AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

FEDERAL RECEIPTS AND COLLECTIONS

17. FEDERAL RECEIPTS

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

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the next Chapter.

Total receipts in 2009 are estimated to be $2,699.9 billion, an increase of $178.8 billion or 7.1 percent relative to 2008. Receipts are projected to grow at an average annual rate of 6.2 percent between 2009 and 2013, rising to $3,428.2 billion. This growth in receipts is largely due to assumed increases in incomes resulting from both real economic growth and inflation.

As a share of Gross Domestic Product (GDP), receipts are projected to increase from 17.6 percent in 2008 to 18.0 percent in 2009, and to rise to 18.8 percent in 2013.

Table 17–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Individual income taxes	1,163.5	1,219.7	1,259.0	1,417.3	1,499.0	1,599.9	1,709.1
Corporation income taxes	370.2	345.3	339.2	338.9	356.8	391.3	379.8
Social insurance and retirement receipts	869.6	910.1	949.4	1,004.0	1,059.7	1,111.4	1,168.5
(On-budget)	(234.5)	(247.9)	(253.8)	(263.9)	(278.3)	(292.9)	(309.4)
(Off-budget)	(635.1)	(662.2)	(695.6)	(740.2)	(781.4)	(818.6)	(859.1)
Excise taxes	65.1	68.8	68.9	60.7	65.9	68.5	69.7
Estate and gift taxes	26.0	26.8	26.3	19.5	1.5	0.4	0.5
Customs duties	26.0	29.2	29.1	30.8	32.5	35.0	37.0
Miscellaneous receipts	47.8	46.3	47.9	50.0	53.2	57.4	59.5
Economic growth package	....	–125.0	–20.0	10.0	8.0	6.0	4.0
Total receipts	2,568.2	2,521.2	2,699.9	2,931.3	3,076.4	3,269.9	3,428.2
(On-budget)	(1,933.2)	(1,859.0)	(2,004.4)	(2,191.2)	(2,295.1)	(2,451.3)	(2,569.1)
(Off-budget)	(635.1)	(662.2)	(695.6)	(740.2)	(781.4)	(818.6)	(859.1)
Total receipts as a percentage of GDP	18.8	17.6	18.0	18.6	18.6	18.8	18.8

Table 17–2. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE

(In billions of dollars)

	Estimate				
	2009	2010	2011	2012	2013
Social security (OASDI) taxable earnings base increases:					
$102,000 to $106,800 on Jan. 1, 2009	2.4	6.4	7.2	8.0	8.8
$106,800 to $111,600 on Jan. 1, 2010	....	2.4	6.5	7.2	8.0
$111,600 to $116,100 on Jan. 1, 2011	....	....	2.3	6.2	6.8
$116,100 to $121,500 on Jan. 1, 2012	....	....	....	2.8	7.4
$121,500 to $126,900 on Jan. 1, 2013	....	....	....	....	2.9

Chart 17–1. Major Provisions of the Tax Code Under the 2001, 2003, 2004, and 2006 Enacted Tax Relief

Provision	2003	2004	2005	2006	2007	2008	2009	2010	2011
Individual Income Tax Rates	Rates reduced to 35, 33, 28, and 25 percent								Rates revert to 39.6, 36, 31, and 28 percent
10 Percent Bracket	Top of bracket increased to $7,000/$14,000 for single/joint filers and inflation-indexed								Bracket eliminated, lowest bracket reverts to 15 percent
15 Percent Bracket for Joint Filers	Top of bracket for joint filers increased to 200 percent of top of bracket for single filers								Top of bracket for joint filers reverts to 167 percent of top of bracket for single filers
Standard Deduction for Joint Filers	Standard deduction for joint filers increased to 200 percent of standard deduction for single filers								Standard deduction for joint filers reverts to 167 percent of standard deduction for single filers
Child Credit	Tax credit for each qualifying child under age 17 increased to $1,000 and refundability extended to families with 1 or 2 children								Tax credit for each qualifying child under age 17 reverts to $500 and refundability restricted to taxpayers with 3 or more children
Estate Taxes	Top rate reduced to 49 percent	Top rate reduced to 48 percent Exempt amount increased to $1.5 million	Top Rate reduced to 47 percent	Top rate reduced to 46 percent Exempt amount increased to $2 million	Top rate reduced to 45 percent		Exempt amount increased to $3.5 million	Estate tax repealed	Top rate reverts to 60 percent Exempt amount reverts to $1 million
Small Business Expensing	Deduction increased to $100,000, reduced by amount qualifying property exceeds $400,000, and both amounts inflation-indexed Includes software				Deduction increased to $125,000, reduced by amount qualifying property exceeds $500,000, and both amounts inflation-indexed Includes software				Deduction reverts to $25,000, reduced by amount qualifying property exceeds $200,000 and amounts not inflation-indexed Does not apply to software

Chart 17–1. Major Provisions of the Tax Code Under the 2001, 2003, 2004, and 2006 Enacted Tax Relief—Continued

Provision	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital Gains	Tax rate on capital gains reduced to 5/15 percent					Tax on capital gains eliminated for taxpayers in 10/15 percent tax brackets			Tax rate on capital gains reverts to 10/20 percent (8/18 percent on assets held over 5 years)
Dividends	Tax rate on dividends reduced to 5/15 percent					Tax on dividends eliminated for taxpayers in 10/15 percent tax brackets			Dividends taxed at standard income tax rates
Bonus Depreciation	Bonus depreciation increased to 50 percent of qualified property aquired after 5/5/03		Bonus depreciation expires						
Alternative Minimum Tax	AMT exemption amount increased to $40,250/$58,000 for single/joint filers			AMT exemption amount increased to $42,500/$62,550 for single /joint filers	AMT exemption amount increased to $44,350/ $66,250 for single /joint filers	AMT exemption amount reverts to $33,750/ $45,000 for single /joint filers			

ENACTED LEGISLATION

Several laws were enacted in 2007 that have an effect on governmental receipts. The major legislative changes affecting receipts are described below.

U.S. TROOP READINESS, VETERANS' CARE, KATRINA RECOVERY, AND IRAQ ACCOUNTABILITY APPROPRIATIONS ACT, 2007

The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 was signed by President Bush on May 25, 2007. In addition to increasing the minimum wage and providing funding for the Global War on Terror, hurricane disaster relief and other purposes, this Act provided tax relief to small businesses that was in large part offset by other tax changes. The major provisions of this Act that affected governmental receipts are described below.

Tax Incentives for Small Business

Extend and increase expensing for small businesses.—Under prior law, business taxpayers were allowed to expense up to $100,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2002 and before 2010. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $400,000. Both the deduction and annual investment limit were indexed annually for inflation, effective for taxable years beginning after 2003 and before 2010. Also, with respect to a taxable year beginning after 2002 and before 2010, taxpayers were permitted to make or revoke expensing elections on amended returns without the consent of the Internal Revenue Service (IRS) Commissioner. This Act extended for one year, through 2010, the prior law rules applicable to small business expensing in taxable years beginning after 2002 and before 2010. This Act also increased the deduction and annual investment limit to $125,000 and $500,000, respectively, effective for taxable years beginning after 2006 and before 2011. Both the deduction and annual investment limit were indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011.

Extend and modify the work opportunity tax credit (WOTC).—The WOTC provides incentives to employers for hiring individuals from certain targeted groups. Under prior law, the credit expired with respect to wages paid to qualified individuals who began work after December 31, 2007. This Act extended the credit to apply to qualified wages paid to workers hired before September 1, 2011 and expanded the eligibility criteria for certain targeted groups.

Modify tax credit for tips.—Businesses are allowed to pay a tip-earning employee wages that are below the minimum wage if the combined value of the employee's tips and reduced wage exceeds the minimum wage.

Businesses are also required to pay social security and Medicare payroll taxes on both the wages and tip income of their employees; however, a "tip credit" may be claimed for the payroll taxes paid on tips in excess of the minimum wage. This Act increased the minimum wage in three stages over 24 months, from $5.15 per hour to $7.25 per hour. To prevent a reduction in the "tip credit" that would occur as a result of this increase in the minimum wage, this Act allowed employers to continue to calculate the tip credit using the minimum wage in effect on January 1, 2007 ($5.15 per hour).

Allow "tip credit" and WOTC against the alternative minimum tax (AMT).—Taxpayers generally are not allowed to offset AMT liability with business tax credits. Effective for taxable years beginning after December 31, 2006, this Act waived this limitation with respect to the WOTC and the "tip credit," thereby allowing taxpayers (both individuals and corporations) to offset AMT liability with these two credits.

Simplify the taxation of a family business owned by a husband and wife.—Under current law, each member of a partnership pays the taxes on his or her distributive share of the earnings of the partnership. A partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation or venture is carried on, and that is not a trust or estate or a corporation. Under this Act, effective for taxable years beginning after December 31, 2006, a qualified joint venture whose only members are a husband and wife filing a joint return is permitted to elect not to be treated as a partnership for Federal income and self-employment tax purposes if each spouse materially participates in the venture's trade or business. All items of income, gain, loss, deduction and credit from the trade or business must be divided between the spouses in accordance with their respective interest in the venture and each spouse must take into account his or her respective share of those items as if he or she were a sole proprietor.

Taxation of S Corporations

Modify taxation of S corporations.—In general, S corporations do not pay Federal income tax. Instead, an S corporation passes through its items of income and loss to its shareholders. Each shareholder separately accounts for his or her share of these items on his or her individual income tax return. This Act included provisions that modified the taxation of S corporations, with the following major changes that: (1) excluded gains from the sale of stock or securities from treatment as an item of passive investment income; (2) excluded restricted stock in a bank held by bank directors from treatment as S corporation stock; (3) modified the treatment of banks that become S corporations and change from the reserve method of accounting for bad debts; (4) modified the treatment of sales of stock of qualified subsidiaries of S corporations; (5) modified the treatment of pre-1983 accumulated earnings and profits of certain S corporations; and (6) permitted electing small business trusts to deduct interest expenses incurred on funds borrowed to purchase S corporation stock.

Hurricane-Related Tax Relief

Extend and modify certain tax relief provided to individuals and businesses affected by hurricanes along the Gulf coast in 2005.—Several laws were enacted in 2005 that provided tax relief to individuals and businesses affected by hurricanes Katrina, Rita and Wilma. This Act extended and/or modified several of the tax incentives enacted in 2005; the specific changes included the following: (1) a one-year extension of the enhanced small business expensing provided to qualified Gulf Opportunity Zone (GO Zone) property; (2) a two-year extension of the enhanced low-income housing tax credit for property in the GO Zone, the Rita GO Zone and the Wilma GO Zone, and expansion of the credit; and (3) the expansion of special tax-exempt bond financing rules to apply to the repair and reconstruction of residential property in the GO Zone, the Rita GO Zone and the Wilma GO Zone.

Pension-Related Provisions

Modify several provisions of the Pension Protection Act of 2006.—This Act modified several provisions of the Pension Protection Act of 2006, which was the most sweeping reform of America's pension system enacted in 30 years. Major changes included the following: (1) modification of the ability to revoke the election relating to treatment as a multiemployer plan; (2) modification of the requirements for qualified transfers under section 420; (3) extension of alternative deficit reduction contribution rules for commercial passenger airlines; and (4) modification of the interest rate used by plans maintained by commercial passenger airlines and airline catering companies to calculate pension liability.

Offsets

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15, and December 15 (if these dates fall on a holiday or weekend, payment is due on the next business day). This Act increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.25 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

Modify taxation of unearned income of minors.—An unmarried individual eligible to be claimed as a dependent on another taxpayer's individual income tax return generally must file an individual income tax return if he or she has: (1) earned income only over $5,350 (for 2007); (2) unearned income only over the minimum standard deduction amount for dependents ($850 in 2007); or (3) both earned income and unearned income totaling more than the smaller of (a) $5,350 (for 2007) or (b) the larger of (i) $850 (for 2007) or (ii) earned income plus $300. Under prior law, unearned income of a child was taxed under special rules if: (1) the child had not reached the age of 18 by the close of the taxable year, (2) the child's unearned income (income other than wages, salaries, professional fees, or other amounts received as compensation for personal services actually rendered) was more than $1,700 (for 2007), and (3) the child was required to file a return for the year. These special rules (referred to as the "kiddie tax") applied if the child could have been claimed as a dependent on the parent's return, regardless of whether the parent actually claimed the child as a dependent. Under the kiddie tax, the child's net unearned income over $1,700 (for 2007) was taxed at the parent's tax rate if that rate was higher than the child's rate. The remainder of a child's taxable income was taxed at the child's tax rate, regardless of whether the kiddie tax applied. Effective for taxable years beginning after May 25, 2007, this Act increased the age to which the kiddie tax applies from under 18 years of age to under 19 years of age (under 24 years of age for full-time students, provided their earned income does not exceed one-half of the amount of their support).

Modify period of suspension of penalties and interest on unpaid taxes.—In general, interest and penalties accrue during periods for which taxes are unpaid, without regard to whether the taxpayer was aware that there was tax due. However, under prior law, if an individual taxpayer filed a timely return and the IRS did not send the taxpayer a notice of the unpaid liability and the basis for that liability, interest and penalties generally were suspended starting 18 months after the filing of the return. The suspension did not apply to underpayments attributable to fraud, listed transactions, and undisclosed reportable transactions, or to criminal or failure-to-pay penalties. Interest and penalties resumed 21 days after the IRS sent the required notice. This Act extended the period before which accrual of interest and certain penalties are suspended to 36 months after the filing of the return, effective for IRS notices issued after November 25, 2007.

Modify collection due process procedures for employment tax liabilities.—Employers are required to withhold and pay Federal Insurance Contribution Act (FICA) taxes and income taxes, and are required to pay Federal Unemployment Tax Act (FUTA) taxes (collectively "Federal employment taxes") with respect to wages paid to their employees. In order to ensure the payment and collection of Federal employment taxes, the IRS is authorized to take various collection actions, including the issuance of a levy. A levy is the IRS's administrative authority to seize a taxpayer's property to pay the taxpayer's liability if a Federal tax lien has been attached to such property. Before a tax levy could be issued under prior law, the IRS generally was required to provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review. This pre-levy CDP hearing requirement did not apply to levies issued to collect Federal tax liability from a State tax refund; instead, such taxpayers were provided a CDP hearing within a reasonable period of time after the levy. This Act expanded the exception to the requirement for a pre-levy CDP hearing to include levies issued on or after September 27, 2007 to collect Federal employment taxes for any taxable period if the taxpayer subject to the levy requested a CDP hearing with respect to unpaid employment taxes arising in the two-year period before the beginning of the taxable period with respect to which the employment tax levy was served.

Permanently extend IRS user fees.—The IRS has authority to charge fees for written responses to questions from individuals, corporations, and organizations related to their tax status or the effects of particular transactions for tax purposes. This Act permanently extended authority for these fees, which had been scheduled to expire effective with requests made after September 30, 2014.

Increase penalty for bad checks and money orders.—The IRS has authority to impose a penalty on taxpayers who issue a bad check or money order. Under prior law, the penalty was two percent of the amount of the bad check or money order, with a minimum penalty of $15 or, if less, the amount of the check or money order, on checks and money orders less than $750. Effective with respect to checks or money orders issued after May 25, 2007, this Act increased the minimum penalty to $25 or if less, the amount of the check or money order, on checks and money orders less than $1,250.

Expand penalties on tax return preparers.—Under prior law, an income tax return preparer who prepared a return with respect to which there was an understatement of tax due to an undisclosed position for which there was not a realistic possibility of being sustained on its merits, or a frivolous position, was liable for a first-tier penalty of $250, provided the preparer knew or reasonably should have known of the position. An income tax return preparer who engaged in specified willful or reckless conduct with respect to preparing a return was liable for a second-tier penalty of $1,000. Effective for tax returns prepared after May 25, 2007, this Act: (1) broadened the scope of tax return preparer penalties to include preparers of estate and gift, employment, and excise tax returns, and returns of exempt organizations; (2) increased the first-tier penalty to the greater of $1,000 or 50 percent of the income derived (or to be derived) by the tax return preparer from the preparation of the return or claim with respect to which the penalty was imposed; (3) increased the second-tier penalty to the greater of $5,000 or 50 percent of the income derived (or to be derived) by the tax return preparer; and (4) altered the standards of conduct that must be met to avoid imposition of the penalties for preparing a return with respect to which there is an understatement of tax.

Levy a penalty on erroneous refund claims.—Effective for returns filed on or after May 25, 2007, this Act imposed a penalty of 20 percent on the disallowed portion of a claim for refund or credit for which there was no reasonable basis for the claimed tax treatment or for which the taxpayer did not have reasonable cause. The penalty does not apply to any portion of the disallowed portion of the claim for refund or credit: (1) relating to the earned income credit, or (2) subject to accuracy-related or fraud penalties.

AN ACT TO EXTEND THE AUTHORITIES OF THE ANDEAN TRADE PREFERENCE ACT (ATPA) UNTIL FEBRUARY 29, 2008

The ATPA, which was scheduled to expire after June 30, 2007, was designed to provide economic alternatives for Bolivia, Columbia, Ecuador, and Peru in their fight against narcotics production and trafficking. This Act, which was signed by President Bush on June 30, 2007, extended the provisions of the ATPA for eight months, through February 29, 2008. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.5 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

APPROVING THE RENEWAL OF IMPORT RESTRICTIONS CONTAINED IN THE BURMESE FREEDOM AND DEMOCRACY ACT OF 2003

The Act, which was signed by President Bush on August 1, 2007, extended for one year, through July 28, 2008, the ban on all imports from Burma. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.75 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AN ACT TO EXTEND THE TRADE ADJUSTMENT ASSISTANCE PROGRAM UNDER THE TRADE ACT OF 1974 FOR 3 MONTHS

This Act extended the trade adjustment assistance program for farmers, which was scheduled to expire September 31, 2007, for three months through December 31, 2007. This Act, which was signed by President Bush on September 28, 2007, also affected governmental receipts by increasing the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 115 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

UNITED STATES-PERU TRADE PROMOTION AGREEMENT IMPLEMENTATION ACT

This Act, which was signed by President Bush on December 14, 2007, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Peru Free Trade Agreement, as signed by the United States and Peru on April 12, 2006 and amended through a Protocol signed in Washington, D.C. on June 24, 2007 and in Lima on June 25, 2007. When this Agreement enters into force, it will level the playing field for American exporters and investors, expand an important market in this hemisphere for U.S. goods and services, allow Peru to lock in access to the largest market in the world, and signal America's firm support for those who share the Nation's values of freedom and democracy and expanding opportunity for all.

This Act also affected governmental receipts by increasing the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 115.75 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

ENERGY INDEPENDENCE AND SECURITY ACT OF 2007

This Act, which was signed by President Bush on December 19, 2007, represented a major step forward in expanding the production of renewable fuels, reducing the Nation's dependence on oil, and making America stronger, safer, and cleaner for future generations. The major provisions of this Act that affected governmental receipts are described below:

Modify Corporate Average Fuel Economy (CAFE) standards.—Under prior law, passenger cars and non-passenger cars (light trucks and SUVs) were required to meet CAFE standards of 27.5 miles per gallon and 22.2 miles per gallon, respectively. These standards were written into law in 1975. Beginning with model year 2011, this Act required the Department of Transportation (DOT) to prescribe separate, attribute-based CAFE standards for passenger cars and non-passenger cars that would reach a combined fleet average of at least 35 miles per gallon by model year 2020. This Act also required DOT, after consultation with the Department of Energy and the Environmental Protection Agency, to prescribe separate CAFE standards for work trucks (vehicles weighing between 8,500 and 10,000 pounds) and commercial medium- and heavy-duty vehicles (weighing over 10,000 pounds).

Modify Renewable Fuel Standard (RFS).—Under prior law, 7.5 billion gallons of renewable fuels were required to be blended with conventional fuel sold in the United States by 2012. Beginning in 2008, this Act required the blending of specified minimum volumes of renewable fuels each year, rising from 9 billion gallons in 2008 to 36 billion gallons by 2022.

Modify amortization for certain geological and geophysical expenditures.—Geological and geophysical expenditures (G&G costs) are costs incurred by a taxpayer for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties by taxpayers exploring for minerals. Under the Energy Policy Act of 2005, G&G costs paid or incurred in taxable years beginning after August 8, 2005, in connection with oil and gas exploration in the United States, could be amortized over two years. The Tax Increase Prevention and Reconciliation Act of 2006 increased the amortization period to five years for G&G costs paid or incurred by certain major integrated oil companies after May 17, 2006. This five-year amortization rule applied only to integrated oil companies that had an average daily worldwide production of crude oil of at least 500,000 barrels for the taxable year, had gross receipts in excess of $1 billion in the last taxable year ending during calendar year 2005, and were either a crude oil refiner or related to a crude oil refiner. This Act increased the amortization period for G&G costs paid or incurred by these major integrated oil companies from five to seven years, effective for amounts paid or incurred in taxable years beginning after December 19, 2007.

Extend unemployment insurance surtax.—Under prior law the Federal unemployment tax on employers was scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2007. This Act extended the 0.8 percent rate for one year, through December 31, 2008.

TAX RELIEF FOR RECIPIENTS OF DISBURSEMENTS FROM THE HOKIE SPIRIT MEMORIAL FUND

The Virginia Tech Foundation was established in 1948 to receive, manage, and disburse private gifts in support of programs of Virginia Polytechnic Institute and State University (Virginia Tech). The Hokie Spirit Memorial Fund was established by the Virginia Tech Foundation as a vehicle to receive financial donations from donors to assist families and victims of the April 16, 2007 shootings at Virginia Tech. This Act, which was signed by President Bush on December 19, 2007, excluded from gross income amounts received from this fund as payments in connection with the April 16, 2007 shootings at Virginia Tech. In addition, effective for taxable years beginning in 2008, this Act increased the penalty for failure to file a partnership return from $50 to $51 per partner for each month that the failure continues, up to a maximum of five months.

MORTGAGE FORGIVENESS DEBT RELIEF ACT OF 2007

This Act, which was signed by President Bush on December 20, 2007, provided housing-related tax relief to financially-troubled homeowners, provided tax relief for volunteer firefighters and emergency medical responders, modified several tax penalties, and modified the timing of estimated tax payments by corporations. The major provisions of this Act that affected governmental receipts are described below.

Housing-Related Tax Relief

Exclude discharges of indebtedness on principal residences from gross income—Gross income generally includes income realized by a debtor from the discharge of indebtedness, subject to certain exceptions (debtors in Title 11 bankruptcy cases, insolvent debtors, certain student loan indebtedness, certain farm indebtedness, and certain real property business indebtedness). In cases involving discharges of indebtedness excluded from gross income under the exceptions to the general rule, taxpayers generally must reduce certain tax attributes, including basis in the property, by the amount of the discharge of indebtedness. However, the amount of discharge of indebtedness excluded from gross income by an insolvent debtor not in a Title 11 bankruptcy case cannot exceed the amount by which the debtor is insolvent. The amount of discharge of indebtedness generally is equal to the difference between the amount of debt being cancelled and the amount used to satisfy the debt. This Act expanded the types of discharges of indebtedness excluded from gross income to include up to $2 million (or up to $1 million per spouse, if a married couple files separately) of qualified principal residence indebtedness discharged on or after January 1, 2007 and before January 1, 2010. The exclusion does not apply to discharges on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer; in addition, the basis in the principal residence must be reduced by the amount of discharge of indebtedness excluded from gross income.

Extend the deduction for qualified mortgage insurance premiums.—This Act extended the deduction for certain premiums paid or accrued for qualified mortgage insurance for three years, to apply to amounts paid or accrued after December 31, 2007 and before January 1, 2011.

Increase maximum capital gains exclusion on certain sales of principal residences by surviving spouses.—Under current law, an individual taxpayer may exclude from tax up to $250,000 ($500,000 if married and filing a joint return) of gain realized on the sale or exchange of a principal residence, provided the taxpayer owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange. Effective for sales or exchanges after December 31, 2007, this Act increased the maximum amount of gain a surviving spouse can exclude from tax on the sale or exchange of a principal residence to $500,000, provided the sale or exchange occurs within two years of death of the spouse.

Provide other housing-related tax relief.—Other housing-related tax relief provided in this Act: (1) amended the requirements for qualification as a cooperative housing corporation, and (2) modified the requirements for qualification as low-income housing units for purposes of the low-income housing tax credit.

Tax Relief for Volunteer Firefighters and Emergency Medical Responders

Provide exclusion from gross income for benefits provided to volunteer firefighters and emergency medical responders.—This Act provided an exclusion from gross income to any member of a qualified volunteer emergency response organization for: (1) any reduction or rebate of tax provided by a State or political division thereof on account of services performed as a member of a qualified volunteer emergency response organization, and (2) any payment, up to an annual maximum of $30 times the number of months during the year in which services were performed, provided by a State or political division thereof on account of the performance of services as a member of a qualified volunteer emergency response organization. Under this Act, a qualified emergency response organization is any volunteer organization: (1) organized and operated to provide firefighting or emergency medical services for persons in the State or political subdivision, and (2) required (by written agreement) by the State or political subdivision to furnish firefighting or emergency medical services in such State or political subdivision. The exclusion applies to payments, tax rebates and tax reductions provide on account of services performed in taxable years beginning after December 31, 2007 and before January 1, 2011.

Offsets

Increase the penalty for failure to file a partnership return.—This Act increased the penalty imposed on partnerships for failure to file a partnership return to $85 per partner for each month that the failure continues, up to a maximum of twelve months, effective for returns required to be filed after December 20, 2007.

Impose a penalty on S corporations for failure to file a return.—This Act imposed a penalty on S corporations that fail to file a return or that fail to file required information. The penalty of $85 per shareholder for each month that the failure continues, up to a maximum of twelve months, is effective for returns required to be filed after December 20, 2007.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15, and December 15 (if these dates fall on a holiday or weekend, payment is due on the next business day). This Act increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 117.25 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

TAX INCREASE PREVENTION ACT OF 2007

This Act, which was signed by President Bush on December 26, 2007, provided Alternative Minimum Tax (AMT) relief for 2007, thereby protecting millions of Americans from an unexpected tax increase. The major provisions of this Act that affected governmental receipts are described below.

Increase and extend AMT exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts to $42,500 for single taxpayers, $62,550 for married taxpayers filing a joint return and surviving spouses, and $31,275 for married taxpayers filing a separate return and estates and trusts. These temporary increases were effective for taxable years beginning after December 31, 2005 and before January 1, 2007. This Act increased the AMT exemption amounts, effective for taxable years beginning after December 31, 2006 and before January 1, 2008, to $44,350 for single taxpayers, $66,250 for married taxpayers filing a joint return and surviving spouses, and $33,125 for married taxpayers filing a separate return and estates and trusts.

Extend AMT relief for nonrefundable personal credits.—Under a temporary provision of prior law, taxpayers were permitted to offset both the regular tax and the AMT with nonrefundable personal tax credits, effective for taxable years beginning before January 1, 2007. This Act extended minimum tax relief for nonrefundable personal tax credits for one year, to apply to taxable year 2007. The extension does not apply to the child credit, the saver's credit, the earned income credit (EITC), or the adoption credit, which were provided AMT relief through December 31, 2010 under the 2001 tax cut. The refundable portion of the child credit and the earned income tax credit are also allowed against the AMT through December 31, 2010.

TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

This Act, which was signed by President Bush on December 26, 2007, extended for seven years the Federal terrorism risk insurance program that had been established under the Terrorism Risk Insurance Act of 2002 and was scheduled to expire on December 31, 2007. This Act also expanded coverage to include acts of domestic terrorism, required the issuance of regulations for determining the pro rata share of insured losses to be paid by each insurer that incurs losses when such losses exceed $100 billion in any program year, and set up a mechanism for the Federal government to recoup 133 percent of Federal payments under the program, up to a maximum of $27.5 billion, through a surcharge imposed on insurance premiums. These payments, which would be governmental receipts, would be collected as follows: (1) for any act of terrorism that occurred on or before December 31, 2010, all required payments would be due by September 30, 2012; (2) for any act of terrorism that occurred in calendar year 2011, 35 percent of required payments would be due by September 30, 2012 and the remainder would be due by September 30, 2017; and (3) for any act of terrorism that occurred on or after January 1, 2012, all required payments would be due by September 30, 2017.

TAX TECHNICAL CORRECTIONS ACT OF 2007

This Act, which was signed by President Bush on December 29, 2007, provided technical corrections to tax laws enacted between 1998 and 2006. The amendments provided in this Act clarified or adjusted previously enacted provisions in a manner consistent with the underlying legislative intent and generally took effect as if included in the original legislation.

ADMINISTRATION PROPOSALS

STIMULATE ECONOMIC GROWTH AND JOB CREATION IN 2008 AND IMPROVE THE TAX SYSTEM TO MAKE THE U.S. MORE COMPETITIVE

The President believes that it is critical for Congress to quickly pass an economic growth package that will keep our economy expanding and creating jobs and that puts more money in the hands of American workers and businesses, who are the engines of the Nation's economic growth. The Administration will work with Congress in a bipartisan manner to enact initiatives that provide temporary, immediate, and effective support to the Nation's economy.

As a longer-term consideration, Americans deserve a tax system that is simple, fair and pro-growth—in tune with the Nation's dynamic, 21st century economy. The tax system also should promote the competitiveness of American workers and businesses in the global economy. The report, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century,* released by the Treasury Department in December, outlines several broad approaches to business tax reform to lay the groundwork for discussion of ways to ensure that the Nation's business tax system better meets the needs of American workers and businesses in today's global economy.

The President's tax relief enacted in 2001 and 2003 made the tax code simpler, fairer, and more pro-growth. The President has proposed changes that would move the tax code further in this direction. The Budget includes proposals to make health care more affordable and consumer-driven, to promote savings for all Americans, and to encourage investment by entrepreneurs.

MAKE PERMANENT CERTAIN TAX RELIEF ENACTED IN 2001 AND 2003

Permanently extend reductions in individual income taxes on capital gains and dividends.—The maximum individual income tax rate on net capital gains and dividends is 15 percent for taxpayers in individual income tax rate brackets above 15 percent and 5 percent (zero in 2008, 2009 and 2010) for lower income taxpayers. The Administration proposes to permanently extend these reduced rates (15 percent and zero), which are scheduled to expire on December 31, 2010.

Permanently extend increased expensing for small businesses.—Under temporary provisions of current law, small business taxpayers are allowed to expense up to $125,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that may be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $500,000. Both the deduction and annual investment limits are indexed annually for inflation effective for taxable years beginning after 2007 and before 2011. Also, with respect to taxable years beginning after 2002 and before 2011, taxpayers are permitted to make or revoke expensing elections on amended returns without the consent of the IRS Commissioner. The Administration proposes to permanently extend each of these temporary provisions, applicable for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning after 2010.

Permanently extend provisions expiring in 2010.—Most of the provisions of the 2001 tax relief sunset on December 31, 2010. The Administration proposes to extend those provisions permanently.

TAX INCENTIVES

Simplify and Encourage Saving

Expand tax-free savings opportunities.—Under current law, individuals can contribute to traditional IRAs, nondeductible IRAs, and Roth IRAs, each subject to different sets of rules. For example, contributions to traditional IRAs are deductible, while distributions are taxed; contributions to Roth IRAs are taxed, but distributions are excluded from income. In addition, eligibility to contribute is subject to various age and income limits. While primarily intended for retirement saving, withdrawals for certain education, medical, and other non-retirement expenses are penalty free. The eligibility and withdrawal restrictions for these accounts complicate compliance and limit incentives to save.

The Administration proposes to replace current law IRAs with two new savings accounts: a Lifetime Savings Account (LSA) and a Retirement Savings Account (RSA). Regardless of age or income, individuals could make annual nondeductible contributions of $2,000 to an LSA and $5,000 (or earnings if less) to an RSA. Distributions from an LSA would be excluded from income and could be made at any time for any purpose without restriction. Distributions from an RSA would be excluded from income after attaining age 58 or in the event of death or disability. All other distributions would be included in income (to the extent they exceed basis) and subject to an additional tax. Distributions would be deemed to come from basis first. The proposal would be effective for contributions made after December 31, 2008 and future year contribution limits would be indexed for inflation.

Existing Roth IRAs would be renamed RSAs and would be subject to the new rules for RSAs. Existing traditional and nondeductible IRAs could be converted into an RSA by including the conversion amount (excluding basis) in gross income, similar to a current-law Roth conversion. However, no income limit would apply to the ability to convert. Taxpayers who convert IRAs to RSAs before January 1, 2010 could spread the included conversion amount over four years. Existing traditional or nondeductible IRAs that are not converted to RSAs could not accept new contributions. New traditional IRAs could be created to accommodate rollovers from employer plans, but they could not accept new individual contributions. Individuals wishing to roll an amount directly from an employer plan to an RSA could do so by including the rollover amount (excluding basis) in gross income (i.e., "converting" the rollover, similar to a current law Roth conversion).

Consolidate employer-based savings accounts.—Current law provides multiple types of tax-preferred employer-based savings accounts to encourage saving for retirement. The accounts have similar goals but are subject to different sets of rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions. For example, 401(k) plans for private employers, SIMPLE 401(k) plans for small employers, 403(b) plans for 501(c)(3) organizations and public schools, and 457 plans for State and local governments are all subject to different rules. To qualify for tax benefits, plans must satisfy multiple requirements. Among the requirements, the plan generally may not discriminate in favor of highly compensated employees with regard either to coverage or to amount or availability of contributions or benefits. Rules covering employer-based savings accounts are among the lengthiest and most complicated sections of the tax code and associated regulations. This complexity imposes substantial costs on employers, participants, and the Government, and likely has inhibited the adoption of retirement plans by employers, especially small employers.

The Administration proposes to consolidate 401(k), SIMPLE 401(k), 403(b), and 457 plans, as well as SIMPLE IRAs and SARSEPs, into a single type of plan—Employee Retirement Savings Accounts (ERSAs) that would be available to all employers. ERSA non-discrimination rules would be simpler and include a new ERSA non-discrimination safe-harbor. Under one of the safe-harbor options, a plan would satisfy the nondiscrimination rules with respect to employee deferrals and employee contributions if it provided a 50-percent match on elective contributions up to six percent of compensation. By creating a simplified and uniform set of rules, the proposal would substantially reduce complexity. The proposal would be effective for taxable years beginning after December 31, 2008.

Encourage Entrepreneurship and Investment

Increase expensing for small businesses.—Business taxpayers are currently allowed to expense up to $125,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that may be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $500,000. Both the deduction and annual investment limits are indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. Also, with respect to a taxable year beginning after 2002 and before 2011, taxpayers are permitted to make or revoke expensing elections on amended returns without the consent of the IRS Commissioner. The Administration proposes to increase the amount of annual investment expenditures that taxpayers are allowed to expense to $200,000, and to raise the amount of qualifying investment at which the phase-out begins to $800,000, effective for qualifying property placed in service in taxable years beginning after 2008. These higher amounts would be indexed for inflation, effective for taxable years beginning after 2009.

Invest in Health Care

Provide a new standard deduction for health insurance ($15,000 for family coverage and $7,500 for individual coverage).—The Administration proposes to provide a standardized deduction for health insurance (SDHI) of $15,000 to all families who purchase health insurance ($7,500 for those purchasing individual coverage), whether directly or through an employer, that meets minimum requirements. The full deduction would apply regardless of how much a family or individual spends on health insurance; that is, a family or individual that spends less than the full deduction on health insurance would still receive the full deduction. The deduction would apply for purposes of both the income and payroll tax.

The new, flat deduction would replace the existing exclusion for employer-provided health insurance, the self-employed premium deduction, and the medical itemized deduction. Coverage under Medicare or Medicaid would not entitle an individual for the SDHI. As a result of the proposal, the current exclusion or deduction from income of health care spending, whether for insurance premiums or out-of-pocket expenses, except under a Health Savings Account (HSA), would also be repealed. However, itemized medical deductions would still be available for some taxpayers such as individuals enrolled in Medicare who are not otherwise eligible for the SDHI.

Businesses would continue to deduct employer-provided health insurance as a business expense. In addition, the phase-out rate for the EITC for taxpayers with qualifying children would be reduced to 15 percent. These provisions would be effective for tax years beginning after December 31, 2008.

Expand and make health savings accounts (HSAs) more flexible.—Current law allows individuals to accumulate funds in an HSA or medical savings account (MSA) on a tax-preferred basis to pay for medical expenses, provided they are covered by an HSA-qualified high-deductible health plan (HDHP), and no other health plan. Under current law, individual contributions to HSAs are deductible for income tax purposes, while employer contributions to HSAs are excluded from both the income and payroll tax. The higher deductible under HSA-qualified health plans increases the cost consciousness of health care consumers by increasing their exposure to the cost of health care.

In addition to higher deductibles, the Administration also recognizes that higher coinsurance levels encourage cost consciousness among health care consumers. Therefore, the Administration proposes to allow health plans to be considered HSA-eligible if they meet all the existing requirements of an HDHP except that, in lieu of satisfying the minimum deductible requirement, they have at least a 50 percent coinsurance requirement and a minimum out-of-pocket exposure that would result in the same (or lower) premium as coverage under a high-deductible health plan under the current requirements for the same family or individual.

The Administration also proposes that additional changes be made to HSAs to encourage the use of HSAs and coverage under the HSA-eligible high-deductible health plans including: (1) allowing family coverage to include coverage where each individual in the family can receive benefits once they have reached the minimum deductible for an individual HDHP; (2) allowing both spouses to contribute the catch-up contribution to a single HSA owned by one spouse if both spouses are eligible individuals; (3) allowing an individual to be covered by a flexible spending arrangement (FSA) or health reimbursement arrangement (HRA) with first dollar coverage and still contribute to an HSA, but offset the maximum allowable HSA contribution by the level of FSA or HRA coverage; (4) allowing qualified medical expenses to include any medical expense incurred on or after the first day of HDHP coverage if individuals have established an HSA by their return filing date for that year; and (5) excluding from the comparability rules extra employer contributions to HSAs on behalf of employees who are chronically ill or employees who have spouses or dependents who are chronically ill. All of the HSA-related proposals would be effective for years beginning after December 31, 2008.

Allow the orphan drug tax credit for certain pre-designation expenses.—Current law provides a 50-percent credit for expenses related to human clinical testing of drugs for the treatment of certain rare diseases and conditions ("orphan drugs"). A taxpayer may claim the credit only for expenses incurred after the Food and Drug Administration (FDA) designates a drug as a potential treatment for a rare disease or condition. This creates an incentive to defer clinical testing for orphan drugs until the taxpayer receives the FDA's approval and increases complexity for taxpayers by treating pre-designation and post-designation clinical expenses differently. The Administration proposes to allow taxpayers to claim the orphan drug credit for expenses incurred prior to FDA designation if designation occurs before the due date (including extensions) for filing the tax return for the year in which the FDA application was filed. The proposal would be effective for qualified expenses incurred after December 31, 2007.

Provide Incentives for Charitable Giving

Permanently extend tax-free withdrawals from IRAs for charitable contributions.—Under current law, eligible individuals may make deductible or nondeductible contributions to a traditional IRA and nondeductible contributions to a Roth IRA. Pre-tax contributions and earnings in a traditional IRA are included in income when withdrawn. Qualified withdrawals from a Roth IRA are excluded from gross income; withdrawals that are not qualified are included in gross income to the extent attributable to earnings. The Pension Protection Act of 2006 provided an exclusion from gross income for otherwise taxable distributions from a traditional or a Roth IRA made directly to a qualified charitable organization. The exclusion may not exceed $100,000 per taxpayer per taxable year, is applicable only to distributions made on or after the date the IRA owner attains age 70 1/2, and is effective for distributions made in taxable years beginning after December 31, 2005 and before January 1, 2008. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowable under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount excludable from income under this provision. The Administration proposes to permanently extend this exclusion, effective for distributions made in taxable years beginning after December 31, 2007.

Permanently extend the enhanced charitable deduction for contributions of food inventory.—A taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory or, if less, the fair market value of the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the fair market value in excess of basis, or (2) two times basis. To be eligible for the enhanced deduction, the contributed property generally must be inventory of the taxpayer contributed to a charitable organization and the donee must: (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants; (2) not transfer the property in exchange for money, other property, or services; and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with such requirements. To use the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis.

The Katrina Emergency Tax Relief Act of 2005 expanded the enhanced deduction to apply to qualified contributions of food inventory made after August 27, 2005 and before January 1, 2006 by all taxpayers (not just C corporations) engaged in a trade or business. The Pension Protection Act of 2006 extended the enhanced charitable deduction for contributions of food inventory provided under the Katrina Emergency Tax Relief Act of 2005 to apply to contributions made after December 31, 2005 and before January 1, 2008. The donated food must meet certain quality and labeling standards, and, for taxpayers other than C corporations, the total deduction for donated food inventory may not exceed 10 percent of the taxpayer's net income from the related trade or business. The Administration proposes to permanently extend the enhanced charitable deduction for contributions of food inventory to apply to contributions made after December 31, 2007.

Permanently extend the deduction for corporate donations of computer equipment for educational purposes.—The charitable contribution deduction that may be claimed by corporations for donations of inventory property generally is limited to the lesser of fair market value or the corporation's basis in the property. However, corporations are provided enhanced deductions, not subject to this limitation, for contributions of computer technology and equipment for education purposes. The enhanced deduction is equal to the lesser of: (1) basis plus one-half of the item's fair market value in excess of basis, or (2) two times basis. To qualify for the enhanced deduction, equipment contributed must have been constructed or assembled by the taxpayer and be donated no later than three years after completion. This provision expired with respect to donations made after December 31, 2007. The Administration proposes to permanently extend this deduction, effective for distributions made in taxable years beginning after December 31, 2007.

Permanently extend increased limits on contributions of partial interests in real property for conservation purposes.—In general, a deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization. Exceptions to these general rules are provided for certain types of contributions, including qualified conservation contributions. The special rules for qualified conservation contributions were enhanced under the Pension Protection Act of 2006, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005 and before January 1, 2008. These special rules: (1) increased the cap on deductions for qualified conservation contributions from 30 percent to 50 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions; (2) increased the cap on deductions for qualified conservation contributions applicable to qualified ranchers and farmers to 100 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions in the case of individuals and to 100 percent of the excess of taxable income over the amount of all other allowable charitable contributions in the case of corporations; and (3) increased the number of years qualified conservation contributions in excess of the 50- and 100-percent caps may be carried forward from five to 15 years. The Administration proposes to permanently extend these special rules, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2007.

Permanently extend basis adjustment to stock of S corporations contributing appreciated property.—Each shareholder of an S corporation must take into account his or her pro rata share of a charitable contribution by the S corporation in determining his or her income tax liability. For donations of property, this generally is the pro rata share of the property's fair market value. Under prior law, the shareholder's basis in the stock of the company was reduced by the amount of the charitable contribution that flowed through to the shareholder. Under the Pension Protection Act of 2006, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005 and before January 1, 2008, shareholders are allowed to adjust their basis in the stock of the company by their pro rata share of the adjusted basis of the contributed property instead of by their pro rata share of the market value of the contributed property. The Administration proposes to permanently extend this provision, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2007.

Reform excise tax based on investment income of private foundations.—Under current law, private foundations that are exempt from Federal income tax are subject to a two-percent excise tax on their net investment income (one percent if certain requirements are met). The excise tax on private foundations that are not exempt from Federal income tax, such as certain charitable trusts, is equal to the excess of the sum of the excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. To encourage increased charitable activity and simplify the tax laws, the Administration proposes to replace the two rates of tax on the net investment income of private foundations that are exempt from Federal income tax with a single tax rate of one percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the one-percent excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The proposed change would be effective for taxable years beginning after December 31, 2007.

Strengthen Education

Permanently extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Under current law, teachers who itemize deductions (do not use the standard deduction) and incur unreimbursed, job-related expenses are allowed to deduct those expenses to the extent that, when combined with other miscellaneous itemized deductions, they exceeded two percent of AGI. Current law also allows certain teachers and other elementary and secondary school professionals to treat up to $250 in annual qualified out-of-pocket classroom expenses as a non-itemized deduction (deductible above-the-line). Unreimbursed expenditures for certain books, supplies, and equipment related to classroom instruction qualify for the above-the-line deduction. Expenses claimed as an above-the-line deduction may not be claimed as an itemized deduction. This additional deduction is effective for expenses incurred in taxable years beginning after December 31, 2001 and before January 1, 2008. The Administration proposes to permanently extend the above-the-line deduction to apply to qualified out-of-pocket expenditures incurred in taxable years beginning after December 31, 2007.

Allow the saver's credit for contributions to qualified tuition programs (section 529 of the Internal Revenue Code).—Under current law, taxpayers age 18 or older who are not dependents or full-time students may receive a nonrefundable credit (the saver's credit) on up to $2,000 of their compensation contributed to employer-sponsored qualified retirement plans and IRAs. The credit ranges between 10 and 50 percent of the amount contributed, depending on the taxpayer's filing status and AGI (adjusted for inflation). In determining the credit, qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, the two preceding tax years, and the following year, up to the due date of the return, including extensions.

Under current law, taxpayers may contribute to a section 529 qualified tuition program (QTP) to save for higher education expenses of a designated beneficiary. Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, provided the distribution is not used for the same educational expenses for which another tax benefit is claimed. Nonqualified distributions are subject to an additional tax.

The Administration proposes to allow the saver's credit for qualified contributions to QTPs controlled by the taxpayer. AGI would be modified to include the excludable portion of the taxpayer's Social Security benefits in determining the applicable rate for the saver's credit. The credit would apply to an annual aggregate contribution of up to $2,000 (or earnings includible in gross income, if less) to the taxpayer's elective deferral plans, IRAs, and QTPs. For an individual who is married filing a joint return, the earnings limitation would be binding only if the combined includible compensation of the spouses was less than $4,000. Qualified contributions would be reduced by distributions from elective deferral plans, IRAs, and QTPs during the current tax year, the two preceding tax years, and the following tax year up to the due date of the return, including extensions. The credit would be effective for years beginning after December 31, 2008.

Strengthen Housing

Expand tax-exempt qualified mortgage bond program to assist subprime borrowers.—Under current law, State and local governments may issue tax-exempt private activity bonds, called "qualified mortgage bonds," to provide low-interest rate new mortgage loans (as contrasted with refinancing loans) to qualified first-time homebuyers for the purchase, improvement, or rehabilitation of owner-occupied single-family housing. Several restrictions, including purchase price and mortgagor income limitations, apply. In addition, such bonds are subject to the annual private activity bond volume cap and various general eligibility requirements for tax-exempt private activity bonds. The Administration proposes to expand the mortgage bond program temporarily to allow State and local governments to use such bonds to refinance existing loans to eligible subprime borrowers during the three years, 2008 through 2010. The proposal would increase the private activity bond volume cap by a total amount of $15 billion to be dedicated to use for subprime refinancings during the three years from 2008 through 2010.

Protect the Environment

Permanently extend expensing of brownfields remediation costs.—Taxpayers may elect, with respect to expenditures paid or incurred before January 1, 2008, to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. The Administration proposes to extend this provision permanently, making it available for expenditures paid or incurred after December 31, 2007, and facilitating its use by businesses to undertake projects that may be uncertain in overall duration.

Eliminate the volume cap for private activity bonds for water infrastructure.—Bonds are classified as private activity bonds if they meet a private business use test and a private payments test. Private activity bonds may be issued on a tax-exempt basis only if they meet specified requirements, including targeting requirements that limit such bond financing to specifically defined facilities and programs. For example, qualified private activity bonds can be used to finance facilities for the furnishing of water and for sewer facilities. Qualified private activity bonds are subject to the same general rules applicable to governmental bonds. Most qualified private activity bonds are also subject to a number of additional rules and limitations, in particular an annual State volume cap limitation.

The Administration proposes to remove from the annual State volume cap limitation qualified private activity bonds issued to finance water and sewage facilities. These bonds are intended to complement local efforts to move towards full cost pricing for wastewater and drinking water services, helping municipalities become self-financing and minimizing the need for future Federal expenditures. The volume cap would be removed for obligations issued after December 31, 2008.

Restructure Assistance to New York City for Continued Recovery from the Attacks of September 11th

Provide tax incentives for transportation infrastructure.—The Administration proposes to restructure the tax benefits for New York recovery that were enacted in 2002. Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. As such, the Administration proposed in the Mid-Session Review of the 2005 Budget to sunset certain existing New York Liberty Zone tax benefits and in their place provide tax credits to New York State and New York City for expenditures incurred in building or improving transportation infrastructure in or connecting with the New York Liberty Zone. The tax credit would be available as of the date of enactment, subject to an annual limit of $200 million ($2 billion in total over 10 years), evenly divided between the State and the City. Any unused credit limit in a given year would be added to the $200 million allowable in the following year, including years beyond the 10-year period of the credit. Similarly, expenditures that could not be credited in a given year because of the credit limit would be carried forward and used against the next year's limitation. The credit would be allowed against any payments (e.g., income tax withholding) made by the City and State under any provision of the Internal Revenue Code, other than Social Security and Medicare payroll taxes and excise taxes. The Secretary of the Treasury may prescribe such rules as are necessary to ensure that the expenditures are made for the intended purpose. The Administration also proposes to terminate the additional first-year depreciation deduction for certain real property, which was provided to eligible property within the New York Liberty Zone under the 2002 economic stimulus act.

SIMPLIFY THE TAX LAWS FOR FAMILIES

Clarify uniform definition of a child.—The 2004 tax relief act created a uniform definition of a child, allowing, in many circumstances, a taxpayer to claim the same child for five different child-related tax benefits. Under the new rules, a qualifying child must meet relationship, residency, and age tests. While the new rules simplify the determination of eligibility for many child-related tax benefits, the elimination of certain complicated factual tests to determine if siblings and certain other family members are eligible to claim a qualifying child may have some unintended consequences. The new rules effectively deny the EITC to some young taxpayers who are the sole guardians of their younger siblings. Yet some taxpayers are able to avoid income limitations on child-related tax benefits by allowing other family members, who have lower incomes, to claim the taxpayers' sons or daughters as qualifying children. The 2004 tax relief act had other unintended consequences, which made some of the eligibility rules less uniform. For example, it allowed dependent filers to claim the child tax credit, even though they are generally ineligible for most other child-related tax benefits. It also allowed taxpayers to claim the child tax credit on behalf of a married child who files a joint return with his or her spouse, even though the taxpayer generally cannot claim other benefits for the married child. These exceptions create confusion and add complexity to the tax code.

To ensure that deserving taxpayers receive child-related tax benefits, the Administration proposes to clarify the uniform definition of a child. First, the definition of a qualifying child would be further simplified. A taxpayer would not be a qualifying child of another individual if the taxpayer is older than that individual. However, an individual could be a qualifying child of a younger sibling if the individual is permanently and totally disabled. Also, under the proposal, an individual who is married and filing jointly (for any reason other than to obtain a refund of overwithheld taxes) would not be considered a qualifying child for the child-related tax benefits, including the child tax credit. Second, the proposal clarifies when a taxpayer is eligible to claim child-related tax benefits. If a parent resides with his or her child for over half the year, the parent would be the only individual eligible to claim the child as a qualifying child. The parent could waive the child-related tax benefits to another member of the household who has higher AGI and is otherwise eligible for the tax benefits. In addition, dependent filers would not be allowed to claim qualifying children. The proposal is effective for taxable years beginning after December 31, 2008.

Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigrant status.—To qualify for the EITC, taxpayers must satisfy requirements regarding filing status, the presence of children in their households, and their work and immigration status in the United States. These rules are confusing, require significant record-keeping, and are costly to administer. Under the proposal, married taxpayers who reside with children could claim the EITC without satisfying a complicated household maintenance test if they live apart from their spouse for the last six months of the year. In addition, certain taxpayers who live with children but do not qualify for the larger child-related EITC could claim the smaller EITC for very low-income childless workers. The simplification of the filing status and residency requirements would be effective for taxable years beginning after December 31, 2008. Effective January 1, 2009, the proposal would also improve the administration of the EITC with respect to eligibility requirements for undocumented workers.

Reduce computational complexity of refundable child tax credit.—Taxpayers with earned income in excess of $12,050 may qualify for a refundable (or "additional") child tax credit even if they do not have any income tax liability. Over 70 percent of additional child tax credit claimants also claim the EITC. However, the two credits have a different definition of earned income and different U.S. residency requirements. In addition, some taxpayers have to perform multiple computations to determine the amount of the additional child tax credit they can claim. First, they must compute the additional child tax credit using a formula based on earned income. Then, if they have three or more children, they may recalculate the credit using a formula based on social security taxes and claim the higher of the two amounts.

Under the proposal, the additional child tax credit would use the same definition of earned income as is used for the EITC. Taxpayers (other than members of the Armed Forces stationed overseas) would be required to reside with a child in the United States to claim the additional child tax credit (as they are currently required to do for the EITC). Taxpayers with three or more children would do only one computation based on earned income to determine the credit amount. The proposal would be effective for taxable years beginning after December 31, 2008.

IMPROVE TAX COMPLIANCE

The Federal tax system is based on voluntary compliance with the tax laws. Under this system, taxpayers report and pay their taxes voluntarily with minimal interaction with the IRS. While the vast majority of American taxpayers pay their taxes timely and accurately, there remains in aggregate a difference between what taxpayers should pay and what they actually pay on a timely basis. In 2001, the overall compliance rate was 86 percent, after including late payments and recoveries from IRS enforcement activities. While this rate of compliance is high, a large amount of the tax that should be paid is not, resulting in the so-called "tax gap".[1]

In September 2006, the Treasury Department released a comprehensive strategy to improve tax compliance.[2] The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and IRS to improve compliance.

Four key principles guided development of the strategy:

- Unintentional taxpayer errors and intentional taxpayer evasion should both be addressed.
- Sources of non-compliance should be targeted with specificity.
- Enforcement activities should be combined with a commitment to taxpayer service.
- Tax policy and compliance proposals should be sensitive to taxpayer rights and maintain an appropriate balance between enforcement activity and imposition of taxpayer burden.

These principles point to the need for a comprehensive, integrated, multi-year strategy to improve tax compliance. Components of this strategy must include: (1) legislative proposals to reduce opportunities for evasion; (2) a multi-year commitment to compliance research; (3) continued improvements in information technology; (4) improvements in IRS compliance activities; (5) enhancements of taxpayer service; (6) simplification of the tax law; and (7) coordination between the government and its partners and stakeholders.

The IRS has taken a number of steps to improve compliance.[3] To enhance the IRS's efforts, the Administration's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting.—Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would: (1) require information reporting on payments to corporations; (2) require basis reporting on security sales; (3) require information reporting on broker and merchant payment card reimbursements; (4) require a certified tax identification number (TIN) from non-employee service providers; (5) require increased information reporting for certain gov-

[1] See Chapter 13, Stewardship, in this volume.

[2] Comprehensive Strategy for Reducing the Tax Gap, U.S. Treasury Department, September 26, 2006.

[3] See Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance, IRS, August 2, 2007.

ernment payments for property and services; (6) increase information return penalties; and (7) improve the foreign trust reporting penalty.

Improve compliance by businesses.—Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would: (1) require electronic filing by certain large businesses; and (2) implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Strengthen tax administration.—The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would: (1) expand IRS access to information in the National Directory of New Hires database; (2) permit the IRS to disclose to prison officials return information about tax violations; (3) make repeated failure to file a tax return a felony; (4) facilitate information sharing with local jurisdictions for purposes of tax compliance; (5) extend the statutory period for assessing additional Federal tax liability on State/local adjustments or amended returns; and (6) improve the investigative disclosure statute.

Expand penalties.—Penalties play an important role in discouraging intentional non-compliance. The Administration proposes to impose a penalty on failure to comply with electronic filing requirements.

IMPROVE TAX ADMINISTRATION AND OTHER MISCELLANEOUS PROPOSALS

Implement IRS administrative reforms.—The Administration has three proposals relating to administrative reforms. The first proposal modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations. The second proposal allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities. The third proposal eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.

Extend IRS authority to fund undercover operations.—The IRS is permitted to fund certain necessary and reasonable expenses of undercover operations, placing it on equal footing with other Federal law enforcement agencies. These undercover operations include international and domestic money laundering and narcotics operations. The Administration proposes to extend this funding authority, which expired on December 31, 2007, through December 31, 2012.

Increase transparency of the cost of employer-provided health insurance.—Employers providing health coverage to employees and their families would be required to report on the Form W-2 provided to employees and the IRS the value of the health coverage provided to the employee. For this purpose, employers would generally use the same value for all similarly situated employees receiving the same category (such as self-only or family) of coverage. It is expected that the amount reported as the value of coverage would be determined using the same methodology as the applicable premiums for purposes of COBRA continuation coverage under section 4980B. This provision would be effective for years beginning after December 31, 2008.

Equalize penalty standards between preparers and taxpayers.—The increase in applicable standards in order for a tax return preparer to take an undisclosed position on a return and avoid penalties may result in conflicts of interest between tax return preparers and their taxpayer clients. The proposal would make the standard applicable to preparers in order to take an undisclosed position on a return generally consistent with the taxpayer standard. The proposal would maintain the existing law requirement that the preparer have a reasonable belief that the position would more likely than not be sustained on the merits with respect to certain reportable transactions with a significant purpose of tax avoidance. The proposal would make the standard applicable to tax return preparers for disclosed positions (including positions described in section 6662(d)(2)(C)) reasonable basis. No penalty would be asserted against a tax return preparer if the preparer has reasonable cause and good faith.

Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields.—In general, an organization that is otherwise exempt from Federal income tax is taxed on income from any trade or business regularly carried on by the organization that is not substantially related to the organization's exempt purposes. In addition, income derived from property that is debt-financed generally is subject to unrelated business income tax. The 2004 American Jobs Creation Act created a special exclusion from unrelated business taxable income of gain or loss from the sale or exchange of certain qualifying brownfield properties. The exclusion applies regardless of whether the property is debt-financed. The new provision adds considerable complexity to the Internal Revenue Code and, because there is no limit on the amount of tax-free gain, could exempt from tax real estate development considerably beyond mere environmental remediation. The proposal would eliminate this special exclusion effective for taxable years beginning after December 31, 2008.

Limit related party interest deductions.—Current law (section 163(j) of the Internal Revenue Code) denies U.S. tax deductions for certain interest expenses paid to a related party where: (1) the corporation's debt-to-equity ratio exceeds 1.5 to 1, and (2) net interest expenses exceed 50 percent of the corporation's adjusted taxable income (computed by adding back net interest expense, depreciation, amortization, depletion, and any net operating loss deduction). If these thresholds are exceeded, no deduction is allowed for interest in excess of the 50-percent limit that is paid to a related party or paid to an unrelated party but guaranteed by a related party, and that is not subject to U.S. tax. Any interest that is disallowed in a given year is carried forward indefinitely and may be deductible in a subsequent taxable year. A three-year carryforward for any excess limitation (the amount by which interest expense for a given year falls short of the 50-percent limit) is also allowed. Consistent with the findings of the Treasury Department's recent study of earnings stripping, section 163(j) would be revised to tighten the limitation on the deductibility of interest paid by "expatriated entities" to related persons. The current law 1.5 to 1 debt-to-equity safe harbor would be eliminated. The adjusted taxable income threshold for the limitation would be reduced from 50 percent to 25 percent of adjusted taxable income with respect to disqualified interest other than interest paid to unrelated parties on debt that is subject to a related-party guarantee ("guaranteed debt"). Interest on guaranteed debt generally would be subject to the current-law 50 percent of adjusted taxable income threshold. The indefinite carryforward for disallowed interest under the adjusted taxable income limitation of current law would be limited to ten years. The three-year carryforward of excess limitation would be eliminated.

Repeal excise tax on local telephone service.—A three-percent Federal excise tax is imposed on amounts paid for local telephone service, toll telephone service (essentially long distance telephone service), and teletypewriter exchange service. In accordance with multiple court decisions that concluded that the tax did not apply to long distance services sold at flat perminute rates for interstate, intrastate, and international calls, the IRS is no longer collecting tax on telephone service other than local-only telephone service. The Administration proposes to repeal all taxes on communication services, including the tax on local telephone service, effective for amounts paid pursuant to bills first rendered more than 90 days after enactment of legislation repealing the tax.

Modify financing of the Airport and Airway Trust Fund.—The Administration transmitted a reauthorization proposal in February 2007 to reform the Federal Aviation Administration's (FAA's) financing system by adopting new cost-based user fees. The FAA's current financing system, largely based on taxes on the price of airline tickets, does not have a direct relationship between the taxes paid by users and the air traffic control services provided by the FAA. The Administration will resubmit the proposal for the FAA to collect user fees from commercial aviation operators for air traffic control services starting in fiscal year 2010. For non-commercial users, FAA would continue to recover its costs for air traffic control services via a fuel tax. Both commercial and non-commercial users would continue to pay fuel taxes to support the FAA's Airport Improvement Program.

Improve financing of the Inland Waterways Trust Fund.—Commercial barges that use the inland waterways now pay an excise tax of 20 cents per gallon on diesel fuel, which is deposited in the Inland Waterways Trust Fund. The tax does not raise enough revenue to cover the required 50 percent non-Federal share of the costs that the Army Corps of Engineers is spending to construct, replace, expand, and rehabilitate the locks and dams and other features that make barge transportation possible on the inland waterways. To address this imbalance between receipts and expenditures, the Administration proposes to phase out the current excise tax for inland waterways users and replace it with a more efficient user fee tied to the level of spending for inland waterways construction, replacement, expansion, and rehabilitation work.

Anticipated receipt of donations to the National Park Service through the National Park Centennial Challenge Fund.—The President's National Park Centennial Challenge encourages the public to increase donations to national parks by proposing to match contributions for signature projects and programs on a dollar-for-dollar basis up to $100 million a year for ten years. As part of a broader initiative to prepare for the National Park Service Centennial in 2016, this Challenge continues the National Park Service's legacy of leveraging philanthropic investment for the benefit of America's national parks.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 16 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2009.

Transition from the non-foreign cost-of-living adjustment (COLA) to locality pay for employees in non-foreign areas.—Federal employees working outside the continental United States in Alaska, Hawaii or the U.S. territories presently receive a COLA, which is an untaxed annual pay adjustment that is not creditable for retirement. By transitioning to locality pay, Federal employees in the non-foreign areas will contribute a larger percentage of their pay into the Federal retirement fund as locality pay is retirement-creditable. The proposal would establish a yearly reduction in the COLA, offset by a yearly increase in applicable locality pay, with the intent of eliminating the COLA over seven years.

IMPROVE UNEMPLOYMENT INSURANCE

Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance.—The Administration has a multi-part proposal to strengthen the financial integrity of the unemployment insurance (UI) system and to encourage the early reemployment of UI beneficiaries. The Administration's proposal will boost States' ability to recover benefit overpayments and deter tax evasion schemes by permitting them to use a portion of recovered funds to expand enforcement efforts in these areas. In addition, the proposal would require States to impose a monetary penalty on UI benefit fraud, which would be used to reduce overpayments; make it easier for States to use private collection agencies in the recovery of hard-to-collect overpayments and delinquent employer taxes; require States to charge employers found to be at fault when their actions lead to overpayments; permit collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds; and improve the accuracy of hiring data in the National Directory of New Hires, which would reduce benefit overpayments. The Administration's proposal would also permit States to request waivers of certain Federal requirements in order to carry out demonstration projects that improve the administration of the UI program, such as speeding reemployment of UI beneficiaries. These efforts to strengthen the financial integrity of the UI system and encourage early reemployment of UI beneficiaries will keep State UI taxes down and improve the solvency of the State trust funds.

Extend unemployment insurance surtax.—The Federal unemployment tax on employers will drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2008. The 0.8 percent rate is proposed to be extended for one year, through December 31, 2009.

MODIFY ENERGY PROVISIONS

Repeal reduced recovery period for natural gas distribution lines.—The Energy Policy Act of 2005 reduced the recovery period for new natural gas distribution lines that are placed in service before January 1, 2011, from 20 years to 15 years. The Administration proposes to repeal this provision for natural gas distribution lines placed in service after December 31, 2008.

Modify amortization for certain geological and geophysical expenditures.—Geological and geophysical expenditures (G&G costs) are costs incurred by a taxpayer for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties by taxpayers exploring for minerals. Under the Energy Policy Act of 2005, G&G costs paid or incurred in taxable years beginning after August 8, 2005, in connection with oil and gas exploration in the United States, could be amortized over two years. The Tax Increase Prevention and Reconciliation Act of 2006 increased the amortization period to five years for G&G costs paid or incurred by certain major integrated oil companies after May 17, 2006. This five-year amortization rule applied only to integrated oil companies that had an average daily worldwide production of crude oil of at least 500,000 barrels for the taxable year, had gross receipts in excess of $1 billion in the last taxable year ending during calendar year 2005, and were either a crude oil refiner or related to a crude oil refiner. The Energy Independence and Security Act of 2007 increased the amortization period for such integrated oil companies to seven years for costs paid or incurred after December 19, 2007. The Administration proposes to increase the amortization period to seven years for all companies, effective for amounts paid or incurred in taxable years beginning after December 31, 2008.

PROMOTE TRADE

Implement free trade agreements.—Free trade agreement negotiations with Columbia, Panama and Korea were completed, with the expectation that implementation could begin as early as 2009. A free trade agreement is expected to be completed with Malaysia, with implementation to begin in 2010. These agreements will continue the Administration's effort to use free trade agreements to benefit U.S. consumers and producers as well as strengthen the economies of America's partner countries.

Establish Reconstruction Opportunity Zones (ROZs) in Pakistan and Afghanistan.—In March 2006, the President announced his intention to establish ROZs in Afghanistan and the border regions of Pakistan. ROZs are a critical part of the Administration's broader counterterrorism strategy in these areas, designed to connect isolated regions to the global economy and create vital employment opportunities in territories prone to extremism. The creation of ROZs will encourage investment and economic development in these areas by granting duty-free entry to the United States for certain goods produced in designated territories. By stimulating economic activity in remote and underdeveloped regions, ROZs can also serve as a powerful catalyst for peace, prosperity, stability, growth and good governance. The Administration will work closely with Congress and private sector stakeholders to implement this important initiative.

Extend Generalized System of Preferences (GSP).—Under GSP, duty-free access is provided to approximately 3,400 products from eligible beneficiary developing countries that meet certain worker rights, intellectual property protection, and other statutory criteria. The Administration proposes to extend this program, which is scheduled to expire after December 31, 2008, through December 31, 2013.

Extend Andean Trade Preference Act (ATPA).—The ATPA was designed to provide economic alternatives for Bolivia, Columbia, Ecuador, and Peru in their fight against narcotics production and trafficking. The Administration proposes to extend the ATPA, which is scheduled to expire on February 29, 2008, through December 31, 2008.

Extend Caribbean Basin Initiative (CBI).—The trade programs known collectively as the CBI remain a vital element in the United States' economic relations with its neighbors in Central America and the Caribbean. The CBI, which is intended to facilitate the economic development and export diversification of the Caribbean Basin economies, currently provides 19 beneficiary countries with duty-free access to the U.S. market for most goods. The Administration proposes to extend the CBI, which is scheduled to expire on September 30, 2008, through December 31, 2011.

EXTEND EXPIRING PROVISIONS

Extend minimum tax relief for individuals.—A temporary provision of current law increased the alternative minimum tax (AMT) exemption amounts to $44,350 for single taxpayers, $66,250 for married taxpayers filing a joint return and surviving spouses, and $33,125 for married taxpayers filing a separate return and estates and trusts. Effective for taxable years beginning after December 31, 2007, the AMT exemption amounts decline to $33,750 for single taxpayers, $45,000 for married taxpayers filing a joint return and surviving spouses, and $22,500 for married taxpayers filing a separate return and estates and trusts. A temporary provision of current law permits nonrefundable personal tax credits to offset both the regular tax and the AMT for taxable years beginning before January 1, 2008.

The Administration proposes to increase the AMT exemption amounts to $46,250 for single taxpayers, $70,050 for married taxpayers filing a joint return, and $35,025 for married taxpayers filing a separate return and estates and trusts through taxable year 2008 to prevent the number of AMT taxpayers from increasing. Non-refundable personal tax credits also would be allowed to offset both the regular tax and the AMT through taxable year 2008.

Permanently extend the research and experimentation (R&E) tax credit.—The Administration proposes to permanently extend the tax credits for research and experimentation expenditures, which expired with respect to expenditures incurred after December 31, 2007.

Extend the first-time homebuyer credit for the District of Columbia (DC).—A one-time nonrefundable $5,000 credit is available to purchasers of a principal residence in the District of Columbia who have not owned a residence in the District during the year preceding the purchase. The credit phases out for taxpayers with modified adjusted gross income between $70,000 and $90,000 ($110,000 and $130,000 for joint returns). The credit does not apply to purchases after December 31, 2007. The Administration proposes to extend the credit for two years, making the credit available with respect to purchases after December 31, 2007 and before January 1, 2010.

Extend deferral of gains from sales of electric transmission property.—Generally, the gain on the sale of business assets is subject to current income tax unless a special rule provides for nonrecognition or deferral of the gain. One such special rule applies to qualifying electric transmission transactions. Under this rule, a taxpayer may elect to recognize the gain from a qualifying electric transmission transaction ratably over the eight-year period beginning with the year of the transaction. Deferral is allowed only with respect to proceeds that are used to purchase other gas or electric utility property during the four-year period beginning on the date of the transaction (the reinvestment period). A sale or other disposition of property is a qualifying electric transmission transaction if: (1) the property is used in the trade or business of providing electric transmission services or is an ownership interest in a entity whose principal trade or business is providing electric transmission services, and (2) the sale or other disposition is to an independent transmission company and occurs before January 1, 2008. In general, whether the purchaser qualifies as an independent transmission company depends on determinations by the Federal Energy Regulatory Commission (FERC) or, in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas, by that Commission. The special rule allowing the deferral of tax on the gain from the sale or disposition of electric transmission property would be extended for one year, allowing taxpayers to elect deferral with respect to sales or dispositions that occur before January 1, 2009.

Extend the New Markets tax credit.—The New Markets tax credit is provided for qualified equity investments made to acquire stock in a corporation or a capital interest in a partnership that is a qualified community development entity (CDE). A credit of five percent is provided to the investor for the first three years of investment. The credit increases to six percent for the next four years. The maximum amount of annual qualifying equity investment is capped at $2.0 billion for calendar years 2004 and 2005, and $3.5 billion for calendar years 2006 through 2008. The Administration proposes to extend the New Markets tax credit through 2009 and to permit up to $3.5 billion in qualified equity investment for that calendar year.

Extend Subpart F "active financing" and "look-through" exceptions.—Under Subpart F rules, certain U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed. The income subject to current inclusion under Subpart F includes, among other things, "foreign personal holding company income" and insurance income. Foreign personal holding company income generally includes dividends; interest; royalties; rents; annuities; net gains from the sale of certain property, including securities, commodities and foreign currency; and income from notional principal contracts and securities lending activities. Under current law, for taxable years beginning before January 1, 2009, exceptions from Subpart F are provided for: (1) certain income derived in the active conduct of a banking, financing, insurance, or similar business (active financing), and (2) dividends, interest, rents and royalties received by one CFC from a related CFC to the extent attributable or properly allocable to income of the related CFC that is neither Subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States (look-through). The Administration proposes to extend both the Subpart F active financing and look-through exceptions to apply to taxable years beginning before January 1, 2010.

Extend the exception for retirement plan distributions provided individuals called to active duty for at least 179 days.—Under current law, a taxpayer who receives a distribution from a qualified retirement plan prior to age 59 1/2, death or disability is subject to a 10-percent early withdrawal tax unless a specific exception to the tax applies. One of the exceptions to the tax applies to qualified reservist distributions. An individual who receives a qualified reservist distribution may, at any time during a two-year period beginning on the day after the end of the active duty period, make contributions to an IRA in an amount not exceeding the amount of the qualified reservist distribution. Such contributions are not subject to the dollar limitations otherwise applicable to contributions to IRAs. The exception to the tax for qualified reservist distributions applies to individuals ordered or called to active duty after September 11, 2001 and before December 31, 2007. The Administration proposes to extend the exception to individuals ordered or called to active duty before December 31, 2008.

Extend provisions permitting disclosure of tax return information relating to terrorist activity.—The disclosure of tax return information relating to terrorism is permitted in two situations. The first is when an executive of a Federal law enforcement or intelligence agency has reason to believe that the return information is relevant to a terrorist incident, threat or activity and submits a written request. The second is when the IRS wishes to apprise a Federal law enforcement agency of a terrorist incident, threat or activity. The Administration proposes to extend this disclosure authority, which expired on December 31, 2007, through December 31, 2008.

Extend authority permitting disclosure of tax return information to the Department of Veterans Affairs (VA).—Current law permits disclosure of certain tax information to the VA. This information assists the VA in determining eligibility and establishing correct benefit amounts for certain of its needs-based programs. The Administration proposes to extend and update this disclosure authority, which is scheduled to expire after September 30, 2008, through September 30, 2009.

Extend excise tax on coal at current rates.—Excise taxes levied on coal mined and sold for use in the United States are deposited in the Black Lung Disability Trust Fund. Amounts deposited in the Fund are used to cover the cost of program administration and to pay compensation, medical, and survivor benefits to eligible miners and their survivors, when mine employment terminated prior to 1970 or when no mine operator can be assigned liability. Current tax rates on coal sold by a producer are $1.10 per ton of coal from underground mines and $0.55 per ton of coal from surface mines; however, these rates may not exceed 4.4 percent of the price at which the coal is sold. Effective for coal sold after December 31, 2013, the tax rates on coal from underground mines and surface mines will decline to $0.50 per ton and $0.25 per ton, respectively, and will be capped at 2 percent of the price at which the coal is sold. The Administration proposes to repeal the reduction in these tax rates effective for sales after December 31, 2013, and keep current rates in effect until the Black Lung Disability Trust Fund debt is repaid.

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Economic growth package	–125,000	–20,000	10,000	8,000	6,000	4,000	8,000	8,000
Make Permanent Certain Tax Relief Enacted in 2001 and 2003 (assumed in the baseline):								
Dividends tax rate structure		425	–5,554	–24,361	–4,616	–13,873	–47,979	–196,413
Capital gains tax rate structure			–4,094	–17,416	–3,683	–8,461	–33,654	–104,804
Expensing for small businesses				–4,160	–5,810	–4,288	–14,258	–26,537
Marginal individual income tax rate reductions				–75,160	–119,341	–123,794	–318,295	–1,007,667
Child tax credit [1]				–5,062	–20,357	–20,777	–46,196	–155,731
Marriage penalty relief [1]				–5,117	–7,715	–7,001	–19,833	–46,939
Education incentives				–738	–1,339	–1,413	–3,490	–11,540
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	–422	–2,502	–3,453	–26,409	–57,639	–59,670	–149,673	–521,982
Other incentives for families and children			6	–364	–678	–678	–1,714	–5,157
Total, make permanent certain tax relief enacted in 2001 and 2003	–422	–2,077	–13,095	–158,787	–221,178	–239,955	–635,092	–2,076,770
Tax Incentives:								
Simplify and encourage saving:								
Expand tax-free savings opportunities		1,527	3,545	3,023	1,075	–1,314	7,856	–592
Consolidate employer-based savings accounts		–80	–120	–132	–141	–150	–623	–1,484
Total, simplify and encourage saving		1,447	3,425	2,891	934	–1,464	7,233	–2,076
Encourage entrepreneurship and investment:								
Increase expensing for small businesses		–1,086	–1,495	–1,083	–851	–688	–5,203	–7,578
Invest in health care:								
Provide a new standard deduction for health insurance ($15,000 for family coverage and $7,500 for individual coverage) [1]		–23,002	–28,412	–22,680	–15,360	–4,692	–94,146	41,051
Expand and make health savings accounts (HSAs) more flexible		–420	–779	–931	–1,031	–1,123	–4,284	–11,511
Allow the orphan drug tax credit for certain pre-designation expenses [2]								
Total, invest in health care		–23,422	–29,191	–23,611	–16,391	–5,815	–98,430	29,540
Provide incentives for charitable giving:								
Permanently extend tax-free withdrawals from IRAs for charitable contributions		–300	–551	–434	–284	–211	–1,780	–3,321
Permanently extend the enhanced charitable deduction for contributions of food inventory	–44	–96	–106	–116	–127	–140	–585	–1,524
Permanently extend the deduction for corporate donations of computer equipment for educational purposes	–50	–118	–147	–154	–162	–170	–751	–1,838
Permanently extend increased limits on contributions of partial interests in real property for conservation purposes	–48	–35	–22	–18	–21	–22	–118	–245
Permanently extend basis adjustment to stock of S corporations contributing appreciated property	–3	–15	–21	–25	–28	–32	–121	–354
Reform excise tax based on investment income of private foundations	–105	–152	–152	–153	–154	–155	–766	–1,578
Total, provide incentives for charitable giving	–250	–716	–999	–900	–776	–730	–4,121	–8,860
Strengthen education:								
Permanently extend the above-the-line deduction for qualified out-of-pocket classroom expenses	–18	–180	–183	–185	–188	–191	–927	–1,927
Allow the saver's credit for contributions to qualified tuition programs		–88	–183	–198	–213	–227	–909	–2,259
Total, strengthen education	–18	–268	–366	–383	–401	–418	–1,836	–4,186
Strengthen housing:								
Expand tax-exempt qualified mortgage bond program to assist subprime borrowers	–27	–116	–230	–305	–329	–331	–1,311	–2,687
Protect the environment:								
Permanently extend expensing of brownfields remediation costs	–180	–501	–356	–343	–327	–284	–1,811	–2,870
Eliminate the volume cap for private activity bonds for water infrastructure			–3	–6	–10	–15	–34	–214
Total, protect the environment	–180	–501	–359	–349	–337	–299	–1,845	–3,084
Restructure assistance to New York City for continued recovery from the attacks of September 11th								
Provide tax incentives for transportation infrastructure		–200	–200	–200	–200	–200	–1,000	–2,000

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Total, tax incentives	–475	–24,862	–29,415	–23,940	–18,351	–9,945	–106,513	–931
Simplify the Tax Laws for Families:								
Clarify uniform definition of a child [1]	....	6	30	38	17	23	114	275
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigrant status [1]	....	35	–28	–26	–24	–23	–66	–181
Reduce computational complexity of refundable child tax credit [1]	....	....	....	....	....	....	....	....
Total, simplify the tax laws for families	....	41	2	12	–7	....	48	94
Improve Tax Compliance: [3]								
Expand information reporting	....	302	1,333	2,227	2,960	3,653	10,475	35,756
Improve compliance by businesses	....	3	5	5	5	6	24	57
Strengthen tax administration	....	....	....	3	6	8	17	72
Expand penalties	....	....	....	....	....	1	1	6
Total, improve tax compliance	....	305	1,338	2,235	2,971	3,668	10,517	35,891
Improve Tax Administration and Other Miscellaneous Proposals:								
Implement IRS administrative reforms and extend IRS authority to fund undercover operations [2]	....	....	....	....	....	....	....	....
Increase transparancy of the cost of employer-provided health insurance [2]	....	....	....	....	....	....	....	....
Equalize penalty standards between preparers and taxpayers	....	....	–1	–2	–2	–2	–7	–17
Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields	....	2	13	16	13	11	55	66
Limit related party interest deductions	....	64	109	115	120	126	534	1,267
Repeal excise tax on local telephone service [4]	....	–248	–170	–118	–83	–79	–698	–1,076
Modify financing of the Airport and Airway Trust Fund [4]	....	....	–6,768	–7,106	–7,526	–7,909	–29,309	–75,594
Improve financing of the Inland Waterways Trust Fund [4]	....	109	119	127	159	126	640	1,015
Anticipated receipt of donations to the National Park Service through the National Park Centennial Challenge Fund	....	100	100	100	100	100	500	1,000
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	70	140
Transition from the non-foreign cost-of-living adjustment (COLA) to locality pay for employees in non-foreign areas	....	1	2	3	4	5	15	50
Total, improve tax administration and other miscellaneous proposals [4]	....	42	–6,582	–6,851	–7,201	–7,608	–28,200	–73,149
Improve Unemployment Insurance:								
Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance [4]	....	....	35	34	–107	–314	–352	–1,581
Extend unemployment insurance surtax [4]	....	1,079	465	....	....	....	1,544	590
Total, improve unemployment insurance [4]	....	1,079	500	34	–107	–314	1,192	–991
Modify Energy Provisions:								
Repeal reduced recovery period for natural gas distribution lines	....	20	73	114	110	89	406	580
Modify amortization for certain geological and geophysical expenditures	16	61	91	76	43	19	290	353
Total, modify energy provisions	16	81	164	190	153	108	696	933
Promote Trade:								
Implement free trade agreements and modify other trade-related provisions [4]	–86	–1,653	–2,319	–2,674	–2,408	–2,426	–11,480	–20,380
Extend Expiring Provisions:								
Minimum tax relief for individuals	–11,673	–60,908	14,216	....	....	....	–46,692	–46,692
Research and experimentation (R&E) tax credit	–3,221	–7,071	–9,145	–10,601	–11,809	–12,833	–51,459	–133,060
First-time homebuyer credit for the District of Columbia	–1	–20	–19	....	....	....	–39	–39
Deferral of gains from sales of electric transmission property	–31	–66	–61	–10	31	40	–66	30
New Markets tax credit	....	–132	–194	–191	–217	–231	–965	–1,287
Subpart F "active financing" exception	....	–1,598	–1,065	....	....	....	–2,663	–2,663
Subpart F "look-through" exception	....	–347	–231	....	....	....	–578	–578
Exception for retirement plan distributions provided individuals called to active duty for at least 179 days [2]	....	....	....	....	....	....	....	....
Disclosure of tax return information related to terrorist activity [2]	....	....	....	....	....	....	....	....
Disclosure of tax return information to the Department of Veterans Affairs [2]	....	....	....	....	....	....	....	....
Excise tax on coal [4]	....	....	....	....	....	....	....	1,387
Total, extend expiring provisions [4]	–14,926	–70,142	3,501	–10,802	–11,995	–13,024	–102,462	–182,902

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Total budget proposals, including proposals assumed in the baseline [4]	–140,893	–117,186	–35,906	–192,583	–252,123	–265,496	–863,294	–2,310,205
Total budget proposals, excluding proposals assumed in the baseline [4]	–140,471	–115,109	–22,811	–33,796	–30,945	–25,541	–228,202	–233,435

[1] Affects both receipts and outlays. Only the receipt effect is shown here. For the outlay effect, see summary Table S–6 of the Budget volume.
[2] No net budgetary impact.
[3] "Tax gap"-related proposals.
[4] Net of income offsets.

Table 17–4. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2007 Actual	Estimate 2008	2009	2010	2011	2012	2013
Individual income taxes (federal funds):							
Existing law	1,163,472	1,231,955	1,337,632	1,433,193	1,652,986	1,781,816	1,898,384
Proposed legislation	....	–12,294	–78,591	–15,850	–153,991	–181,941	–189,312
Total individual income taxes	**1,163,472**	**1,219,661**	**1,259,041**	**1,417,343**	**1,498,995**	**1,599,875**	**1,709,072**
Corporation income taxes:							
Federal funds:							
Existing law	370,240	348,739	348,338	348,397	366,607	402,459	391,511
Proposed legislation	....	–3,403	–9,114	–9,463	–9,837	–11,150	–11,713
Total Federal funds corporation income taxes	370,240	345,336	339,224	338,934	356,770	391,309	379,798
Trust funds:							
Hazardous substance superfund	3	....	....	....	....	....	....
Total corporation income taxes	**370,243**	**345,336**	**339,224**	**338,934**	**356,770**	**391,309**	**379,798**
Social insurance and retirement receipts (trust funds):							
Employment and general retirement:							
Old-age and survivors insurance (Off-budget)	542,901	566,104	595,659	632,980	667,995	699,735	734,126
Proposed legislation	....	....	–1,061	–239	–52	–6	290
Disability insurance (Off-budget)	92,188	96,111	101,146	107,487	113,433	118,823	124,663
Proposed legislation	....	....	–180	–40	–9	–1	49
Hospital insurance	184,908	195,453	205,360	217,240	229,679	240,987	253,007
Proposed legislation	....	....	–5,644	–7,207	–5,668	–3,880	–539
Railroad retirement:							
Social Security equivalent account	1,952	1,996	2,058	2,111	2,163	2,215	2,267
Rail pension and supplemental annuity	2,309	2,359	2,308	2,344	2,403	2,462	2,518
Total employment and general retirement	824,258	862,023	899,646	954,676	1,009,944	1,060,335	1,116,381
On-budget	189,169	199,808	204,082	214,488	228,577	241,784	257,253
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
Unemployment insurance:							
Deposits by States [1]	33,709	35,750	37,183	37,882	38,573	39,617	41,109
Proposed legislation	....	....	....	43	42	–134	–324
Federal unemployment receipts [1]	7,292	7,541	6,326	5,999	6,243	6,490	6,389
Proposed legislation	....	....	1,348	581	....	....	–67
Railroad unemployment receipts [1]	90	91	96	109	122	125	122
Total unemployment insurance	41,091	43,382	44,953	44,614	44,980	46,098	47,229
Other retirement:							
Federal employees' retirement—employee share	4,207	4,695	4,751	4,720	4,737	4,951	4,902
Proposed legislation	....	....	1	2	3	4	5
Non-Federal employees retirement [2]	51	25	26	27	26	23	20
Total other retirement	4,258	4,720	4,778	4,749	4,766	4,978	4,927
Total social insurance and retirement receipts	**869,607**	**910,125**	**949,377**	**1,004,039**	**1,059,690**	**1,111,411**	**1,168,537**
On-budget	234,518	247,910	253,813	263,851	278,323	292,860	309,409
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
Excise taxes:							
Federal funds:							
Alcohol taxes	8,648	8,894	9,017	9,180	9,365	9,535	9,765
Proposed legislation	....	–75	–102	–25	....	....	....
Tobacco taxes	7,556	7,622	7,526	7,436	7,353	7,274	7,200
Transportation fuels tax	–3,291	–4,261	–4,941	–5,724	–1,500	228	227
Telephone and teletype services	–2,125	586	330	227	158	111	105
Proposed legislation	....	....	–330	–227	–158	–111	–105
Other Federal fund excise taxes	288	2,089	2,083	2,107	2,130	2,166	2,211
Proposed legislation	....	–30	–50	–181	–209	–212	–215

Table 17–4. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Total Federal fund excise taxes	11,076	14,825	13,533	12,793	17,139	18,991	19,188
Trust funds:							
Highway	39,361	39,203	39,928	40,674	41,148	41,702	42,334
Airport and airway	11,468	11,871	12,570	13,328	14,073	14,861	15,690
Proposed legislation	....	....	....	–8,969	–9,418	–9,975	–10,484
Sport fish restoration and boating safety	581	561	578	595	614	633	653
Tobacco assessments	934	960	960	960	960	960	960
Black lung disability insurance	639	638	648	666	686	699	711
Inland waterways	91	89	90	90	92	92	93
Proposed legislation	....	....	–41	–65	–92	–92	–93
Oil spill liability	452	273	261	252	245	245	249
Vaccine injury compensation	241	218	219	220	222	224	226
Leaking underground storage tank	226	197	200	203	204	206	208
Proposed legislation	....	....	....	–1	–1	–1	–2
Total trust funds excise taxes	53,993	54,010	55,413	47,953	48,733	49,554	50,545
Total excise taxes	**65,069**	**68,835**	**68,946**	**60,746**	**65,872**	**68,545**	**69,733**
Estate and gift taxes:							
Federal funds	26,044	26,733	27,785	20,997	19,400	48,176	54,565
Proposed legislation	....	24	–1,472	–1,454	–17,936	–47,755	–54,060
Total estate and gift taxes	**26,044**	**26,757**	**26,313**	**19,543**	**1,464**	**421**	**505**
Customs duties:							
Federal funds	24,671	27,906	29,815	32,245	34,286	36,272	38,240
Proposed legislation	....	–115	–2,204	–3,093	–3,567	–3,211	–3,236
Trust funds	1,339	1,417	1,511	1,623	1,753	1,894	2,039
Total customs duties	**26,010**	**29,208**	**29,122**	**30,775**	**32,472**	**34,955**	**37,043**
MISCELLANEOUS RECEIPTS: [3]							
Miscellaneous taxes	510	528	529	532	534	537	539
United Mine Workers of America combined benefit fund	44	83	84	72	58	53	49
Deposit of earnings, Federal Reserve System	32,043	31,358	31,652	33,361	36,066	39,119	41,694
Defense cooperation	34	35	35	35	35	35	35
Fees for permits and regulatory and judicial services	10,395	10,657	11,758	12,453	12,896	13,994	13,618
Proposed legislation	....	....	154	182	210	242	210
Fines, penalties, and forfeitures	4,542	3,417	3,435	3,057	3,078	3,099	3,120
Gifts and contributions	238	197	199	198	205	205	204
Proposed legislation	....	....	100	100	100	100	100
Refunds and recoveries	–12	–22	–22	–22	–22	–22	–22
Total miscellaneous receipts	**47,794**	**46,253**	**47,924**	**49,968**	**53,160**	**57,362**	**59,547**
Economic growth package	....	**–125,000**	**–20,000**	**10,000**	**8,000**	**6,000**	**4,000**
Total budget receipts	**2,568,239**	**2,521,175**	**2,699,947**	**2,931,348**	**3,076,423**	**3,269,878**	**3,428,235**
On-budget	1,933,150	1,858,960	2,004,383	2,191,160	2,295,056	2,451,327	2,569,107
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
MEMORANDUM							
Federal funds	1,661,420	1,556,704	1,696,812	1,878,246	1,966,799	2,107,609	2,207,794
Trust funds	648,313	697,722	730,885	745,457	787,379	821,233	878,609
Interfund transactions	–376,583	–395,466	–423,314	–432,543	–459,122	–477,515	–517,296
Total on-budget	**1,933,150**	**1,858,960**	**2,004,383**	**2,191,160**	**2,295,056**	**2,451,327**	**2,569,107**
Off-budget (trust funds)	**635,089**	**662,215**	**695,564**	**740,188**	**781,367**	**818,551**	**859,128**
Total	**2,568,239**	**2,521,175**	**2,699,947**	**2,931,348**	**3,076,423**	**3,269,878**	**3,428,235**

[1] Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment 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.