments from the Federal Government, the Administration proposes to require executive agencies to report payments of $600 or more made to corporations for services rendered. The proposal would be effective for

returns the due date of which is more than 90 days after the date of enactment.

***Increase penalties for failure to file correct information returns.***—All persons engaged in a trade or business and making payments of $600 or more to another person in remuneration for services generally must report those payments to the IRS. Any person who fails to report such payments in a timely manner or incorrectly reports such payments is subject to penalties. For taxpayers filing large volumes of information returns or reporting significant payments, existing penalties ($15 per return, not to exceed $75,000 if corrected within 30 days; $30 per return not to exceed $150,000 if corrected by August 1; and $50 per return if not corrected at all) may not be sufficient to encourage timely and accurate reporting. The Administration proposes to increase the general penalty amount to the greater of $50 per return or five percent of the total amount required to be reported. The increased penalty would not apply if the aggregate amount actually reported by the taxpayer on all returns filed for that calendar year was at least 97 percent of the amount required to be reported. The increased penalty would be effective for returns the due date for which is more than 90 days after the date of enactment.

***Extend Internal Revenue Service (IRS) user fees.***—The IRS provides written responses to questions of individuals, corporations, and organizations relating to their tax status or the effects of particular transactions for tax purposes. The IRS responds to these inquiries through the issuance of letter rulings, determination letters, and opinion letters. The authority to charge fees for these requests, which is scheduled to expire effective with requests made after September 30, 2000, is proposed to be extended for two years through September 30, 2002.

***Apply failure-to-pay penalty to substitute returns.***—The failure-to-pay penalty, which is a percentage of the tax due, generally runs from the due date of a return until the tax is paid. If, however, a taxpayer fails to file a return, and the Commissioner prepares a substitute return for the taxpayer, then the tax on which the penalty is measured is considered a deficiency and the penalty begins to run only ten days after the IRS sends the taxpayer notice and demand for payment of the tax. There is no reason to treat a taxpayer for whom the Commissioner prepares a substitute return more favorably than taxpayers who pay late but nevertheless file their own returns. Therefore, the proposal would require that the failure-to-pay penalty apply to taxpayers for whom the Commissioner prepares substitute returns, in the same manner as it applies to delinquent taxpayers (that is, that the penalty commences running from the due date of the return). The proposal would be effective for returns due after the date of enactment.

***Repeal exemption for withholding on gambling winnings from bingo and keno in excess of $5,000.***—Proceeds of most wagers with odds of less than 300 to 1 are exempt from withholding, as are all bingo and keno winnings. The proposal would impose withholding on proceeds of bingo or keno in excess of $5,000 at a rate of 28 percent, regardless of the odds of the wager, effective for payments made after the date of enactment.

***Require tax reporting for payments to attorneys.***—Tax information reporting is required for persons engaged in a trade or business making payments in the course of the trade or business of rent, salaries, wages, or other fixed or determinable income. Treasury regulations require a payor to report payments of attorney's fees if the payments are made in the course of a trade or business, although generally a payor is not required to report payments made to corporations. If a payment to an attorney is a gross amount, and it cannot be determined what portion is the attorney's fee (as in the case of lump-sum judgments or settlements made jointly payable to a lawyer and a plaintiff), then no reporting is required. The Administration proposes requiring that any person making a payment in the course of a trade or business to a lawyer or a law firm, whether as sole or joint payee, report the payment to the IRS. When the portion that constitutes fees cannot be determined, the amount paid would be reported as gross proceeds. A lawyer receiving a payment would be required to provide his or her taxpayer identification number to the payor or be subject to applicable penalties and backup withholding. The exception for payments to corporations would not apply to payments of attorney's fees. The proposal would be effective for payments made after December 31, 1996.

***Repeal advance refunds of diesel fuel tax for diesel cars and light trucks.***—The first purchaser of a diesel-powered automobile or light truck is entitled to a payment in the nature of an advance refund of the difference between the diesel fuel excise tax and the gasoline excise tax. The amount of the refund typically is small, not warranting the resources required to effectively administer the procedure. Accordingly, the Administration proposes to repeal the provision allowing these payments, effective for vehicles purchased after the date of enactment.

***Extend oil spill excise tax.***—Before January 1, 1995, a five-cents-per-barrel excise tax was imposed on domestic crude oil and imported petroleum products. The tax was dedicated to the Oil Spill Liability Trust Fund to finance the cleanup of oil spills and was not imposed for a calendar quarter if the unobligated balance in the Trust Fund exceeded $1 billion at the close of the preceding quarter. The Administration proposes to reinstate this tax for the period after the date of enactment and before October 1, 2006. The tax would be suspended for a given calendar quarter if the unobli-

gated Trust Fund balances at the end of the preceding quarter exceeded $2.5 billion.

***Impose excise taxes on kerosene as diesel fuel.***—A 24.3-cents-per-gallon excise tax is imposed on diesel fuel upon removal from a registered terminal facility unless the fuel is indelibly dyed and is destined for a nontaxable use. Treasury regulations provide that kerosene is not treated as a diesel fuel for this purpose; thus, undyed kerosene is not subject to the diesel fuel excise tax when it is removed from a terminal. Undyed kerosene is subject to tax, however, when it is blended with diesel fuel. Distributors of this blended fuel frequently do not pay the tax, thereby placing complying taxpayers at a competitive disadvantage and resulting in revenue losses to the Federal government. Effective July 1, 1997, the Administration proposes to tax kerosene as diesel fuel when it is removed from a terminal, unless the kerosene qualifies as aviation fuel. Exceptions would be provided for aviation fuel and, to the extent provided in regulations, for feedstock uses. In addition, special refund rules would apply in certain cases of kerosene used for heating purposes.

***Permanently extend luxury excise tax on passenger vehicles.***—A 10 percent luxury excise tax is levied on the retail price of passenger vehicles in excess of an inflation-adjusted threshold ($34,000 in 1996). The Administration proposes to permanently extend this tax, which is scheduled to expire after December 31, 1999.

***Extend and modify Federal Unemployment Act (FUTA) provisions.***—The temporary unemployment surtax of 0.2 percent imposed on employers, which is scheduled to expire with respect to wages paid after December 31, 1998, is proposed to be extended through December 31, 2006. Beginning in 2002, the Administration proposes to require an employer to pay Federal and State unemployment taxes monthly (instead of quarterly) in a given year, if the employer's FUTA tax liability in the immediately prior year was $1,100 or more.

### Other Provisions That Affect Receipts

***Assess fees for examination of FDIC-insured banks and bank holding companies (receipt effect).***—The Administration proposes to require the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve to assess fees for examination of FDIC-insured banks and bank holding companies. The Federal Reserve currently funds the costs of such examinations from earnings; therefore, deposits of earnings by the Federal Reserve, which are classified as governmental receipts, will increase by the amount of the fees.

***Expand fees collected under the securities laws.***—The Administration proposes to expand certain fees collected under the securities laws as part of a legislative package to provide the Securities and Exchange Commission with a sound and stable long term funding structure. The Administration intends to work with Congress to secure early enactment of such a legislative proposal.

***Establish IRS continuous levy.***—The Administration seeks to strengthen the enforcement tools available to the IRS to recover delinquent tax debt. New authority is proposed for the IRS to effect a continuous levy on non-means tested Federal payments, such as Federal salaries and pensions, received by individuals who owe delinquent tax debt.

***Extend the Generalized System of Preferences (GSP) and modify other trade provisions.***—Under GSP duty-free access is provided to over 4,000 items from about 142 eligible developing countries that meet certain worker rights and other criteria. This program is proposed to apply retroactively to July 31, 1995, when it expired, and to be extended through September 30, 2000. The Administration also proposes to provide expanded trade benefits mainly on textiles and apparel to Caribbean Basin countries who meet new eligibility criteria needed to prepare for a future free trade agreement with the U.S. The program is proposed to expire on September 30, 2001.

***Increase deduction for self-employed health insurance.***—The Administration proposes to increase the 30 percent deduction for health insurance expenses of self-employed individuals and their dependents to 35 percent for 1996 and 1997, 40 percent for 1998, 45 percent for 1999, and 50 percent for 2000 and subsequent years. The increased deduction would be subject to trigger-off (that is, the deductible percentage would revert to 30 percent) on January 1, 2001 in the event that the Federal budget deficit is not at least $20 billion below CBO's estimate for the year 2000.

***Increase employee contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).***—The Administration proposes to increase employee contributions to CSRS and FERS by 0.5 percent of base pay in three steps. Contributions would increase by 0.25 percent of base pay on April 1, 1996, another 0.15 percent on January 1, 1997 and a final 0.10 percent on January 1, 1998. These higher contribution rates would be effective through 2002; on January 1, 2003, contribution rates would return to the levels in effect on March 31, 1996.

***Deter expatriation tax avoidance.***—The United States requires U.S. citizens and residents to pay tax on their worldwide income. However, some U.S. taxpayers relinquish their U.S. citizenship or residence and thereby avoid future U.S. tax on unrealized gains. To ensure that these individuals pay their fair share of U.S. tax, when a U.S. citizen renounces U.S. citizenship or when a noncitizen who has been a lawful permanent resident of the United States for at least 10

years becomes a nonresident of the United States, the Administration is proposing that such individual's assets be deemed to be disposed of and reacquired at their fair market value in a transaction in which gain or loss is recognized. There would be an exemption for up to $600,000 of gain and for U.S. real property interests. The provision would apply to any expatriation after February 6, 1995.

***Tighten rules for taxing foreign trusts.***—Some U.S. taxpayers avoid paying applicable U.S. tax on their share of income earned by foreign trusts. To ensure that U.S. tax is collected on this income, the Administration is proposing enhanced information reporting requirements for assets transferred to foreign trusts, effective generally for taxable years beginning after the date of enactment. In addition, under current law, distributions received by U.S. taxpayers from certain foreign trusts may be treated as nontaxable gifts. The Administration is proposing that, effective generally on the date of enactment, U.S. taxpayers who receive such distributions pay U.S. tax on the distributions that represent trust income, unless U.S. law treats a U.S taxpayer as owning the trust assets.

***Extend environmental tax on corporate taxable income deposited in the Hazardous Substance Superfund Trust Fund.***—A tax equal to 0.12 percent of alternative minimum taxable income in excess of $2 million is levied on all corporations and deposited in the Hazardous Substance Superfund Trust Fund. The Administration proposes to reinstate this tax, which expired on December 31, 1995, for taxable years beginning after December 31, 1995 and before January 1, 2007.

***Improve compliance by tax-exempt entities through intermediate sanctions and other measures.***—The Administration proposes to add new excise taxes on parties that use their control over charitable and nonprofit organizations to extract benefits without providing property or services of at least equal value in return (effective generally for transactions occurring on or after September 14, 1995). In addition, the Administration is proposing to expand the reporting and disclosure requirements that relate to information returns filed by tax-exempt organizations and to increase the penalties for failure to comply with these requirements, generally effective 90 days after the date of enactment.

***Modify Federal pay raise (receipt effect).***—The Administration is proposing a pay raise of 3 percent for 1997, less than the raise that would take effect under normal operation of the law. This 3 percent raise would cover both the national schedule and the locality pay adjustments. The lower proposed pay raise affects Federal employees' contributions to CSRS and FERS.

***Provide tax relief for troops involved in the Bosnia peacekeeping operations.***—The Administration is proposing tax relief for troops involved in the Bosnia peacekeeping operations. All of the military pay of enlisted personnel and part of the pay of officers would be exempt from income tax, and filing deadlines would be extended, similar to the relief afforded personnel in the Persian Gulf. The Bosnia peacekeeping operation involves the dangers of combat situations; this benefit is proposed in recognition of our troops' sacrifice. The Administration will work with Congress to ensure early enactment of tax relief for these troops.

### Modify Earned Income Tax Credit

***Modify earned income tax credit (EITC).***—The Administration is proposing the following modifications designed to target the EITC to intended recipients: (1) Individuals who are living in the U.S. illegally or who do not have proper documentation for employment purposes would not be eligible to claim the EITC. (2) The IRS would be allowed to use mathematical error procedures to deny claims for the EITC and the dependency exemption. (3) The definition of adjusted gross income used for phasing out the credit would be modified to disregard net capital losses, net losses from nonbusiness rents and royalties, net losses from trusts and estates, and 50 percent of net losses from sole proprietorships, partnerships and S corporations. (4) The definition of disqualified income for purposes of determining eligibility for the EITC would be expanded to include net passive income that is not included in self-employment income and net capital gain; in addition, the disqualified income threshold would be lowered to $2,200 in 1996 and indexed for inflation in subsequent years. (5) Demonstration projects in up to four states would be authorized to test the provision of advance payment of the EITC through State agencies, generally effective 90 days after the date of enactment.

### Extend Expired Trust Fund Excise Taxes

The President's plan includes extension of the following excise taxes that have been previously reflected in the baseline.

***Extend excise taxes deposited in the Hazardous Substance Superfund Trust Fund.***—The excise taxes that are levied on petroleum, chemicals, and imported substances and deposited in the Hazardous Substance Superfund Trust Fund, are proposed to be reinstated for the period after the date of enactment and before October 1, 2006. These taxes expired on December 31, 1995.

***Extend excise taxes deposited in the Airport and Airway Trust Fund.***—The excise taxes that are levied on domestic air passenger tickets, international departures, domestic air cargo and non-commercial aviation fuels and deposited in the Airport and Airway Trust Fund, are proposed to be reinstated for the period after the date of enactment and before October 1, 2006. These taxes (except for 14 cents per gallon of the tax

on gasoline used in non-commercial aviation, which is being deposited in the Highway Trust Fund absent authority to transfer the tax to the Airport and Airway Trust Fund) expired on December 31, 1995.

***Extend excise taxes deposited in the Leaking Underground Storage Tank (LUST) Trust Fund.***—The excise taxes that are levied on gasoline, other motor fuels, methanol and ethanol fuels, and on fuels used in inland waterways and deposited in the LUST Trust Fund, expired on December 31, 1995. The Administration proposes to reinstate these taxes for the period after the date of enactment and before October 1, 2006.

### Other Expired Provisions

A number of tax provisions have expired. The Administration supports the revenue-neutral extension of these provisions as discussed below and looks forward to working with the Congress to achieve that goal. These provisions include the following:

*Exclusion for employer-provided educational assistance.*—Certain amounts paid by an employer for educational assistance provided to an employee are excluded from the employee's gross income for income and payroll tax purposes. This exclusion expired with respect to amounts paid after December 31, 1994. The Administration has previously proposed permanent extension of this provision.

*Targeted jobs tax credit.*—A tax credit, generally equal to 40 percent of up to $6,000 of qualified first year wages, is provided to employers who hire individuals from several targeted groups. The credit expired with respect to individuals hired after December 31, 1994. The Administration strongly supports the goals of this program but has serious concerns over the cost-effectiveness of its current design. The Administration would support extension if the problems undermining the credit's effectiveness are addressed.

*Research and experimentation (R&E) tax credit.*—The 20 percent tax credit provided for certain research and experimentation expenditures expired with respect to expenditures made after June 30, 1995. The Administration has previously proposed permanent extension of this provision.

*Tax credit for orphan drug clinical testing expenses.*—A 50 percent non-refundable tax credit is allowed for a taxpayer's qualified clinical testing expenses paid or incurred in the testing of certain drugs, generally referred to as orphan drugs, for rare diseases or conditions. This credit expired with respect to expenses incurred after December 31, 1994.

*Tax deduction for contributions to private foundations.*—The deduction for a contribution to a private foundation is generally limited to the adjusted basis of the contributed property. However, a taxpayer who contributed qualified appreciated stock to a private foundation before January 1, 1995 was allowed to deduct the full fair market value of the stock, rather than the adjusted basis of the contributed stock.

### Tax Simplification and Taxpayers' Rights

The Administration continues to support revenue-neutral initiatives designed to promote sensible and equitable administration of the tax laws. These include simplification, technical corrections, and taxpayer compliance measures. In addition to legislative initiatives, such as the pension simplification proposals described above, the Administration is committed to taking appropriate administrative action to simplify tax laws and enhance procedural safeguards for taxpayers. For instance, the Administration recently has announced its intent to simplify the current complex rules for classifying business organizations as either corporations or partnerships for Federal income tax purposes. In addition, the Administration recently has adopted administratively a number of measures included in pending Taxpayer Bill of Rights legislation.

**Table 3–3. EFFECT OF PROPOSALS ON RECEIPTS**

(In billions of dollars)

| | Estimate | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1996–2002 |
| Provide tax relief: | | | | | | | | |
| Middle Class Bill of Rights: | | | | | | | | |
| Provide tax credit for dependent children | –1.1 | –9.7 | –7.0 | –8.9 | –10.7 | –10.7 | –10.6 | –58.6 |
| Expand Individual Retirement Accounts (IRAs) | ..... | –1.4 | –0.4 | –0.7 | –1.1 | –1.6 | –2.5 | –7.7 |
| Provide tax incentive for education and training | –0.2 | –5.8 | –5.6 | –6.2 | –7.5 | –7.8 | –8.0 | –41.2 |
| Subtotal, Middle Class Bill of Rights | –1.3 | –17.0 | –13.0 | –15.8 | –19.3 | –20.0 | –21.1 | –107.5 |
| Increase expensing for small business | ..... | –0.6 | –0.5 | –0.6 | –0.7 | –0.9 | –0.8 | –4.1 |
| Provide estate tax relief for small business | ..... | ..... | –0.2 | –0.2 | –0.2 | –0.2 | –0.2 | –1.0 |
| Simplify pension plan rules [1] | * | –* | –0.1 | –0.3 | –0.3 | –0.3 | –0.3 | –1.4 |
| Provide tax incentives for distressed areas | –* | –* | –0.3 | –0.6 | –0.8 | –0.9 | –0.8 | –3.4 |
| Subtotal, Provide tax relief | –1.3 | –17.6 | –14.1 | –17.5 | –21.4 | –22.4 | –23.2 | –117.4 |
| Eliminate unwarranted benefits and adopt other revenue measures: | | | | | | | | |
| Disallow interest deduction for corporate-owned life insurance policy loans | ..... | 0.6 | 0.5 | 0.6 | 0.7 | 0.7 | 0.8 | 3.9 |

**Table 3–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued**

(In billions of dollars)

| | Estimate | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1996–2002 |
| Deny interest deduction on certain debt instruments | ..... | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.4 | 1.3 |
| Defer original issue discount deduction on convertible debt | ..... | * | * | * | * | * | 0.1 | 0.2 |
| Limit dividends-received deduction (DRD): | | | | | | | | |
| Reduce DRD to 50 percent | ..... | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.0 |
| Modify holding period for DRD | ..... | * | * | * | * | * | * | 0.2 |
| Interaction | ..... | –* | –* | –* | –* | –* | –* | –* |
| Extend pro rata disallowance of tax-exempt interest expense to all corporations | ..... | * | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| Require average-cost basis for stocks, securities, etc. | ..... | 0.6 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 4.1 |
| Require recognition of gain on certain stocks, indebtedness and partnership interests | ..... | 0.2 | –* | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Change the treatment of gains and losses on extinguishment | ..... | * | * | * | * | * | * | * |
| Require reasonable payment assumptions for interest accruals on certain debt instruments | ..... | 0.1 | 0.2 | 0.3 | 0.3 | 0.2 | 0.1 | 1.1 |
| Require gain recognition for certain extraordinary dividends | ..... | –0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 |
| Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands | ..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| Modify loss carryback and carryforward rules | –* | * | 0.7 | 0.8 | 0.7 | 0.6 | 0.6 | 3.4 |
| Treat certain preferred stock as ''boot'' | ..... | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | * | 0.9 |
| Repeal tax-free conversions of large C corporations to S corporations | ..... | * | * | * | * | * | 0.1 | 0.2 |
| Require gain recognition in certain distributions of controlled corporation stock | ..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| Reform treatment of certain stock transfers | ..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.8 |
| Reformulate Puerto Rico and possessions tax credit | ..... | 0.1 | 0.2 | 0.5 | 0.8 | 1.0 | 1.1 | 3.7 |
| Expand Subpart F provisions regarding certain income | ..... | * | * | * | * | * | * | 0.2 |
| Modify taxation of captive ''insurance'' companies | ..... | * | * | * | * | * | * | 0.1 |
| Reform foreign tax credit | ..... | 0.2 | 0.9 | 1.1 | 1.0 | 0.9 | 0.9 | 4.9 |
| Modify rules relating to foreign oil and gas extraction income | ..... | * | * | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Require thrifts to account for bad debts in same manner as banks | ..... | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 1.6 |
| Reform depreciation under the income forecast method | ..... | 0.1 | 0.1 | 0.1 | * | * | * | 0.3 |
| Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 |
| Initiate inventory reform: | | | | | | | | |
| Repeal lower of cost or market method | ..... | 0.2 | 0.3 | 0.3 | 0.3 | 0.1 | * | 1.2 |
| Repeal components of cost method | ..... | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.1 |
| Modify basis adjustment rules under Section 1033 | * | * | * | * | * | * | * | 0.1 |
| Expand requirement that involuntarily converted property be replaced with property acquired from an unrelated party | ..... | * | * | * | * | * | * | * |
| Place further restrictions on like-kind exchanges involving personal property | ..... | * | * | * | * | * | * | 0.1 |
| Disallow rollover and one-time exclusion on sale of residence to the extent of previously claimed depreciation | ..... | * | * | * | * | * | * | * |
| Require registration of certain corporate tax shelters | ..... | ..... | * | * | * | * | * | * |
| Require reporting of payments to corporations rendering services to Federal agencies | ..... | * | * | * | * | 0.1 | 0.1 | 0.3 |
| Increase penalties for failure to file correct information returns | ..... | * | * | * | * | * | * | 0.1 |
| Extend IRS user fees | ..... | ..... | ..... | ..... | ..... | * | * | 0.1 |
| Apply failure-to-pay penalty to substitute returns | * | * | * | * | * | * | * | 0.1 |
| Repeal exemption for withholding on gambling winnings from bingo and keno in excess of $5,000 | * | * | * | * | * | * | * | * |
| Require tax reporting for payments to attorneys | ..... | ..... | * | * | * | * | * | * |
| Repeal advance refunds of diesel fuel tax for diesel cars and light trucks [1] | * | * | * | * | * | * | * | 0.1 |
| Extend oil spill excise tax [1] | * | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.4 |
| Impose excise taxes on kerosene as diesel fuel [1] | ..... | * | * | * | * | * | * | 0.2 |
| Permanently extend luxury excise tax on passenger vehicles [1] | ..... | ..... | ..... | ..... | 0.2 | 0.3 | 0.3 | 0.7 |
| Extend and modify FUTA provisions: | | | | | | | | |
| Extend FUTA surtax [1] | ..... | ..... | ..... | 0.8 | 1.2 | 1.2 | 1.2 | 4.4 |
| Accelerate deposit of unemployment insurance taxes | ..... | ..... | ..... | ..... | ..... | ..... | 1.3 | 1.3 |
| Subtotal, Eliminate unwarranted benefits | 0.1 | 3.8 | 5.6 | 7.5 | 8.3 | 8.5 | 9.9 | 43.6 |
| Other provisions that affect receipts: | | | | | | | | |
| Assess fees for examination of FDIC-insured banks and bank holding companies (receipt effect) [1] | ..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| Expand fees collected under the securities laws | ..... | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 2.0 |
| Establish IRS continuous levy | ..... | 0.4 | 0.4 | 0.4 | 0.3 | 0.2 | 0.1 | 1.8 |
| Extend GSP and modify other trade provisions [1] | –0.6 | –0.6 | –0.5 | –0.6 | –0.6 | –0.3 | ..... | –3.2 |
| Increase deduction for self-employed health insurance | –* | –0.1 | –0.1 | –0.2 | –0.4 | –0.5 | –0.5 | –1.9 |
| Increase employee contributions to CSRS and FERS | 0.1 | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 3.4 |
| Deter expatriation tax avoidance | * | 0.2 | 0.2 | 0.4 | 0.4 | 0.5 | 0.5 | 2.3 |
| Tighten rules for taxing foreign trusts | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 2.1 |
| Extend corporate environmental tax [2] | ..... | 1.0 | 0.6 | 0.7 | 0.7 | 0.7 | 0.8 | 4.5 |
| Improve compliance by tax-exempt entities through intermediate sanctions and other measures | * | * | * | * | * | * | * | * |

**Table 3–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued**

(In billions of dollars)

| | Estimate | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1996–2002 |
| Modify Federal pay raise (receipt effect) | ..... | –0.1 | –0.1 | –0.1 | –0.1 | –0.1 | –0.1 | –0.8 |
| Provide tax relief to troops in Bosnia | –* | –* | ..... | ..... | ..... | ..... | ..... | –* |
| Subtotal, Other | –0.4 | 1.8 | 1.8 | 1.8 | 1.7 | 1.9 | 2.2 | 10.7 |
| Subtotal, Eliminate unwarranted benefits and other provisions that affect receipts | –0.3 | 5.6 | 7.3 | 9.3 | 10.0 | 10.3 | 12.1 | 54.3 |
| Modify earned income tax credit (EITC) | * | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.3 |
| **Total effect of proposals** [1] | **–1.6** | **–11.7** | **–6.3** | **–7.8** | **–11.0** | **–11.6** | **–10.7** | **–60.8** |
| Extend expired trust fund excise taxes: | | | | | | | | |
| Extend superfund trust fund excise taxes [1] | 0.1 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 4.2 |
| Extend airport and airway trust fund taxes [1] | 0.4 | 4.7 | 4.9 | 5.2 | 5.5 | 5.9 | 6.2 | 32.8 |
| Extend LUST trust fund taxes [1] | * | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 |
| Total effect of extending expired trust fund excise taxes [1] | 0.5 | 5.5 | 5.7 | 6.0 | 6.3 | 6.7 | 7.0 | 37.7 |

*$50 million or less.
[1] Net of income offsets.
[2] Net of deductibility for income tax purposes.

## Table 3–4. RECEIPTS BY SOURCE

(In millions of dollars)

| Source | 1995 actual | 1996 estimate | 1997 estimate |
|---|---|---|---|
| **Individual income taxes (federal funds):** | | | |
| Withheld | 499,927 | 535,566 | 567,153 |
| Proposed Legislation (PAYGO) | ..... | −1,285 | −17,201 |
| Other | 175,855 | 186,071 | 187,818 |
| Refunds | −85,538 | −89,479 | −92,668 |
| **Total net individual income taxes** | **590,244** | **630,873** | **645,102** |
| **Corporation income taxes:** | | | |
| Federal funds: | | | |
| Gross Collections | 173,810 | 184,632 | 200,143 |
| Proposed Legislation (PAYGO) | ..... | 136 | 2,113 |
| Refunds | −17,418 | −18,019 | −18,510 |
| Total Federal funds net corporation income taxes | 156,392 | 166,749 | 183,746 |
| Trust funds: | | | |
| Gross Collections (Hazardous substance superfund) | 612 | 359 | 10 |
| Proposed Legislation (PAYGO) | ..... | ..... | 1,222 |
| **Total net corporation income taxes** | **157,004** | **167,108** | **184,978** |
| **Social insurance taxes and contributions (trust funds):** | | | |
| Employment taxes and contributions: | | | |
| Old-age and survivors insurance (Off-budget) | 284,091 | 311,713 | 333,335 |
| Disability insurance (Off-budget) | 66,988 | 55,728 | 54,680 |
| Hospital insurance | 96,024 | 101,848 | 108,770 |
| Railroad retirement: | | | |
| Social Security equivalent account | 1,518 | 1,498 | 1,508 |
| Rail pension and supplemental annuity | 2,424 | 2,399 | 2,451 |
| Total employment taxes and contributions | 451,045 | 473,186 | 500,744 |
| On-budget | 99,966 | 105,745 | 112,729 |
| Off-budget | 351,079 | 367,441 | 388,015 |
| Unemployment insurance: | | | |
| State taxes deposited in Treasury [1] | 23,158 | 24,047 | 25,006 |
| Federal unemployment tax receipts [1] | 5,696 | 5,739 | 5,806 |
| Railroad unemployment tax receipts [1] | 24 | 24 | 29 |
| Total unemployment insurance | 28,878 | 29,810 | 30,841 |
| Other retirement contributions: | | | |
| Federal employees' retirement—employee contributions | 4,461 | 4,359 | 4,144 |
| Proposed Legislation (PAYGO) | ..... | 90 | 356 |
| Contributions for non-Federal employees [2] | 89 | 89 | 88 |
| Proposed Legislation (PAYGO) | ..... | 1 | 2 |
| Total other retirement contributions | 4,550 | 4,539 | 4,590 |
| **Total social insurance taxes and contributions** | **484,473** | **507,535** | **536,175** |
| On-budget | 133,394 | 140,094 | 148,160 |
| Off-budget | 351,079 | 367,441 | 388,015 |
| **Excise taxes:** | | | |
| Federal funds: | | | |
| Alcohol taxes | 7,216 | 7,189 | 7,173 |
| Tobacco taxes | 5,878 | 5,872 | 5,796 |
| Transportation fuels tax | 8,491 | 6,920 | 7,162 |
| Telephone and teletype services | 3,794 | 4,010 | 4,241 |
| Ozone depleting chemicals and products | 616 | 205 | 13 |
| Other Federal fund excise taxes | 946 | 1,598 | 1,520 |
| Proposed Legislation (PAYGO) | ..... | −382 | 5 |
| Total Federal fund excise taxes | 26,941 | 25,412 | 25,910 |
| Trust funds: | | | |
| Highway | 22,611 | 24,564 | 24,900 |
| Proposed Legislation (PAYGO) | ..... | −10 | 4 |
| Airport and airway | 5,534 | 1,383 | ..... |
| Proposed Legislation (PAYGO) | ..... | 898 | 6,251 |
| Aquatic resources | 306 | 320 | 325 |
| Black lung disability insurance | 608 | 620 | 633 |
| Inland waterway | 103 | 125 | 131 |
| Hazardous substance superfund | 867 | 261 | ..... |
| Proposed Legislation (PAYGO) | ..... | 102 | 883 |
| Oil spill liability | 211 | ..... | ..... |
| Proposed Legislation (PAYGO) | ..... | 34 | 294 |
| Vaccine injury compensation | 138 | 123 | 123 |
| Leaking underground storage tank | 165 | 41 | ..... |
| Proposed Legislation (PAYGO) | ..... | 13 | 174 |
| Total trust funds excise taxes | 30,543 | 28,474 | 33,718 |
| **Total excise taxes** | **57,484** | **53,886** | **59,628** |
| **Estate and gift taxes** | **14,763** | **15,924** | **17,067** |
| Proposed Legislation (PAYGO) | ..... | ..... | **10** |
| **Total estate and gift taxes** | **14,763** | **15,924** | **17,077** |
| **Customs duties:** | | | |
| Federal funds | 18,573 | 19,231 | 20,253 |
| Proposed Legislation (PAYGO) | ..... | −706 | −675 |
| Trust funds | 728 | 788 | 876 |
| **Total customs duties** | **19,301** | **19,313** | **20,454** |
| **MISCELLANEOUS RECEIPTS: [3]** | | | |
| Miscellaneous taxes | 138 | 149 | 153 |
| United Mine Workers of America combined benefit fund | 336 | 281 | 251 |
| Deposit of earnings, Federal Reserve System | 23,378 | 23,752 | 22,580 |
| Proposed Legislation (PAYGO) | ..... | ..... | 92 |
| Fees for permits and regulatory and judicial services | 6,180 | 6,233 | 6,690 |
| Proposed Legislation (PAYGO) | ..... | ..... | 307 |
| Fines, penalties, and forfeitures | 1,781 | 1,580 | 1,598 |
| Restitutions, reparations, and recoveries under military occupation | ..... | 7 | 7 |
| Gifts and contributions | 131 | 139 | 151 |
| Refunds and recoveries | ..... | −5 | −5 |
| **Total miscellaneous receipts** | **31,944** | **32,136** | **31,824** |
| **Total budget receipts** | **1,355,213** | **1,426,775** | **1,495,238** |
| On-budget | 1,004,134 | 1,059,334 | 1,107,223 |
| Off-budget | 351,079 | 367,441 | 388,015 |
| **MEMORANDUM** | | | |
| Federal funds | 842,214 | 893,132 | 926,831 |
| Trust funds | 326,739 | 355,579 | 377,918 |
| Interfund transactions | −164,819 | −189,377 | −197,526 |
| **Total on-budget** | **1,004,134** | **1,059,334** | **1,107,223** |
| **Off-budget (trust funds)** | **351,079** | **367,441** | **388,015** |

## Table 3–4. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

| Source | 1995 actual | 1996 estimate | 1997 estimate |
|---|---|---|---|
| **Total** | **1,355,213** | **1,426,775** | **1,495,238** |

[1] Deposits by States are State payroll taxes that cover the benefit part of the program. Federal unemployment tax receipts cover administrative costs at both the Federal and State level. Railroad unemployment tax receipts cover both the benefits and adminstrative costs of the program for the railroads.

[2] Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

[3] Includes both Federal and trust funds. Trust fund amounts in miscellaneous receipts are 1995: $619 million; 1996: $575 million; and 1997: $571 million.