12. GOVERNMENTAL RECEIPTS

A simpler, fairer, and more efficient tax system is critical to achieving many of the President's fiscal and economic goals. At a time when middle-class and working parents remain anxious about how they will meet their families' needs, the tax system does not do enough to reward hard work, support working families, or create opportunity. After decades of rising income and wealth inequality, the tax system continues to favor unearned over earned income, and a porous capital gains tax system lets the wealthy shelter hundreds of billions of dollars from taxes each year. In a period where an aging population will put increasing pressure on the Federal budget, a wide range of inefficient tax breaks prevents the tax system from raising the level of revenue the Nation needs. And while commerce around the world is increasingly interconnected, an out-of-date, loophole-ridden business tax system puts U.S. companies at a disadvantage relative to their competitors, while also failing to encourage investment in the United States.

The tax reform proposals outlined in this chapter address each of these challenges. The Budget would reform and simplify tax incentives that help families afford child care, pay for college, and save for retirement, while expanding tax benefits that support and reward work. It would pay for these changes by reforming the system of capital gains taxation and by imposing a new fee on large, heavily-leveraged financial firms, and it would raise revenue for deficit reduction by curbing high-income tax benefits and closing loopholes. Finally, the Budget includes proposals to broaden the business tax base, strengthen incentives for research and clean energy, grow and create innovative small businesses, and reform the international tax system, while devoting the transition revenue from international tax reform to major investments in infrastructure.

Going forward, the President is committed to working with the Congress and other stakeholders to build on the foundation laid by the Budget to create a tax system that is fair, simple, and efficient, one that is right for the 21st century American economy.

ESTIMATES OF GOVERNMENTAL RECEIPTS

Governmental receipts (on-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 governmental 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 governmental receipts (hereafter referred to as "receipts") are estimated to be $3,176.1 billion in 2015, an increase of $154.6 billion or 5.1 percent from 2014. The estimated increase in 2015 is attributable primarily to the growth in personal income and corporate profits as the economy continues to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of receipts. Receipts in 2015 are estimated to be 17.7 percent of Gross Domestic Product (GDP), which is higher than in 2014, when receipts were 17.5 percent of GDP.

Table 12–1. RECEIPTS BY SOURCE—SUMMARY
(In billions of dollars)

	2014 Actual	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Individual income taxes	1,394.6	1,478.1	1,645.6	1,770.3	1,886.9	1,999.8	2,118.4	2,243.7	2,374.2	2,508.3	2,643.3	2,781.2
Corporation income taxes	320.7	341.7	473.3	499.8	503.0	507.2	512.5	493.3	489.7	504.6	518.8	530.4
Social insurance and retirement receipts	1,023.5	1,065.0	1,111.9	1,173.3	1,228.6	1,280.4	1,332.2	1,402.6	1,473.1	1,538.5	1,609.1	1,675.5
(On-budget)	(287.9)	(299.4)	(311.0)	(329.3)	(343.4)	(354.4)	(367.8)	(385.9)	(406.4)	(424.1)	(442.7)	(460.9)
(Off-budget)	(735.6)	(765.6)	(801.0)	(844.0)	(885.1)	(926.0)	(964.4)	(1,016.7)	(1,066.7)	(1,114.4)	(1,166.4)	(1,214.6)
Excise taxes	93.4	95.9	112.1	120.3	122.4	124.3	126.4	128.8	131.4	134.1	137.3	141.2
Estate and gift taxes	19.3	19.7	21.3	30.5	33.0	35.7	38.5	42.0	45.5	49.5	54.0	58.5
Customs duties	33.9	36.8	38.4	41.9	44.9	47.4	49.8	52.4	55.3	58.2	61.2	64.3
Miscellaneous receipts	136.1	138.9	120.5	106.9	97.7	101.1	109.4	115.6	121.9	128.7	135.5	140.4
Allowance for immigration reform	....	....	2.0	12.0	28.0	39.0	45.0	47.0	55.0	64.0	77.0	87.0
Total, receipts	**3,021.5**	**3,176.1**	**3,525.2**	**3,755.0**	**3,944.4**	**4,135.0**	**4,332.2**	**4,525.2**	**4,746.0**	**4,986.0**	**5,236.2**	**5,478.5**
(On-budget)	(2,285.9)	(2,410.5)	(2,724.2)	(2,911.0)	(3,059.3)	(3,209.0)	(3,367.8)	(3,508.6)	(3,679.3)	(3,871.6)	(4,069.8)	(4,263.8)
(Off-budget)	(735.6)	(765.6)	(801.0)	(844.0)	(885.1)	(926.0)	(964.4)	(1,016.7)	(1,066.7)	(1,114.4)	(1,166.4)	(1,214.6)
Total receipts as a percentage of GDP	17.5	17.7	18.7	19.1	19.1	19.2	19.3	19.3	19.4	19.5	19.6	19.7

Receipts are estimated to rise to $3,525.2 billion in 2016, an increase of $349.1 billion or 11.0 percent relative to 2015. Receipts are projected to grow at an average annual rate of 5.3 percent between 2016 and 2020, rising to $4,332.2 billion. Receipts are projected to rise to $5,478.5 billion in 2025, growing at an average annual rate of 4.8 percent between 2020 and 2025. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation, as well as the effect of the Budget's receipt proposals.

As a share of GDP, receipts are projected to increase from 17.7 percent in 2015 to 18.7 percent in 2016, and to rise to 19.7 percent in 2025.

LEGISLATION ENACTED IN 2014 THAT AFFECTS GOVERNMENTAL RECEIPTS

Several laws were enacted during 2014 that affect receipts. The major provisions of those laws that had a significant impact on receipts are described below.[1]

HIGHWAY AND TRANSPORTATION FUNDING ACT OF 2014 (PUBLIC LAW 113-159)

This Act was signed into law by President Obama on August 8, 2014. The only major provision of this Act that affects receipts is described below.

Modify interest rate corridors for single-employer pension funding rules.—For purposes of applying the minimum finding rules that apply to single-employer defined benefit plans, the Internal Revenue Code generally specifies the interest rates that must be used. Since 2012, the interest rates have been adjusted to fit within a specified percentage of the 25-year average of those rates. This Act modifies the specified percentage so that the narrowest range around the 25-year average applies for plan years beginning before 2017, which has the effect of raising the applicable interest rates and thereby reducing the minimum required contributions for these plans.

CONSOLIDATED AND FURTHER CONTINUING APPROPRIATIONS ACT, 2015 (PUBLIC LAW 113-235)

This Act was signed into law by President Obama on December 16, 2014. The provisions of this Act that affect receipts are described below.

Modify treatment of expatriate health plans.—The Affordable Care Act (ACA) imposes various requirements with respect to health plans, including market reform rules and an allocated fee assessed on certain insurers of U.S. health risks. As originally enacted, the ACA included no clear exclusion from these requirements for expatriate plans in which substantially all participants were nonresident persons temporarily working within the United States or U.S. citizens working abroad. This Act exempts expatriate plans from many provisions of the ACA, provided the plans meet certain criteria, including indicia of global operations, compliance with coverage thresholds, and substantial participation by qualified expatriates. In addition, this Act provides that an individual enrolled in an expatriate health plan is not a U.S. health risk for purposes of the insurer allocated fee. As applied to expatriate plans, this Act generally is effective for plans issued or renewed on or after July 1, 2015, except that the insurer fee paid by an expatriate plan issuer for the years 2014 and 2015 is reduced by a ratio reflecting the percentage of premiums that are for expatriate health plans.

Modify certain rules regarding multiemployer pension plans.—This Act made a number of changes to the special rules for multiemployer plans in critical or endangered status. New provisions added by the Act permit the suspension of benefits for multiemployer plans that are in "critical and declining status" under certain circumstances. This Act also repealed the sunset of automatic approvals of certain changes in funding methods and certain extensions of amortizations periods.

Extend the travel promotion surcharge.—Under the Travel Promotion Act of 2009, a $10 surcharge was added to the existing Electronic System for Travel Authorization user fee that travelers from visa waiver countries pay before arriving in the United States. This Act extended the authorization to collect the surcharge, which was scheduled to expire on September 31, 2015, through September 30, 2020.

TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO EXTEND CERTAIN EXPIRING PROVISIONS AND MAKE TECHNICAL CORRECTIONS, TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO PROVIDE FOR THE TAX TREATMENT OF ABLE ACCOUNTS ESTABLISHED UNDER STATE PROGRAMS FOR THE CARE OF FAMILY MEMBERS WITH DISABILITES, AND FOR OTHER PURPOSES (PUBLIC LAW 113-295)

This Act was signed into law by President Obama on December 19, 2014. The provisions of this Act that affect receipts are described below.

Individual Tax Extenders

Extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Certain teachers and other elementary and secondary school professionals are permitted to deduct up to $250 in annual qualified out-of-pocket classroom expenses. This Act extended this above-the-line deduction for one year, effective for such

[1] In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

expenses incurred after December 31, 2013, and before January 1, 2015.

Extend the ability to exclude discharges of indebtedness on principal residences from gross income.—Up to $2 million (or up to $1 million per spouse for married taxpayers filing separate returns) of discharges of certain indebtedness on a principal residence may be excluded from gross income. This Act extended the exclusion for one year, to apply to indebtedness discharged after December 31, 2013, and before January 1, 2015.

Extend parity for exclusion from income for employer-provided mass transit and parking benefits.—Qualified transportation fringe benefits provided by an employer through transit passes and vanpooling can be excluded from an employee's income up to a statutory maximum of $100 per month in combined transit pass and vanpool benefits and $175 per month in qualified parking benefits. Both statutory limits are adjusted annually for inflation and, for 2014, were $130 per month for combined transit pass and vanpool benefits and $250 per month for qualified parking benefits. Prior law temporarily provided parity in these benefits by increasing the monthly exclusion for combined employer-provided transit pass and vanpool benefits to the same level as the exclusion for employer-provided parking benefits. This Act extended that parity for one year, effective for benefits provided after December 31, 2013, and before January 1, 2015. Under this provision, the monthly limit on the exclusion for combined transit pass and vanpool benefits increased from $130 to $250 for 2014.

Extend deduction for mortgage insurance premiums.—Certain premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with acquisition indebtedness on a qualified residence are deductible for income tax purposes. This Act extended the deduction for one year, to apply to amounts paid or accrued in 2014 that are not properly allocable to any period after December 31, 2014.

Extend optional deduction for State and local general sales taxes.—A taxpayer is allowed to elect to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes. This Act extended this deduction for one year, effective for taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend increased limits on contributions of partial interest in real property for conservation purposes.—Special rules for the deductibility of qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2014. These enhancements: (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. This Act extended these enhanced special rules for one year, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend deduction for qualified tuition and related expenses.—An above-the-line deduction of up to $4,000 is provided for qualified higher education expenses paid by a qualified taxpayer during the taxable year. For a given taxable year, the deduction may not be claimed: (1) if an education tax credit is claimed for the same student; (2) for amounts taken into account in determining the amount excludable from income due to a distribution from a Coverdell education savings account or the amount of interest excludable from income with respect to education savings bonds; and (3) for the amount of a distribution from a qualified tuition plan that is excludable from income, except that the deduction may be claimed for the amount not attributable to earnings. This Act extended the deduction for one year, to apply to expenses incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend tax-free distributions from Individual Retirement Accounts (IRAs) for charitable contributions.—An exclusion from gross income is provided for otherwise taxable distributions from a traditional or a Roth IRA made directly to a qualified charitable organization. The exclusion for these qualified charitable distributions may not exceed $100,000 per taxpayer per taxable year and is applicable only to distributions made on or after the date the IRA owner attains age 70 1/2. This Act extended the exclusion for one year, to apply to distributions made in taxable years beginning after December 31, 2013, and before January 1, 2015.

Business Tax Extenders

Extend research and experimentation (R&E) tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit (ASC) of 14 percent is also provided. This Act extended these tax credits for one year, to apply to expenditures paid or incurred before January 1, 2015.

Extend temporary minimum Low-Income Housing tax credit (LIHTC) rate for non-Federally subsidized new buildings.—The LIHTC is provided to owners of qualified low-income rental units. The credit may be claimed over a 10-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. Under prior law, a temporary minimum credit percentage of nine percent was provided for newly constructed non-Federally subsidized buildings that received an allocation of a housing credit dollar amount before January 1, 2014. This Act extended the nine-percent rate for one year, to apply to projects that have received an allocation before January 1, 2015.

Extend treatment of basic housing allowances for the purpose of LIHTC income eligibility rules.—In general, to be eligible for the LIHTC, a qualified low-income housing project must satisfy one of two tests at the election of the taxpayer: (1) 20 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 50 percent or less of area median gross income; or (2) 40 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 60 percent or less of area median gross income. These income requirements are adjusted for family size. Effective for income determinations made after July 30, 2008, and before January 1, 2014, for buildings that are located in certain counties, the basic housing allowance (payments provided under section 403 of title 37, United States Code) provided to military personnel was not included in income for the purpose of LIHTC income eligibility rules. This Act extended the disregard of basic housing allowances for purposes of LIHTC income eligibility rules for one year, effective for income determinations made before January 1, 2015.

Extend tax incentives for employment on Indian reservations.—This Act extended for one year, for taxable years beginning before January 1, 2015, the employment tax credit for qualified workers employed on an Indian reservation. The employment tax credit is not available for employees involved in certain gaming activities or who work in a building that houses certain gaming activities.

Extend the New Markets tax credit (NMTC).—The NMTC is a 39-percent credit for qualified equity investments made in qualified community development entities that are held for a period of at least seven years. This Act extended the NMTC, which expired at the end of 2013, for one year, to apply to 2014. Up to $3.5 billion in qualifying investment is allowed for 2014.

Extend railroad track maintenance credit.—A 50-percent business tax credit is provided for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer in taxable years beginning after December 31, 2004, and before January 1, 2014. The credit was limited to the product of $3,500 times the number of miles of railroad track owned or leased by, or assigned to, an eligible taxpayer as of the close of the taxable year. This Act extended the credit for one year, to apply to qualified expenses incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend credit for mine rescue training.—An eligible taxpayer may claim a general business tax credit with respect to each qualified mine rescue team employee equal to the lesser of: (1) 20 percent of the amount paid or incurred by the taxpayer during the taxable year with respect to the training program costs of the qualified mine rescue team employee; or (2) $10,000. This Act extended the credit for one year, to apply to costs incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend employer wage credit for employees who are active duty members of the uniformed services.—Some employers voluntarily pay their employees who are called to active duty in the armed forces of the United States the difference between the compensation that they would have paid the employee during the period of military service and the amount of pay received by the employee from the military. This payment by the employer is often referred to as "differential pay." Eligible small business employers are provided a tax credit equal to 20 percent of up to $20,000 in annual eligible differential wage payments made to each qualified employee. This Act extended the credit for one year, making it available for eligible differential wage payments made to a qualified employee after December 31, 2013, and before January 1, 2015.

Extend the work opportunity tax credit (WOTC).—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups. This Act extended the credit for one year, to apply to wages paid to qualified individuals who begin work for the employer after December 31, 2013, and before January 1, 2015.

Extend the issuance of qualified zone academy bonds.—This Act extended the qualified zone academy bond program for one year, authorizing the issuance of $400 million in such bonds in calendar year 2014.

Extend classification of certain race horses as three-year property.—Under this Act, the three-year recovery period applicable to race horses placed in service after December 31, 2008, and before January 1, 2014, was extended for one year, to apply to race horses placed in service before January 1, 2015. This Act also extended the start date by one year whereby a three-year recovery period would apply to any race horse more than two years old at the time such horse is placed in service, effective for such horses placed in service after December 31, 2014.

Extend modified recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.—This Act extended the 15-year recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property for one year, effective for such property placed in service after December 31, 2013, and before January 1, 2015.

Extend seven-year recovery period for motorsports entertainment complexes.—Under this Act, the seven-year recovery period applicable to motorsports entertainment complexes placed in service after October 22, 2004, and before January 1, 2014, was extended for one year, to apply to such facilities placed in service before January 1, 2015.

Extend accelerated depreciation for business property on Indian reservations.—This Act extended for one year, through December 31, 2014, the accelerated depreciation rules for qualified property used in the active conduct of a trade or business within an Indian reservation. Property used to conduct or house certain gaming activities is not eligible for the accelerated depreciation rules.

Extend 50-percent first-year depreciation deduction for certain property.—This Act extended for one year the additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property, to apply to qualifying property acquired and placed in service in calendar year 2014. The placed-in-service deadline was extended through 2015 for certain longer-lived property, transportation property, and certain aircraft, with respect to the property's adjusted basis attributable to production activity occurring before 2015. Corporations are allowed to claim additional alternative minimum tax (AMT) credits in lieu of claiming the additional first-year depreciation. For purposes of determining the percentage of completion under the long-term contract rules, the cost of certain property is determined as if the additional first-year depreciation deduction had not been allowed. The Act extended this provision by one year, for qualified property placed in service before January 1, 2015.

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. For certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the item's appreciation; or (2) two times basis. However, any taxpayer (not just a C corporation) engaged in a trade or business is eligible to claim the enhanced deduction for donations of food inventory. To qualify for the enhanced deduction, the donated food inventory must meet certain quality and labeling standards and cannot exceed 10 percent of the taxpayer's net income from the related trade or business. This Act extended the enhanced charitable deduction for contributions of food inventory for one year, to apply to contributions made after December 31, 2013, and before January 1, 2015.

Extend increased expensing for small business.—Business taxpayers are allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning after 2009 and before 2014. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $2,000,000. Effective for property placed in service after 2009 and before 2014, the definition of qualifying property is expanded to include certain real property, such as qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property; however, the maximum amount of such real property that can be expensed is $250,000. This Act extended for one year, effective for qualifying property placed in service in taxable years beginning in 2014 (including off-the-shelf computer software and certain real property), the annual expensing and investment limits that were in effect in 2010 through 2013.

Extend expensing of advanced mine safety equipment.—Taxpayers are allowed to immediately expense 50 percent of the cost of underground mine safety equipment that is above and beyond existing safety equipment requirements. This Act extended this provision for one year, to apply to property placed in service after December 31, 2013, and before January 1, 2015.

Extend expensing for certain qualified film and television productions.—Taxpayers could elect to deduct up to $15 million ($20 million for productions in certain areas) of the aggregate costs of any qualifying film and television production in the year in which the expenses were incurred, in lieu of capitalizing the cost and recovering it through depreciation allowances. This Act extended this provision for one year, to apply to qualified film and television productions commencing after December 31, 2013, and before January 1, 2015.

Extend the domestic production activities deduction for activities in Puerto Rico.—A deduction is provided for a portion of a taxpayer's qualified production activities income. Qualified production activities income generally is equal to domestic production gross receipts reduced by the sum of the costs of goods sold and other expenses, losses, or deductions that are properly allocable to those receipts. Domestic production gross receipts generally only include receipts from activities performed within the United States, and do not include receipts from activities performed in Puerto Rico. For taxable years beginning after May 17, 2006, the amount of the deduction for a taxable year is limited to 50 percent of the wages paid by the taxpayer and properly allocable to domestic production gross receipts during the calendar year that ends in such taxable year. Wages paid to bona fide residents of Puerto Rico generally are not included in the wage limitation amounts. However, effective for the first eight taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2014, a taxpayer with gross receipts from sources within the Commonwealth of Puerto Rico can treat production activities performed in Puerto Rico as performed in the United States for purposes of determining qualified production activities income, and can take into account wages paid to bona fide residents of Puerto Rico for services performed in Puerto Rico in computing the 50-percent wage limitation, provided all of the taxpayer's gross receipts are subject to the Federal income tax. This Act extended this provision for one year, to apply to the first nine taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2015.

Extend special rule regarding tax treatment of certain payments to controlling exempt organizations.—Interest, rents, royalties, and annuities generally are excluded from the tax on unrelated business income of tax-exempt organizations, unless such income is received from a taxable or tax-exempt subsidiary that is 50-percent controlled by the parent tax-exempt organization. However, such income received by a tax-exempt parent organization from a controlled subsidiary before January 1, 2014, is taxable only to the extent that it exceeds amounts that would have been received if such payments had been determined under the arm's length principles of section 482 of the Internal Revenue Code. This Act extended this provision for one year, to apply to such income received before January 1, 2015.

Extend special tax rules applicable to regulated investment companies (RICs).—This Act extended for one year, through December 31, 2014, the following special tax rules applicable to RICs: (1) the exemption from U.S. withholding tax for certain interest-related dividends and short-term capital gain dividends paid by a RIC to a foreign shareholder; and (2) the treatment of RICs as "qualified investment entities" for purposes of the provisions regarding foreign investment in U.S. real property interests.

Extend subpart F "active financing" and "look-through" exceptions.—Under the rules contained in sections 951 and 964 of the Internal Revenue Code (subpart F), 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. 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 exception); 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 exception). This Act extended both the subpart F active financing and look-through exceptions to apply to taxable years beginning after December 31, 2013, and before January 1, 2015.

Extend exclusion of 100 percent of gain on certain small business stock.—Capital gains realized on the sale of certain small business stock held by an individual for more than five years are excluded from tax, effective for stock issued after September 27, 2010, and before January 1, 2014. This Act extended the 100-percent exclusion for one year, to apply to qualified small business stock issued after December 31, 2013, and before January 1, 2015.

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; the shareholder's basis in the stock of the company is reduced by the amount of the charitable contribution that flows through to the shareholder. However, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2014, 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. This Act extended this provision for one year, to apply to charitable contributions made by an S corporation in taxable years beginning before January 1, 2015.

Extend reduction in recognition period for S corporation built-in gains tax.—A "small business corporation" may elect to be treated as an S corporation. Unlike C corporations, S corporations generally pay no corporate-level tax; instead, items of income and loss of an S corporation pass through to its shareholders. A corporate level tax, at the highest marginal tax rate applicable to corporations (currently 35 percent), is imposed on the net recognized built-in gain of an S corporation that arose prior to the conversion of a C corporation to the S corporation and that is recognized by the S corporation during the "recognition period." The "recognition period" is the 10-year period beginning with the first day of the first taxable year for which the election to be treated as an S corporation is in effect; however, the "recognition period" was reduced to five years for dispositions of property in taxable years beginning in 2011, 2012, and 2013. This Act extended the five-year recognition period for one year, to apply to dispositions of property in taxable years beginning in 2014.

Extend tax incentives for empowerment zones.—This Act extended the tax incentives (including employment credits and low-cost loans) that are provided to businesses located in the 40 federally-designated empowerment zones (30 in urban areas and 10 in rural areas) for one year, through December 31, 2014.

Extend temporary increase in limit on cover over of rum excise taxes to Puerto Rico and the Virgin Islands.—A $13.50-per-proof-gallon excise tax is imposed on distilled spirits produced in or imported into the United States. Under current law, $10.50 per proof gallon of the tax imposed on rum imported into the United States is covered over (paid) to Puerto Rico and the Virgin Islands. A temporary increase in the amount covered over to Puerto Rico and the Virgin Islands to $13.25 per proof gallon expired with respect to rum imported into the United States after December 31, 2013. This Act extended the $13.25-per-proof-gallon cover over amount for one year, to apply to rum imported into the United States after December 31, 2013, and before January 1, 2015.

Extend the economic development credit for American Samoa.—Under prior law, a domestic corporation that was an existing possession tax credit claimant with respect to American Samoa and elected the application of the tax credit for its last taxable year beginning before January 1, 2006, was allowed to claim a possession tax credit based on the economic activity-based limitation rules for the first eight taxable years beginning after December 31, 2005, and before January 1, 2014. A domestic corporation that was an existing possession tax credit claimant and did not elect the application of the tax credit for its last taxable year beginning before January 1, 2006, was allowed to claim a possession tax credit based on the economic activity-based limitation rules for the first two taxable years beginning after December 31, 2011, and before January 1, 2014. This Act extended the ability of domestic corporations to claim a possession tax credit based on the economic activity-based limitation rules for one year, to apply to taxable years beginning after December 31, 2013, and before January 1, 2015.

Energy Tax Extenders

Extend credit for nonbusiness energy property.—A tax credit is provided for the purchase of qualified energy efficient improvements to existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. This Act extended the credit for one year, to apply to property purchased and placed in service after December 31, 2013, and before January 1, 2015.

Extend second generation biofuel producer credit.—An income tax credit (generally equal to $1.01 per gallon) is provided to producers of second generation biofuel. This Act extended the credit for one year, to apply to fuel produced after December 31, 2013, and before January 1, 2015.

Extend credits for renewable diesel and biodiesel fuels.—An excise tax credit (or a payment) of $1.00 is provided for each gallon of biodiesel and agri-biodiesel used by a taxpayer in producing a biodiesel mixture for sale or use in a trade or business. An income tax credit for biodiesel fuels (the biodiesel fuels credit) is also provided. The biodiesel fuels income tax credit is the sum of three credits: (1) the biodiesel mixture credit, which is $1.00 for each gallon of biodiesel and agri-diesel used by the taxpayer in the production of a qualified biodiesel mixture; (2) the biodiesel credit, which is $1.00 for each gallon of biodiesel and agri-diesel that is not in a mixture with diesel when used as a fuel or sold at retail; and (3) the small agri-biodiesel producer credit, which is a 10-cents-per-gallon credit for up to 15 million gallons of agri-biodiesel produced by small producers. Renewable diesel is eligible for the excise tax credit (or payment) and the income tax credit provided to biodiesel fuels at a rate of $1.00 per gallon. This Act extended for one year, through December 31, 2014, these credits and payments for biodiesel and renewable diesel fuels.

Extend credit for the production of Indian coal.—This Act extended for one year, through December 31, 2014, the credit for the production of coal from reserves owned by Indian tribes at facilities placed in service before January 1, 2009.

Extend tax credit with respect to facilities producing energy from certain renewable sources.—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy at qualified facilities (the renewable electricity production credit). To qualify for the credit, electricity generally must be sold by the taxpayer to an unrelated person and must be produced at a qualified facility. For the production of electricity from solar energy and small irrigation power, a facility is qualified if it was placed in service before January 1, 2006, and October 3, 2008, respectively. For the production of electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, geothermal energy, and marine and hydrokinetic renewable energy, a facility is qualified if construction began before January 1, 2014. This Act extended for one year, through December 31, 2014, the date on which construction must commence for a facility that produces electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy to be a qualified facility. This Act also extended for one year, through December 31, 2014, the election to treat qualified facilities as energy property eligible for the 30-percent energy production credit, in lieu of the renewable electricity production credit.

Extend credit for the construction of energy-efficient new homes.—An eligible contractor is provided a tax credit for each qualified new energy-efficient home that is constructed and acquired from the contractor by a person for use as a residence. This Act extended the credit for one year, to apply to homes purchased after December 31, 2013, and before January 1, 2015.

Extend special allowance for second generation biofuel plant property.—This Act extended the additional first-year depreciation deduction, equal to 50 percent of the adjusted basis of qualified second generation biofuel plant property, for one year, to apply to such property placed in service before January 1, 2015.

Extend deduction for energy-efficient commercial building property.—A deduction is provided for the cost of energy-efficient commercial building property placed in service before January 1, 2014. This Act extended the deduction for one year, to apply to such property placed in service after December 31, 2013, and before January 1, 2015.

Extend special rules for sales or dispositions to implement Federal Energy Regulatory Commission (FERC) or State electric restructuring rules for qualified electric utilities.—Under a special provision of prior law, taxpayers were allowed to elect to recognize gain from the sale or disposition of qualifying electric transmission property ratably over an eight-year period beginning in the year of sale if the amount realized from such sale was used to purchase exempt utility property (reinvestment property) within the applicable period. Any gain realized in excess of the amount used to purchase the reinvestment property was recognized as income in the year of the qualifying electric transmission transaction. This Act extended this special rule for one year, to apply to the sale or disposition of qualifying electric transmission property after December 31, 2013, and before January 1, 2015.

Extend alternative fuels excise tax credits.—Two per-gallon excise tax credits are available for the production of alternative fuel: the alternative fuel credit and the alternative fuel mixture credit. Alternative fuel means liquefied petroleum gas, P Series fuels, compressed or liquefied natural gas, liquefied hydrogen, liquid fuel derived from coal through the Fischer-Tropsch process, compressed or liquefied gas derived from biomass, or liquefied fuel derived from biomass. The alternative fuel credit is 50 cents per gallon of alternative fuel or gasoline gallon equivalents of nonliquid alternative fuel sold by the taxpayer for use as a motor fuel in a motor vehicle or motorboat, sold for use in aviation or so used by the taxpayer. The alternative fuel mixture credit is 50 cents per gallon of alternative fuel used in producing an alternative fuel mixture for sale or use in a trade or business of the taxpayer. A taxpayer is also allowed to file a claim for payment equal to the amount of the alternative fuel credit or the alternative fuel mixture credit. Under prior law, the credits and payments for non-hydrogen fuels expired with respect to fuel used or sold after December 31, 2013; the credits and payments with respect to liquefied hydrogen expired with respect to fuel used or sold after September 30, 2014. This Act extended the alternative fuel credit, the alternative fuel mixture credit, and related payments for non-hydrogen fuels for one year, to apply to fuel sold or used before January 1, 2015.

Extend credit for alternative fuel vehicle refueling property.—A tax credit is provided for the cost of qualified clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. Under prior law, the credit is available for hydrogen refueling property placed in service before January 1, 2015, and for non-hydrogen refueling property placed in service before January 1, 2014. This Act extended the credit for non-hydrogen refueling property for one year, to apply to property placed in service after December 31, 2013, and before January 1, 2015.

Achieving a Better Life Experience (ABLE) Accounts

Create ABLE accounts.—This Act allowed each State to establish and operate an ABLE program under which a tax-favored ABLE account may be set up for the benefit of any eligible State resident diagnosed before age 26 as blind or disabled, effective for taxable years beginning after December 31, 2014. Contributions to an ABLE account can be made by anyone, regardless of their relationship to the designated beneficiary of the account. Contributions are not tax deductible, but earnings on an ABLE account and distributions from the account (including portions attributable to investment earnings) to a designated beneficiary for qualified expenses (expenses related to the beneficiary's disability) generally are not included in the taxable income of the contributor to the account or the designated beneficiary. Distributions from the account for non-qualified expenses are subject to both income tax and a 10-percent penalty on the portion of such distributions attributable to earnings from the account. Designated beneficiaries are limited to one ABLE account, total annual contributions by all individuals to such an account are limited to the annual gift tax exclusion ($14,000 in 2015, adjusted annually for inflation), and aggregate contributions are subject to the State limit for section 529 education savings accounts. Assets in the account and distributions from the account for qualified disability expenses are disregarded when determining the designated beneficiary's eligibility for most Federal means-tested benefits.

Offsets

Increase excise tax on fuel used on certain waterways.—This Act increased the excise tax imposed on fuel used to power certain vessels transporting commercial cargo on listed inland and intra-coastal waterways, from 20 cents per gallon to 29 cents per gallon. The increase is effective for fuel used after March 31, 2015.

Authorize certification of professional employer organization (PEOs) by the Internal Revenue Service (IRS) for the withholding and remittance of taxes with respect to the customer's employees.—If a business contracts with a PEO to administer its payroll functions, the business customer remains responsible for the withholding and remittance of taxes with respect to its employees, and compliance with related reporting requirements. This Act authorizes the IRS to certify qualifying PEOs to become solely responsible for the withholding and remittance of taxes with respect to the customer's employees, as well as compliance with related reporting requirements. To be certified by the IRS, the PEO must satisfy various requirements, including posting a bond in case it fails to satisfy its tax withholding and remittance obligations. The PEO would also be subject to an annual certification fee not to exceed $1,000. The IRS is required to establish the PEO certification program by July 1, 2015, and the provision is generally effective for wages paid by a certified PEO for services performed by a customer's employees after 2015.

Exclude dividends from CFCs from the definition of personal holding company income for purposes of the personal holding company rules.—In addition to the regular corporation income tax, a corporation that is a personal holding company (a company that is majority-owned by five or fewer individuals and more than 60 percent of its income consists of certain types of passive income) must pay an additional 20-percent tax on undistributed personal holding company income above a threshold amount. Personal holding company income includes dividends, interest, certain rents, and other generally passive investment income, including dividends derived from an active trade or business of a foreign subsidiary. Under this Act, dividends received by a 10-percent U.S. shareholder from a CFC are excluded from the definition of personal holding company income for purposes of the personal holding company tax, effective for taxable years ending on or after the date of enactment.

Index certain penalties under the Internal Revenue Code for inflation.—Generally, the amount of a tax penalty that is a set dollar amount is established when the penalty is added to the Internal Revenue Code. Often significant time passes and the penalty amount is too low to continue serving as an effective deterrent. Under current practice, most penalties can only be increased by amendment to the Internal Revenue Code. Effective for returns required to be filed after December 31, 2014, this Act indexes annually for inflation (subject to specified rounding rules) select fixed-dollar civil tax penalties for: (1) the failure to file a tax return but only with respect to the $135 amount applicable in the case of a failure to file the return within 60 days of the date prescribed for filing (determined with regard to extensions); (2) the failure by exempt organizations and certain trusts to file certain returns; (3) the failure of a paid preparer to meet certain obligations; (4) the failure of a partnership or an S corporation to timely file a correct return; and (5) the failure to timely file correct information returns and payee statements.

Increase levy authority for payments to Medicare providers with delinquent tax debt.—Through the Federal Payment Levy Program (FPLP), the Department of the Treasury deducts (levies) a portion of a Government payment to an individual or business to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the FPLP. Under prior law, the Department of the Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider to collect delinquent tax debt. This Act allows the Department of the Treasury to levy up to 30 percent of a payment to a Medicare provider to collect delinquent tax debt, effective for payments made more than 180 days after the date of enactment.

ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE

The BBEDCA baseline, which is commonly used in budgeting and is defined in the statute, reflects, with some exceptions, the projected receipt and outlay levels under current law. However, current law includes a number of scheduled policy changes that prevent the BBEDCA baseline from serving as an appropriate benchmark for judging the effect of new legislation. In particular, the American Taxpayer Relief Act of 2012 (ATRA) permanently extended most of the 2001/2003 tax cuts (as amended by subsequent legislation), but extended some tax relief provided to individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA) only through taxable year 2017. This tax relief includes increased refundability of the child tax credit, expansions in the Earned Income Tax Credit (EITC) for larger families and married taxpayers filing a joint return, and increased assistance for qualified tuition and related expenses provided by the American Opportunity Tax Credit (AOTC).

The adjusted baseline permanently continues the tax relief provided to individuals and families under ARRA that was extended only through taxable year 2017 under ATRA. A more general explanation of the adjusted baseline concept is provided in Chapter 25 of this volume, "Current Services Estimates."

Permanently extend increased refundability of the child tax credit.—ARRA increased the refundability of the child tax credit by reducing the earnings threshold for refundability to $3,000 (unindexed) from $10,000 (indexed after 2001). The adjusted baseline permanently extends the $3,000 earnings threshold, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC marriage penalty relief.—ARRA provided tax relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the amount by which the income thresholds for the phaseout of the EITC exceed the thresholds for other taxpayers from $3,000 (indexed for inflation after 2008) to $5,000 (indexed for inflation after 2009). The adjusted baseline permanently extends the $5,000 increase in the thresholds for the phaseout of the EITC, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC for larger families.—Under ARRA, a fourth credit schedule was added providing a larger credit for families with three or more qualifying children. This fourth schedule is permanently extended under the adjusted baseline, effective for taxable years beginning after December 31, 2017.

Permanently extend AOTC.—The AOTC, which was created under ARRA, provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit, which is partially refundable and phased out above specified income thresholds. The adjusted baseline extends the credit permanently, effective for taxable years beginning after December 31, 2017.

Table 12–2. ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-20	2016-25
BBEDCA baseline receipts	3,175.1	3,429.6	3,577.4	3,743.5	3,915.8	4,099.6	4,312.7	4,534.5	4,756.9	4,985.2	5,209.5	18,765.9	42,564.8
Adjustments to BBEDCA baseline:													
Extend increased refundability of the child tax credit [1]	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend EITC marriage penalty relief [1]	....	....	....	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.2	–0.9
Extend EITC for larger families [1]	....	....	....	–*	–*	–*	–*	–*	–*	–*	–*	–0.1	–0.3
Extend AOTC [1]	....	....	....	–0.5	–5.3	–5.1	–4.8	–4.5	–4.3	–3.8	–3.6	–11.0	–32.0
Total, adjustments to BBEDCA baseline	....	....	....	**–0.6**	**–5.4**	**–5.3**	**–4.9**	**–4.7**	**–4.4**	**–4.0**	**–3.8**	**–11.3**	**–33.1**
Adjusted baseline receipts	**3,175.1**	**3,429.6**	**3,577.4**	**3,743.0**	**3,910.4**	**4,094.3**	**4,307.8**	**4,529.8**	**4,752.5**	**4,981.2**	**5,205.7**	**18,754.6**	**42,531.6**

*$50 million or less.

[1] This provision affects both receipts and outlays for refundable tax credits. Only the receipt effect is shown above. The outlay effects are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Extend increased refundability of the child tax credit	....	....	....	0.5	10.9	11.0	11.1	11.1	11.1	11.3	11.3	22.5	78.3
Extend EITC marriage penalty relief	....	....	....	0.1	1.3	1.3	1.4	1.4	1.4	1.4	1.4	2.7	9.6
Extend EITC for larger families	....	....	....	0.1	2.0	2.0	2.0	2.1	2.1	2.2	2.2	4.1	14.7
Extend AOTC	....	....	....	....	2.1	4.6	4.7	4.7	4.7	4.8	4.8	6.7	30.5
Total, outlay effects of adjustments to BBEDCA baseline	....	....	....	0.7	16.3	18.9	19.2	19.3	19.3	19.6	19.7	36.0	133.1

RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN

The number of special deductions, credits, and other tax preferences provided to businesses in the Internal Revenue Code has expanded significantly since the last comprehensive tax reform effort nearly three decades ago. Such tax preferences help well-connected special interests, but do little for economic growth. To be successful in an increasingly competitive global economy, the Nation cannot afford to maintain a tax code burdened with such tax breaks; instead, the tax code needs to ensure that the United States is the most attractive place for entrepreneurship and business growth. Therefore, in the Budget, the President is calling on the Congress to immediately begin work on business tax reform that achieves the following five goals: (1) cut the corporate tax rate and pay for it by making structural reforms and eliminating loopholes and subsidies; (2) strengthen American manufacturing and innovation; (3) strengthen the international tax system; (4) simplify and cut taxes for small businesses; and (5) avoid adding to deficits in the short-term or the long-term.

Consistent with these goals, the Budget includes a detailed set of business proposals that close loopholes and provide incentives for growth in a fiscally responsible manner.

The Administration proposes that these policies be enacted as part of business tax reform that is revenue neutral over the long run. As a result, the net savings from these proposals, which are described below, are not reflected in the budget estimates of receipts and are generally not counted toward meeting the Administration's deficit reduction goals. However, as part of transitioning to a reformed international tax system, the President's plan would impose a one-time transition toll charge of 14 percent on the $1 to $2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas. The Budget proposes to use the one-time savings from this toll charge to pay for investment in transportation infrastructure.

Reform the U.S. International Tax System

Restrict deductions for excessive interest of members of financial reporting groups.—Section 163(j) of the Internal Revenue Code generally places a cap on the amount of interest expense paid to related parties (and to unrelated parties on debt guaranteed by a related party) that a corporation can deduct relative to its U.S. earnings, but does not consider whether a foreign-parented group's U.S. operations are more leveraged than the rest of the group's operations. In lieu of applying section 163(j), the Administration's proposal would limit the interest expense deduction of an entity that is a member of a group that prepares consolidated financial statements if the member's net interest expense for financial statement purposes exceeds the member's proportionate share of the group's financial statement net interest expense (excess financial statement net interest expense). The member's share of the groups' financial statement net interest expense would be determined based on the member's proportionate share of the group's reported earnings. If a member has excess financial statement net interest expense, a member will have excess net interest expense for tax purposes for which a deduction is disallowed in the same proportion that the member's net interest expense for financial statement purposes is excess financial statement net interest expense. Alternatively, if a member fails to substantiate its share of the group's net interest expense, or a member so elects, the member's interest deduction would be limited to 10 percent of the member's U.S. adjusted taxable income. The proposal would not apply to financial services entities or financial reporting groups that would otherwise report less than $5 million of net U.S. interest expense for a taxable year. The proposal would be effective for taxable years beginning after December 31, 2015.

Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas.—To provide a tax incentive for U.S. companies to move jobs into the United States from offshore, the Administration proposes to create a credit against income tax equal to 20 percent of the expenses paid or incurred in connection with insourcing a U.S. trade or business. In addition, to reduce incentives for U.S. companies to move jobs offshore, the proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business. For this purpose, insourcing (outsourcing) a U.S. trade or business means reducing or eliminating a trade or business or line of business currently conducted outside (inside) the United States and starting up, expanding, or otherwise moving the same trade or business within (outside) the United States. Also for this purpose, expenses paid or incurred in connection with insourcing or outsourcing a U.S. trade or business are limited solely to expenses associated with the relocation of the trade or business and do not include capital expenditures, severance pay, or other assistance to displaced workers. The proposal would be effective for expenses paid or incurred after the date of enactment.

Repeal delay in the implementation of worldwide interest allocation.—The rules for allocating and apportioning interest expense between U.S. and foreign source income are based on the theory that money is fungible and, therefore, interest expense is properly attributable to all investments of a taxpayer. Under current law, however, interest expense of the domestic members of a worldwide group of companies is allocated by treating only the domestic members as a single corporation. Consequently, U.S. members are required to allocate their U.S. interest expense to their U.S. and foreign investments without taking into account any third party interest expense incurred by foreign members of the group. Under current law, an election is available for taxable years beginning after December 31, 2020, to allow members of an affiliated group of U.S. corporations to allocate interest on a worldwide group basis under which interest expense incurred in the United States would be allocated against foreign-source income only to the extent that the debt-to-asset ratio is higher for U.S. than for foreign investments. Under the Administration's proposal, this election would be permitted for taxable years beginning after December 31, 2015.

Extend the exception under subpart F for active financing income.—Under subpart F, U.S. shareholders of a CFC are subject to U.S. tax currently on certain passive and other highly mobile income (subpart F income) earned by the CFC, whether or not such income is distributed to the shareholders. For taxable years beginning before January 1, 2015, the active financing exception excludes certain income derived in the active conduct of a banking, financing, insurance or similar business from subpart F income. Under the Administration's proposal, this exception would be permanently extended.

Extend the look-through treatment of payments between related CFCs.—For taxable years beginning before January 1, 2015, the look-through exception excludes from subpart F income interest, dividends, rents, and royalties received or accrued from a related CFC to the extent attributable or properly allocable to income of the 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. Under the Administration's proposal, this exception would be permanently extended.

Impose a 19-percent minimum tax on foreign income.—Subject to certain limited exceptions under subpart F, U.S. companies are able to defer paying U.S. tax on the profits earned by their CFCs until the profits are repatriated. This ability to defer U.S. tax creates an incentive for U.S. multinationals to locate production overseas and shift profits abroad, eroding the U.S. tax base. In addition, the current system discourages these companies from bringing low-taxed foreign earnings back to the United States. To address these problems, the Administration proposes to supplement the existing subpart F regime with a per-country minimum tax on foreign earnings.

Under the Administration's proposal, foreign earnings, other than subpart F income, would be subject to current U.S. taxation at a rate of 19 percent less 85 percent of the per-country foreign effective tax rate. The tentative minimum tax base for each country would be the total earnings of all business units that are tax resident in that country under foreign law, net of dividends received. The tentative minimum tax base would be reduced by an allowance for corporate equity that would provide a risk-free return on equity invested in active assets. The minimum tax would be imposed on foreign earnings regardless of whether they are repatriated to the United States, and all foreign earnings of a CFC could be repatriated without further U.S. tax. Thus under the proposal, all CFC earnings would be subject to U.S. tax either immediately or not at all.

Foreign source royalty and interest payments paid to U.S. persons would be taxed at the U.S. statutory rate, but certain income attributable to a foreign branch or to the performance of services abroad would be eligible for taxation at the minimum tax rate. Interest expense allocated and apportioned to earnings for which the minimum tax is paid would be deductible at the U.S. minimum tax rate on those earnings. No deduction would be permitted for interest expense allocated and apportioned to foreign earnings for which no U.S. income tax is paid. While subpart F generally would continue in effect as under current law, the rules regarding CFC investments in U.S. property and previously taxed earnings would be repealed, and the subpart F high-tax exception would be made mandatory. The proposal would be effective for taxable years beginning after December 31, 2015.

Impose a 14-percent one-time tax on previously untaxed foreign income.—Under current law, U.S. multinational companies do not pay U.S. tax on the profits earned by their CFCs until those profits are repatriated, subject to a limited exception under subpart F for passive and other highly mobile income. Under the Administration's proposal for companies to pay a minimum tax on foreign income, no U.S. tax would be imposed on a CFC's payment of a dividend to a U.S. shareholder. Therefore, the Administration proposes to impose a one-time 14-percent tax on the accumulated earnings of CFCs that were not previously subject to U.S. tax. A credit would be allowed for the amount of foreign income taxes associated with such earnings, multiplied by the ratio of the one-time tax rate to the otherwise applicable U.S. corporate tax rate. The earnings subject to the one-time tax could then be repatriated without any further U.S. tax. The proposal pays for outlays associated with: (1) the Administration's surface transportation reauthorization proposal; and (2) shortfalls between surface transportation revenue and spending that exist under current law for the proposal period.

Limit shifting of income through intangible property transfers.—Under current law, there is a lack of clarity regarding the scope of the definition of intangible property under section 936(h)(3)(B) of the Internal Revenue Code. This definition of intangible property applies for purposes of the special rules under section 367 of the Internal Revenue Code relating to transfers of intangible property by a U.S. person to a foreign corporation and the allocation of income and deductions among taxpayers under section 482 of the Internal Revenue Code to prevent inappropriate shifting of income outside the United States. The Administration's proposal would provide that the definition of intangible property under section 936(h)(3)(B) (and therefore for purposes of sections 367 and 482) also includes workforce in place, goodwill and going concern value, and any other item owned or controlled by a taxpayer that is not a tangible or financial asset and that has substantial value independent of the services of any individual. The proposal would be effective for taxable years beginning after December 31, 2015.

Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates.—U.S affiliates of foreign insurance companies can avoid U.S. taxation of their profits from their U.S. insurance business by reinsuring that business with affiliated foreign insurance companies. Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to foreign affiliates, offset by an income exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such affiliates. A foreign corporation that is paid premiums that would be affected by this provision could instead elect to treat those premiums and the associated investment income as income effectively connected with the conduct of a trade or business in the United States and attributable to a permanent establishment for tax treaty purposes. For foreign tax credit purposes, such effectively connected income would be treated as foreign source income and would be placed into a separate category for purposes of applying the credit limitation rules. The proposal would be effective for policies issued in taxable years beginning after December 31, 2015.

Modify tax rules for dual capacity taxpayers.— The Administration proposes to tighten the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country (so-called "dual capacity" taxpayers). The proposal would be effective for taxable years beginning after December 31, 2015.

Tax gain from the sale of a partnership interest on look-through basis.—Under the Administration's proposal, gain or loss from the sale of a partnership interest would be treated as effectively connected with the conduct of a trade or business in the United States and subject to U.S. income taxation to the extent attributable to the partner's share of the partnership's unrealized gain or loss from property used in a trade or business in the United States. The proposal would also require the purchaser of a partnership interest to withhold 10 percent of the purchase price to ensure the seller's compliance. The proposal would be effective for sales and exchanges after December 31, 2015.

Modify sections 338(h)(16) and 902 to limit credits when non-double taxation exists.—The Administration proposes to modify the foreign tax credit rules to reduce the availability of foreign tax credits in circumstances where no double taxation would otherwise exist. Under section 338 of the Internal Revenue Code, taxpayers can elect to treat certain acquisitions of the stock of a corporation as an acquisition of the corporation's assets for U.S. tax purposes. Because this election does not alter the foreign tax consequences of the transaction, section 338(h)(16) limits the ability of taxpayers to claim additional foreign tax credits by generally requiring the seller to continue to treat the gain recognized on the transaction as gain from the sale of stock for foreign tax credit purposes. The Administration proposes to extend these rules to other similar transactions that are treated as asset acquisitions for U.S. tax purposes but as acquisitions of an equity interest in an entity for foreign tax purposes. In addition, under the Administration's proposal, foreign income taxes paid by a foreign corporation would be reduced for U.S. tax purposes if a redemption transaction results in the elimination of earnings and profits of the foreign corporation. The foreign income taxes reduced under the proposal would be the foreign income taxes that are associated with the eliminated earnings and profits. The proposals would be effective for transactions occurring after December 31, 2015.

Close loopholes under subpart F.—Certain rules under subpart F rely on technical distinctions that may be manipulated or circumvented contrary to subpart F's policy of requiring current U.S. taxation of passive and other highly mobile income earned by CFCs. In order to close these loopholes, the Administration proposes to: (1) create a new category of subpart F income, foreign base company digital income, which generally would include income of a CFC from the lease or sale of a digital copyrighted article or from the provision of a digital service in cases where the CFC uses intangible property developed by a related party (including property developed under a cost sharing arrangement) to produce the income and the CFC does not, through its own employees, make a substantial contribution to the development of the property or services that give rise to the income; (2) expand the category of foreign base company sales income to include income of a CFC from the sale of property manufactured on behalf of the CFC by a related person, regardless of whether the CFC is characterized as obtaining the property through a purchase transaction or through a manufacturing service contract; (3) amend the ownership attribution rules of section 958(b) of the Internal Revenue Code so that certain stock directly owned by a foreign person is attributed to a related U.S. person for purposes of determining whether a foreign corporation is a CFC or a U.S. person is a U.S. shareholder; and (4) eliminate the requirement that a foreign corporation must be a CFC for an uninterrupted period of at least 30 days in order for a U.S. shareholder to have a subpart F income inclusion with respect to the corporation. The proposal would be effective for taxable years beginning after December 31, 2015.

Restrict the use of hybrid arrangements that create stateless income.—Taxpayers currently use a variety of cross-border hybrid arrangements to claim deductions without corresponding inclusions in any jurisdiction or to claim multiple deductions for the same payment in different jurisdictions. The Administration proposes to deny deductions for interest and royalty payments paid to related parties when either: (1) as a result of a hybrid arrangement there is no corresponding inclusion to the recipient in the foreign jurisdiction; or (2) a hybrid arrangement would permit the taxpayer to claim an additional deduction for the same payment in more than one jurisdiction. Additionally, sections 954(c)(3) and 954(c)(6) of the Internal Revenue Code would not apply to payments made to a foreign reverse hybrid held directly by a U.S. owner when such amounts are treated as deductible payments by a foreign related person. Regulatory authority would be granted to the Department of the Treasury to issue any regulations necessary to carry out the purposes of this proposal, including regulations that would deny all or a portion of the deduction claimed with respect to an interest or royalty payment that, as a result of the hybrid arrangement, is subject to inclusion in the recipient's jurisdiction pursuant to a preferential regime that has the effect of reducing the generally applicable statutory rate by at least 25 percent. The proposal would be effective for taxable years beginning after December 31, 2015.

Limit the ability of domestic entities to expatriate.—Section 7874 of the Internal Revenue Code applies to certain transactions (known as "inversion transactions") in which a U.S. corporation is replaced by a foreign corporation as the parent company of a worldwide affiliated group. Under current law, if an inversion transaction occurs, certain adverse tax consequences apply depending upon whether the continuing ownership of historical shareholders of the U.S. corporation in the foreign acquiring corporation is either 80 percent or more (in which case the foreign acquiring corporation is treated as a domestic corporation for all U.S. tax purposes) or at least 60 percent but less than 80 percent (in which case the foreign status of the acquiring corporation is respected but other penalties apply). The Administration proposes to broaden the definition of an inversion transaction by reducing the 80-percent shareholder continuity threshold to a greater-than-50-percent threshold, and by eliminating the 60-percent threshold. The Administration also proposes to provide that, regardless of the level of shareholder continuity, an inversion transaction will occur if the fair market value of the stock of the U.S. corporation is greater than the fair market value of the stock of the foreign acquiring corporation, and the affiliated group is primarily managed and controlled in the United States and does not conduct substantial business activities in the relevant foreign country. In addition, the proposal would provide the IRS with authority to share with authorized employees of other Federal agencies, upon request, information collected with respect to the identity of companies that are the subject of an inversion transaction. The proposal generally would be effective for transactions that are completed after December 31, 2015, except that, effective January 1, 2016, the proposal would provide the IRS with the authority to share with other Federal agencies the specified information without regard to when the inversion transaction occurred.

Simplification and Tax Relief for Small Business

Expand and permanently extend increased expensing for small business.—Business taxpayers were allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 through 2014. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $2,000,000. The Administration proposes to permanently extend these expensing and investment limits, effective for qualifying property placed in service in taxable years beginning after December 31, 2014. For qualifying property placed in service in taxable years beginning after December 31, 2015, the maximum amount that can be expensed would be increased to $1,000,000. The limits would be indexed for inflation in taxable years beginning after 2016. Qualifying property would permanently include off-the-shelf computer software, but would not include certain real property.

Expand simplified accounting for small business and establish a uniform definition of small business for accounting methods.—Current law contains several small business exceptions from various accounting requirements based on a taxpayer's average annual gross receipts. Exception thresholds vary between $1 million and $25 million of gross receipts, depending on the specific accounting rule, and the legal status and business activity of the taxpayer. The Administration proposes to create a uniform small business threshold at $25 million in average annual gross receipts for allowing exceptions from certain accounting rules, effective for taxable years beginning after December 31, 2015. This threshold would be indexed for inflation with respect to taxable years beginning after December 31, 2016. Satisfaction of the gross receipts test would allow an entity to elect one or more of the following items: (1) use of the cash method of accounting in lieu of an accrual method (regardless of whether the entity holds inventories): (2) the non-application of the uniform capitalization (UNICAP) rules: and (3) the use of an inventory method of accounting that either conforms to the taxpayer's financial accounting method or is otherwise properly reflective of income. These rules would supersede the special cash method exceptions that apply to farm corporations, but current exceptions allowing the cash method by personal service corporations and by business entities that are not C corporations (other than partnerships with a C corporation partner) would continue. The exceptions from UNICAP not based on a gross receipts test would also continue.

Eliminate capital gains taxation on investments in small business stock.—A 100-percent exclusion from tax is provided for capital gains realized on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2015, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or 10 times the taxpayer's basis in the stock. For stock acquired prior to September 28, 2010, a portion of the excluded gain is subject to the AMT. A taxpayer may elect to roll over capital gain from the sale of qualified small business stock held for more than six months if other qualified small business stock is purchased during the 60-day period beginning on the date of sale. The exclusion is limited to individual investments and not the investments of a corporation. The Administration proposes to permanently extend the 100-percent exclusion, extend the rollover period from 60 days to six months for stock held at least three years, and no longer treat the excluded gain as a preference that is subject to tax under the AMT. The proposal would clarify that small business stock can include stock acquired upon the exercise of warrants and options if such stock rights are acquired at original issue from the corporation, and that all relevant holding periods for such stock start on the date the stock is issued by the corporation to the taxpayer. Reporting requirements would be tightened to ensure compliance. These proposals would be effective for qualified small business stock issued after December 31, 2014.

Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures.—A taxpayer generally is allowed to elect to deduct up to $5,000 of start-up expenditures in the taxable year in which an active trade or business begins. Similarly, a taxpayer may also elect to deduct up to $5,000 of organizational expenditures in the taxable year in which a corporation or partnership begins business. In each case, the $5,000 amount is reduced (but not below zero), by the amount by which such expenditures exceed $50,000. To lower the tax cost of investigating new business opportunities and investing in new business activities, as well as tax administration and business compliance costs, the Administration proposes to consolidate the Internal Revenue Code provisions relating to start-up expenditures and organizational expenditures and to double permanently, from $10,000 to $20,000, the combined amount of new business expenditures that a taxpayer may elect to deduct, effective for taxable years beginning after December 31, 2015. That amount would be reduced (but not below zero) by the amount by which the combined new business expenditures exceed $120,000. Start-up and organizational expenditures that are not deducted under these provisions would continue to be amortized over a 180-month period, beginning with the month in which the active trade or business begins.

Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.—The ACA provides a tax credit to help small employers provide health insurance for employees and their families. To claim the credit, a qualified employer must have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent employee wages that average less than $50,000 and make non-elective uniform contributions of at least 50 percent of the premium. The credit is generally available only for health insurance purchased through an Affordable Insurance Exchange and only for a maximum coverage period of two consecutive taxable years. The maximum credit, which is a specified percentage of premiums the employer pays during the taxable year, is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between average annual wages of $25,000 and $50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying average wages of less than $50,000 might not be eligible for any tax credit. The qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the average premium for the small group market in the rating areas in which the employee enrolls for coverage.

The Administration proposes to expand the credit to employers with up to 50 (rather than 25) full-time equivalent employees and to begin the phaseout of the maximum credit at 20 full-time equivalent employees (the credit would be reduced on a sliding scale between 20 and 50, rather than between 10 and 25, full-time equivalent employees). In addition, there would be a change to the coordination of the phaseouts of the credit that apply as the number of employees and average wages increase (using a formula that is multiplicative rather than additive) so as to provide a more gradual combined phaseout and to ensure that employers with fewer than 50 employees and an average wage less than $50,000 may be eligible for the credit, even if they are nearing the end of both phaseouts. The Administration also proposes to reduce taxpayer complexity by eliminating the requirement that an employer make a uniform contribution on behalf of each employee (although applicable non-discrimination laws will still apply), and eliminating the reduction in the qualifying contribution for premiums that exceed the average premium in the rating area. The proposal would be effective for taxable years beginning after December 31, 2014.

Incentives for Manufacturing, Research, and Clean Energy

Enhance and make permanent research incentives.—The R&E tax credit calculated according to the "traditional" method is 20 percent of qualified research and experimentation expenditures above an historic base amount. An alternative simplified credit (ASC) of 14 percent is also provided. These R&E tax credits expired with respect to expenditures paid or incurred after December 31, 2014. The Administration proposes to permanently extend the R&E tax credit for expenditures paid or incurred after December 31, 2014, with the exception of the traditional method, which would not apply for expenditures paid or incurred after December 31, 2015. In addition, for expenditures paid or incurred after December 31, 2015, the following changes would apply: (1) the rate of the ASC would be increased to 18 percent; (2) the reduced ASC rate of 6 percent for businesses without qualified research expenses in the prior three years would be eliminated; (3) the credit would be allowed to offset AMT liability; (4) contract research expenses would include 75 percent of payments to qualified non-profit organizations (such as educational institutions) for qualified research; and (5) the special rule for owners of a pass-through entity, which limits the amount of credit to the amount of tax attributable to that portion of a person's taxable income that is allocable or apportionable to the person's interest in such trade, business or entity would be repealed.

In addition, the proposal would repeal the requirement that research and experimentation costs be amortized over 10 years when calculating individual AMT. This would apply to expenditures paid or incurred after December 31, 2015.

Extend and modify certain employment tax credits, including incentives for hiring veterans.—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups and the Indian employment tax credit provides incentives to employers for hiring individuals who are members of an Indian tribe. The Indian employment tax credit applies to increases in qualified wages and health insurance costs over qualified wages and health insurance costs incurred in calendar year 1993 (the base year). The Administration proposes to permanently extend both credits, which include the Returning Heroes and Wounded Warrior credits enacted in 2011. In addition, beginning in 2016, the Administration proposes to: (1) expand the definition of disabled veterans eligible for the WOTC to include disabled veterans who use the GI bill to receive education or training starting within one year after discharge and who are hired within six months of leaving the program; and (2) modify the Indian employment tax credit by changing the base year wages and health insurance costs to the average of those costs in the two years prior to the year for which the credit is being claimed.

Modify and permanently extend renewable electricity production tax credit and investment tax credit.—Current law provides production tax credits for renewable energy facilities, the construction of which began before the end of 2014. Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Current law also provides an investment tax credit for renewable energy property. The investment tax credit is 30 percent of eligible basis for solar, fuel cell, and small wind property placed in service by December 31, 2016, and 10 percent for microturbine, combined heat and power system property, and geothermal property. For solar and non-heat pump geothermal property placed in service after 2016, a 10-percent credit is available The Administration proposes to extend the current law production tax credit for facilities on which construction begins before the end of 2015. For facilities on which construction begins after December 31, 2015, the proposal would permanently extend the production tax credit and make it refundable. The production tax credit would also be available to otherwise eligible renewable electricity consumed directly by the producer rather than sold to an unrelated third party, to the extent that its production can be independently verified. The production tax credit would also be available to individuals who install qualified energy property associated with a dwelling unit. In addition, the proposal would permanently extend the investment tax credit under the terms available in 2016. Specifically, the proposal would permanently extend the 30-percent investment tax credit for solar, fuel cell, and small wind property and the 10-percent credit for geothermal, microturbine, and combined heat and power property. The proposal would also make permanent the election to claim the investment tax credit in lieu of the production tax credit for qualified facilities eligible for the production tax credit.

Modify and permanently extend the deduction for energy-efficient commercial building property.—The Administration proposes to extend the current deduction for energy-efficient building property for property placed in service before January 1, 2015. For property placed in service after calendar year 2015, the Administration proposes to offer fixed deductions for the installation of energy-efficient commercial building property that reach an energy savings target. In addition, the proposal would enable existing buildings to qualify for the deductions. The new deductions would be permanent.

Provide a carbon dioxide investment and sequestration tax credit.—The Administration proposes to authorize $2 billion in refundable investment tax credits for property installed at a new or retrofitted electric generating unit that captures and permanently "sequesters" carbon dioxide. New plants must capture greater than 75 percent of their carbon dioxide emissions. Eligible investment for retrofitted units must capture greater than 75 percent of the carbon dioxide emissions. Retrofits must apply to existing plant units that have capacities greater than 250 megawatts and that capture and store more than 1 million metric tons of carbon dioxide annually. No more than 60 percent of the total credits may flow to either class of project. In addition, no more than 40 percent of the total credits may flow to any one of the following technology categories: (1) liquid solvents, (2) solid sorbents, (3) gas-separation membranes, (4) warm gas clean-up, (5) oxygen fired combustion systems, and (6) hybrid systems. A minimum of 70 percent of the credits must flow to projects fueled by greater than 75 percent coal. The Administration also proposes to provide a 20-year, refundable sequestration tax credit for facilities qualifying for the investment credit at a rate of $50 per metric ton for carbon dioxide permanently sequestered and not beneficially reused and $10 per metric ton for carbon dioxide that is permanently sequestered and beneficially reused or is associated with an industrial non-power source. Both credit rates would be indexed for inflation.

Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project.—A 30-percent credit for investment in eligible property used in a qualifying advanced energy manufacturing project was provided under ARRA. A qualifying advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualifying advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy). The Administration proposes to provide an additional $2.5 billion in credits, thereby increasing the amount of credits to $4.8 billion. In addition, the Administration proposes to allow up to $200 million of these credits to be allocated to the construction of infrastructure that contributes to networks of refueling stations that serve alternative fuel vehicles.

Provide new Manufacturing Communities tax credit.—The Administration proposes to provide new tax credit authority to support qualified investments in communities affected by military base closures or mass layoffs, such as those arising from plant closures. This would provide about $2 billion in credits for qualified investments approved in each of the three years, 2016 through 2018.

Extend the tax credit for second generation biofuel production.—The Administration proposes to retroactively extend the tax credit for blending cellulosic fuel, which expired on December 31, 2014, at $1.01 per gallon through December 31, 2020. The amount of the credit would then be reduced by 20.2 cents per gallon in each subsequent year, so that the credit would expire after December 31, 2024.

Incentives to Promote Regional Growth

Modify and permanently extend the New Markets tax credit (NMTC).—The NMTC is a 39-percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provision expired at the end of 2014. The Administration proposes to permanently extend the NMTC. Up to $5 billion in qualifying investment would be allowed in each year beginning in 2015. The proposal would also permit the NMTC to permanently offset AMT liability.

Reform and expand the Low-Income Housing tax credit (LIHTC).—The LIHTC provides a tax incentive for affordable rental housing developments. The Administration proposes to make several changes to the rules governing LIHTCs. First, States would be empowered to convert some private-activity-bond volume cap into authority to allocate additional LIHTCs. Also, a building would be able to qualify for 30-percent-present-value LIHTCs without issuing bonds if the building receives an adequate allocation of tax-exempt volume cap. This proposal would provide States greater flexibility to address their affordable housing priorities, and would reduce transaction and financing costs. These changes would be effective for new volume cap received by States for calendar years beginning after the date of enactment, or for volume cap that is allocated to a building after that date.

Second, to provide incentives for creating mixed-income housing, projects would be allowed to comply with an income-average rule for LIHTC eligibility. Under this new rule, the average income for at least 40 percent of the units in a project could not exceed 60 percent of area median income (AMI). None of these units could be occupied by households with income greater than 80 percent of AMI. Buildings must meet this new average income threshold calculated both: (1) with all low-income units weighted equally; and (2) with each low-income unit weighted according to imputed LIHTC occupancy rules. For rehabilitation projects containing units that receive ongoing subsidies administered by the Department of Housing and Urban Development or the Department of Agriculture (e.g., rental assistance, operating subsidies, or interest subsidies), a special rule would permit certain non-income qualified tenants to remain in residence without impairing the LIHTCs earned by the project. This provision adds to the two income criteria currently available for LIHTC developments, and would apply to LIHTC elections that are made after the date of enactment.

Third, the formulas that produce the rates for the credits that are subject to the LIHTC allocation cap would be changed. The revised formulas would produce annual credit rates that are higher than those produced under current law, and would result in a more consistent benefit over the interest rate spectrum. This change would apply to allocations made on or after the date of enactment.

Fourth, preservation of federally-assisted affordable housing would be added to the selection criteria for LIHTC allocation. This factor would join the ten criteria that State housing agencies must include in the qualified action plans that they consider when awarding LIHTCs. This change would apply to allocations made in calendar years beginning after the date of enactment.

Fifth, the Administration proposes to allow the Department of Housing and Urban Development (HUD) to designate as a qualified census tract (QCT) any census tract that meets certain criteria for the prevalence of poverty or low-income households. A building in a QCT earns 30 percent more LIHTCs than it would in another location. The proposal would remove a current limit under which the aggregate population in census tracts designated as QCTs cannot exceed 20 percent of the metropolitan area's population. As a result of this limit, some census tracts with qualifying levels of poverty or low-income households may currently fail to be designated as QCTs because neighboring tracts also qualify. This change would apply to allocations made after the date of enactment.

Sixth, the proposal adds protection for victims of domestic violence as a mandatory provision of the long-term-use agreement required by the Internal Revenue Code between each LIHTC taxpayer and the State. To make the protection meaningful, victims of domestic violence would be given a right to enforce the agreement in State courts.

Incentives for Investment in Infrastructure

Provide America Fast Forward Bonds and expand eligible uses.—ARRA created the Build America Bond program as an optional new lower cost borrowing incentive for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the original program applicable to Build America Bonds issued in 2009 and 2010, the Department of the Treasury makes direct subsidy payments (called "refundable tax credits") to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to create a new permanent America Fast Forward Bond program, which would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would be conventional taxable bonds issued by State and local governments in which the Federal Government makes direct payments to State and local governmental issuers (refundable tax credits). The subsidy rate would be 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration proposes to expand the eligible uses for America Fast Forward Bonds beyond those for the Build America Bond program to include financing for governmental capital projects, current refundings of prior public capital project financings, short-term governmental working capital financings for governmental operating expenses subject to a 13-month maturity limitation, financing for section 501(c)(3) nonprofit entities, and financing for the types of projects and programs that can be financed with qualified private activity bonds subject to applicable State bond volume caps for the qualified private activity bond category. Further, eligible uses would include projects that can be financed with a new category of qualified private activity bond, known as "Qualified Public Infrastructure bonds," under a separate budget proposal described below. The proposal, which would be effective for bonds issued beginning in 2016, recommends exempting direct payments to State and local government issuers under the American Fast Forward Bond program from sequestration under BBEDCA.

Allow current refundings of State and local governmental bonds.—Current law provides Federal tax subsidies for lower borrowing costs on debt obligations issued by State and local governments for eligible purposes under various programs. These programs include traditional tax-exempt bonds and other temporary or targeted qualified tax credit bond programs (e.g., qualified school construction bonds) and direct borrowing subsidy payment programs (e.g., Build America Bonds). State and local bond programs have varied in the extent to which they expressly allow or treat refinancings (as distinguished from original financings to fund eligible program purposes). In a "current refunding" of State and local bonds, the refunded bonds are retired promptly within 90 days after issuance of the refinancing bonds. These refundings generally reduce borrowing costs for State and local governmental issuers, and they also reduce Federal revenue losses due to the Federal borrowing subsidies for State and local bonds. A general authorization for current refundings of State and local bonds not currently covered by specific refunding authority would promote greater uniformity, tax certainty, and borrowing cost savings. The Administration proposes to allow current refundings of these State and local bonds if: (1) the principal amount of the current refunding bonds is no greater than the outstanding principal amount of the refunded bonds, and (2) the weighted average maturity of the current refunding bonds is no longer than the remaining weighted average maturity of the refunded bonds. This proposal would be effective as of the date of enactment.

Repeal the $150 million non-hospital bond limitation on all qualified 501(c)(3) bonds.—The Tax Reform Act of 1986 established a $150 million limit on the volume of outstanding non-hospital, tax-exempt bonds used for the benefit of a section 501(c)(3) organization. The provision was repealed in 1997 with respect to bonds issued after August 5, 1997, at least 95 percent of the net proceeds of which are used to finance capital expenditures incurred after that date. The limitation continues to apply to bonds more than five percent of the net proceeds of which finance or refinance: (1) working capital expenditures, or (2) capital expenditures incurred on or before August 5, 1997. The Administration proposes to repeal in its entirety the $150 million limit on the volume of outstanding, non-hospital, tax-exempt bonds for the benefit of a section 501(c)(3) organization, effective for bonds issued after the date of enactment.

Increase national limitation amount for qualified highway or surface freight transfer facility bonds.— Tax-exempt private activity bonds may be used to finance qualified highway or surface freight transfer facilities. A qualified highway or surface freight transfer facility is any surface transportation, international bridge, or tunnel project that receives Federal assistance under title 23 of the United States Code, or any facility for the transfer of freight from truck or rail to truck that receives Federal assistance under title 23 or title 49 of the United States Code. Tax-exempt bonds issued to finance qualified highway or surface freight transfer facilities are not subject to State volume cap limitations. Instead, the Secretary of Transportation is authorized to allocate a total of $15 billion of issuance authority to qualified highway or surface freight transfer facilities in such manner as the Secretary determines appropriate. The Administration proposes to increase the $15 billion aggregate amount permitted to be allocated by the Secretary of Transportation to $19 billion with the elimination of this category of bond and conversion to qualified public infrastructure bonds once these funds are allocated.

Provide a new category of qualified private activity bonds for infrastructure projects referred to as "qualified public infrastructure bonds" (QPIBs).— Under the proposal, QPIBs, a new category of tax-exempt private activity bonds, would be available for the financing of newly constructed or substantially rehabilitated infrastructure facilities owned by governmental entities and available for general public use. Infrastructure facilities eligible for QPIB financing would include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities, and qualified highway or surface freight transfer facilities. Existing overlapping categories of qualified private activity bonds that can be financed with QPIBs generally would be eliminated. The existing category for qualified highway or surface freight transfer facilities would continue to be available for the existing $15 billion bond volume authorization and the proposed additional $4 billion authorization under the preceding Budget proposal. QPIBs would not be subject to volume cap and the interest would not be a preference that is subject to tax under the AMT. The proposal also expands the safe harbor rule for ownership by a governmental unit where such facilities are leased or subject to concession agreements or management contracts to QPIBs, which would open up use of tax-exempt financing for public-private partnerships. The proposal would be effective for bonds issued beginning in 2016.

Modify qualified private activity bonds for public education facilities.—Current law permits tax-exempt private activity bond financing for different specified types of eligible exempt facilities and programs, including, among others, "qualified public educational facilities" that are part of public elementary or secondary schools. The current eligibility rules require that a private "corporation" own the public school facilities under a public-private partnership agreement with a public State or local educational agency and that the private corporation transfer the ownership of the school facilities to the public agency at the end of the term of the bonds for no additional consideration. The proposal would eliminate the private corporation ownership requirement and instead would allow any private person, including private entities organized in ways other than as corporations, either to own the public school facilities or to operate those school facilities through lease, concession, or other operating arrangements. Further, since private ownership would no longer be an eligibility condition, the proposal would remove the requirement to transfer the school facilities to a public agency at the end of the term of the bonds for no additional consideration. In addition, the proposal would remove the separate volume cap for qualified public educational facilities and instead would include these facilities under the unified annual State bond volume cap. The proposal would be effective for bonds issued after the date of enactment.

Modify treatment of banks investing in tax-exempt bonds.—Under current law, financial institutions' interest deductions are generally reduced by 100 percent of the interest expense allocable to assets that produce tax-exempt interest income. Financial institutions, however, can generally deduct 80 percent of interest expense allocated to qualified small issuer bonds. Qualified small issuer bonds are certain tax-exempt bonds issued by States and localities that annually issue no more than $10 million of such bonds. The proposal would increase the size limit for the qualified small issuer bond exception from $10 million to $30 million. Moreover, under current law, if a bank has made the election to be taxed under subchapter S or if the bank is a qualified subchapter S subsidiary, the bank is exempt even from the 20-percent disallowance of interest expense allocable to qualified small issuer bonds. The proposal would make these banks subject to the 20-percent disallowance and thus would equalize the treatment of financial institutions. Finally, the proposal also would allow financial institutions to deduct up to 80 percent of interest expense allocable to any tax-exempt obligations (whether or not a qualified small issuer bond) subject to a cap that would limit the benefit of this rule to interest expense allocable to bonds representing no more than two percent of the basis of the institution's assets. This two-percent cap, however, would not apply to the qualified small issuer bond exception. The proposal would apply to bonds issued in calendar years beginning on or after January 1, 2016.

Repeal tax-exempt bond financing of professional sports facilities.—Current law permits the use of tax-exempt governmental bond proceeds for private activities unless both of the following apply: (1) more than 10 percent of the payment of the debt service is from a private business source, and (2) more than 10 percent of the use of the facility is for a private business use. Thus, even if use by a professional sports team of a bond-financed stadium exceeds 10 percent of the total use of the facility, the financing will be tax-exempt if the debt service is paid from sources other than sports facility revenues or other private payments. The proposal would eliminate the private payment test for professional sports facilities such that bonds to finance professional sports facilities would be taxable private activity bonds if more than 10 percent of the use of the facility is for a private business purpose. By removing the private payment test, tax-exempt governmental bond financing of sports facilities for professional sports teams would be eliminated. The proposal would be effective for bonds issued after December 31, 2015.

Allow more flexible research arrangements for purposes of private business use limits.—Under current law, the IRS provides safe harbors that allow certain basic research arrangements with private businesses at tax-exempt bond financed research facilities. The existing safe harbors impose certain constraints on setting the terms of use of patents or other products resulting from the research, based on specific legislative history. In particular, the terms of use of resulting products for both research sponsors and other users alike must be set only after the products become available for use even though research arrangements typically are made prior to discoveries. The Administration proposes to provide additional flexibility for bona fide arm's length arrangements relating to basic research that would allow setting the terms of use of resulting products in advance of when the products become available for use. The proposal would be effective for research arrangements entered into after the date of enactment.

Modify tax-exempt bonds for Indian tribal governments (ITGs).—In general, current law limits ITGs in their use of tax-exempt bonds to the financing of certain "essential governmental function" activities that are customarily performed by State and local governments. ARRA provided a limited $2 billion authorization of "Tribal Economic Development Bonds," which gives ITGs more flexibility to use tax-exempt bonds under standards that are more comparable to those applied to State and local governments in their use of tax-exempt bonds (subject to certain express targeting restrictions that require financed projects to be located on Indian reservations and that prohibit the financing of certain gaming facilities). In December 2011, the Department of the Treasury submitted a required report to the Congress regarding its study of the Tribal Economic Development Bond provision and its recommendations for ITG tax-exempt bond financing. The Administration proposes to modify the standards for ITG tax-exempt bond financing to reflect the recommendations in this report. In particular, the Administration's proposal generally would adopt the State or local government standard for tax-exempt governmental bonds without a bond volume cap on such governmental bonds for purposes of ITG eligibility to issue tax-exempt governmental bonds. The proposal would repeal the existing essential governmental function standard for ITG tax-exempt bond financing. In addition, the proposal would allow ITGs to issue tax-exempt private activity bonds for the same types of projects and activities as are allowed for State and local governments, under a modified national bond volume cap to be administered by the Department of the Treasury. Further, the proposal generally would continue an existing targeting restriction that would require projects financed with ITG bonds to be located on Indian reservations, with some additional flexibility to finance projects that have a requisite nexus to Indian reservations and that serve resident populations of Indian reservations. Finally, the proposal would continue an existing targeting restriction that prohibits financing of certain gaming projects. This proposal would be effective as of the date of enactment.

Exempt foreign pension funds from the application of the Foreign Investment in Real Property Tax Act (FIRPTA).—Under current law, gains of foreign investors from the disposition of U.S. real property interests are generally subject to U.S. tax under FIRPTA. Gains of U.S. pension funds from the disposition of U.S. real property interests are generally exempt from U.S. tax. The Administration proposes to exempt from U.S. tax under FIRPTA certain gains of foreign pension funds from the disposition of U.S. real property interests. The proposal would be effective for dispositions of U.S. real property interests occurring after December 31, 2015.

Eliminate Fossil Fuel Tax Preferences

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, natural gas, and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out inefficient subsidies for fossil fuels so that the Nation can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and natural gas activities are proposed to be repealed beginning in 2016: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and natural gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and natural gas wells; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and natural gas; and (8) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and natural gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2016: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; (3) capital gains treatment for royalties; and (4) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels. In addition, under the proposal, publicly traded partnerships with qualifying income and gains from activities relating to fossil fuels would be taxed as C corporations beginning in 2021.

Reform the Treatment of Financial and Insurance Industry Products

Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary.—Under current law, derivative contracts are subject to various rules on timing and character. The Administration's proposal would require that gain or loss from a derivative contract be reported on an annual basis as if the contract were sold for its fair market value no later than the last business day of the taxpayer's taxable year. Gain or loss resulting from the contract would be treated as ordinary and as attributable to a trade or business of the taxpayer. A derivative contract would be broadly defined to include any contract the value of which is determined, directly or indirectly, in whole or in part, by actively traded property. A derivative contract that is embedded in another financial instrument or contract is subject to mark to market if the derivative by itself would be marked. In addition, a taxpayer that enters into a derivative contract that substantially diminishes the risk of loss on actively traded stock that is not otherwise marked to market would be required to mark the stock to market with preexisting gain recognized at that time and loss recognized when the financial instrument would have been recognized in the absence of the straddle. An exception from mark-to-market treatment would be provided for business hedging transactions. The proposal would apply to contracts entered into after December 31, 2015.

Modify rules that apply to sales of life insurance contracts.—The seller of a life insurance contract generally must report as taxable income the difference between the amount received from the buyer and the adjusted basis of the contract. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to this "transfer-for-value" rule applies. Among the exceptions are transfers to the insured, to a partner of the insured, to a partnership in which the insured is a partner, or to a corporation in which the insured is a shareholder or officer. The Administration proposes to replace these excepted transfers with exceptions for transfers to the insured, or to a partnership or a corporation of which the insured owns at least 20 percent of the partnership or corporation. Furthermore, in response to the growth in the number and size of life settlement transactions, the Administration proposes to expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold. The proposal would apply to sales or assignments of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2015.

Modify proration rules for life insurance company general and separate accounts.—Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and the policyholders' share. The result of this proration calculation is used to limit the funding of tax-deductible reserve increases with tax-preferred income. However, the complexity of this proration regime has generated significant controversy between life insurance companies and the IRS. The Administration proposes to replace the current regime with one that is simpler and less controversial. Under the proposal, a company's share would be calculated for a life insurance company's general account and individually for each of its separate accounts. The company's share would equal one less the ratio of an account's mean reserves to its mean assets. The company's share would determine the portion of the non-affiliated corporate dividends received by the company that would be eligible for a dividends-received deduction. It would also determine the portion of interest earned on State and local bonds and the portion of increases for the taxable year in certain policy cash values of life insurance and annuity policies that would be exempt from tax. The proposal would be effective for taxable years beginning after December 31, 2015.

Expand pro rata interest expense disallowance for corporate-owned life insurance.—The interest deductions of a business other than an insurance company are reduced to the extent the interest paid or accrued is allocable to unborrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to the inside buildup of insurance and annuity contracts that is either tax-deferred or not taxed at all. An exception to this rule applies under current law to contracts covering the lives of officers, directors, employees, and 20-percent owners of the taxpayer. The Administration proposes to repeal the exception for officers, directors, and employees unless those individuals are also 20-percent owners of the business that is the owner or beneficiary of the contracts. Thus, purchases of life insurance by small businesses and other taxpayers that depend heavily on the services of a 20-percent owner would be unaffected, but the funding of deductible interest expenses with tax-exempt or tax-deferred inside buildup would be curtailed. The proposal would apply to contracts issued after December 31, 2015, in taxable years ending after that date.

Conform net operating loss (NOL) rules of life insurance companies to those of other corporations.—Current law generally allows businesses to carry back an NOL up to two taxable years preceding the taxable year of loss (loss year) and to carry forward an NOL up to 20 taxable years following the loss year. Life insurance companies, however, may carry a "loss from operations" (a life insurance company's NOL equivalent) back three taxable years preceding the loss year and forward 15 taxable years following the loss year. The proposal would establish operating loss conformity for life insurance companies by allowing a loss from operations to be carried back up to two taxable years prior to the loss year, and carried forward 20 taxable years following the loss year. The proposal would be effective for taxable years beginning after December 31, 2015.

Other Revenue Changes and Loophole Closers

Repeal last-in, first-out (LIFO) method of accounting for inventories.—Under the LIFO method of accounting for inventories, it is assumed that the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. The Administration proposes to repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2015. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to change their method of accounting for inventory and report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change. Taxpayers would recognize any income resulting from the change in accounting ratably over 10 years.

Repeal lower-of-cost-or-market inventory accounting method.—The Administration proposes to prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for taxable years beginning after December 31, 2015. Taxpayers would recognize any income resulting from the change in accounting method ratably over four years.

Modify like-kind exchange rules for real property and collectibles.—Under section 1031 of the Internal Revenue Code, no gain or loss is recognized when business or investment property is exchanged for "like-kind" business or investment property. The Administration proposes to limit the amount of capital gain deferred under section 1031 from the exchange of real property to $1,000,000 (indexed for inflation) per taxpayer per taxable year. In addition, art and collectibles would no longer be eligible for like-kind exchanges. The proposal would be effective for like-kind exchanges completed after December 31, 2015.

Modify depreciation rules for purchases of general aviation passenger aircraft.—Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Administration proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years, effective for such airplanes placed in service after December 31, 2015.

Expand the definition of substantial built-in loss for purposes of partnership loss transfers.—Upon a sale or exchange of a partnership interest, certain partnerships, including partnerships that have a substantial built-in loss in their assets, must adjust the basis of those assets. A substantial built-in loss is defined by reference to the partnership's adjusted basis – that is, there is a substantial built-in loss if the partnership's adjusted basis in its assets exceeds by more than $250,000 the fair market value of such property. Although the provision prevents the duplication of losses where the partnership has a substantial built-in loss in its assets, it does not prevent the duplication of losses where the transferee partner would be allocated a loss in excess of $250,000 if the partnership sold all of its assets, but the partnership itself does not have a substantial built-in loss in its assets. Accordingly, the Administration proposes to measure a substantial built-in loss also by reference to whether the transferee would be allocated a loss in excess of $250,000 if the partnership sold all of its assets immediately after the sale or exchange. The proposal would apply to sales or exchanges after the date of enactment.

Extend partnership basis limitation rules to nondeductible expenditures.—A partner's distributive share of loss is allowed as a deduction only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such loss occurred. Any excess is allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in its partnership interest to take the deductions. This basis limitation does not apply to partnership expenditures that are not deductible in computing its taxable income and not properly chargeable to capital account. Thus, even though a partner's distributive share of nondeductible expenditures reduces the partner's basis in its partnership interest, such items are not subject to the basis limitation and the partner may deduct or credit them currently even if the partner's basis in its partnership interest is zero. The Administration proposes to allow a partner's distributive share of expenditures not deductible in computing the partnership's taxable income and not properly chargeable to capital account only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such expenditure occurred. The proposal would apply to a partnership's taxable year beginning on or after the date of enactment.

Limit the importation of losses under related party loss limitation rules.—If a loss sustained by a transferor is disallowed under section 267(a)(1) or section 707(b)(1) of the Internal Revenue Code because the transferor and transferee are related, then the transferee may reduce any gain the transferee later recognizes on a disposition of the transferred asset by the amount of the loss disallowed to the transferor. This has the effect of shifting the benefit of the loss from the transferor to the transferee. Thus, losses can be imported where gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. To prevent this, the Administration proposes to limit application of the gain reduction rule to the extent gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. The proposal would apply to transfers made after the date of enactment.

Deny deduction for punitive damages.—The Administration proposes to deny tax deductions for punitive damages paid or incurred by a taxpayer, whether upon a judgment or in settlement of a claim. Where the liability for punitive damages is covered by insurance, such damages paid or incurred by the insurer would be included in the gross income of the insured person. This proposal would apply to damages paid or incurred after December 31, 2015.

Conform corporate ownership standards.—Tax-free treatment of corporate reorganizations, distributions, and incorporations generally turns on whether shareholders acquire or retain "control" of the relevant corporation. For this purpose, control is defined as the ownership of 80 percent of the corporation's voting stock and 80 percent of the number of shares of all other classes of stock of the corporation. In contrast, the ownership standard for corporate affiliation (required for filing consolidated returns, tax-free parent-subsidiary liquidations, and treating certain stock dispositions as asset sales) is the direct or indirect ownership by a parent corporation of at least 80 percent of the total voting power of another corporation's stock and at least 80 percent of the total value of that other corporation's stock. The control test for tax-free reorganizations, distributions, and incorporations is easily manipulated by allocating voting power among the shares of a corporation, and the absence of a value component allows shareholders to retain voting control of a corporation but to economically "sell" a significant amount of the value of the corporation. In addition, the existence of two ownership standards in the corporate tax area causes unnecessary complexity and traps for the unwary. The Administration proposes to substitute the ownership test for affiliation for the control test used in connection with tax-free incorporations, distributions, and reorganizations. The proposal would be effective for transactions occurring after December 31, 2015.

Tax corporate distributions as dividends.—The Administration proposes to amend the Internal Revenue Code to ensure that a transfer of property by a corporation to its shareholder better reflects the corporation's dividend paying capacity. First, the Administration proposes to tax non-dividend "leveraged distributions" from a distributing corporation as a dividend distribution made by a related corporation directly to the distributing corporation's shareholder to the extent the related corporation funded the distribution with a principal purpose of not treating the distribution from the distributing corporation to its shareholder as a dividend. Second, the Administration proposes to repeal the "boot-within-gain" limitation under section 356(a) of the Internal Revenue Code in reorganization transactions in which the shareholder's exchange has the effect of the distribution of a dividend. For this purpose, the Administration also proposes to align the available pool of earnings and profits for such distributions with that for ordinary distributions. Third, the Administration proposes amending section 312(a)(3) of the Internal Revenue Code so that earnings and profits are reduced only by the distributing corporation's basis in any high-basis distributed stock, determined without regard to basis adjustments resulting from actual or deemed dividend equivalent redemptions, or any series of distributions or transactions undertaken with a view to create and distribute high-basis stock of any corporation. Fourth, the Administration proposes disregarding a subsidiary's purchase of "hook stock" issued by a controlling corporation in exchange for property so that the property used to purchase the hook stock gives rise to a deemed distribution from the purchasing subsidiary (through any intervening entities) to the issuing corporation. The hook stock would be treated as being contributed by the issuer (through any intervening entities) to the subsidiary. The proposal would grant the Secretary of the Treasury authority to prescribe regulations necessary to achieve the purposes of this proposal, including regulations to: (1) treat transactions as leveraged distributions; (2) treat purchases of interests in shareholder entities other than corporations as hook stock and provide rules related to hook stock within a consolidated group; and (3) treat a transaction as undertaken with a view to create and distribute high-basis stock of any corporation. The first, second and fourth proposals would be effective for transactions occurring after December 31, 2015. The third proposal would be effective upon enactment.

Repeal Federal Insurance Contribution Act (FICA) tip credit.—Certain employers in food and beverage service industries may receive an income tax credit for FICA taxes they pay on employee tip income. The credit applies to Social Security and Medicare taxes paid on the portion of an employee's tip income that, when added to the employee's non-tip wages, exceeds $5.15 per hour. The Administration proposes to repeal the income tax credit for the FICA taxes an employer pays on tips, effective for taxable years beginning after December 31, 2015.

Repeal the excise tax credit for distilled spirits with flavor and wine additives.—Distilled spirits are taxed at a rate of $13.50 per proof gallon. Some distilled spirits are flavored with wine or other additives. Current law allows a credit against the $13.50 per proof gallon excise tax on distilled spirits for flavor and wine additives. As a result of the credit, flavorings of up to 2.5 percent of the distilled spirit mixture are tax exempt, and wine in a distilled spirits mixture is taxed at the lower rate on wine. Thus, the credit reduces the effective excise tax rate paid on distilled spirits with such content. The proposal would repeal this credit effective for all spirits produced in or imported into the United States after December 31, 2015.

Table 12–3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Reform the U.S. international tax system:													
Restrict deductions for excessive interest of members of financial reporting groups ...	....	2,566	4,533	4,987	5,485	6,034	6,637	7,301	8,031	8,834	9,718	23,605	64,126
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	....	–13	–22	–23	–24	–25	–25	–27	–28	–29	–31	–107	–247
Repeal delay in the implementation of worldwide interest allocation	....	–1,352	–2,308	–2,400	–2,496	–2,596	–1,055	....	....	....	....	–11,152	–12,207
Extend the exception under subpart F for active financing income	....	–4,081	–7,006	–7,356	–7,724	–8,110	–8,516	–8,942	–9,389	–9,858	–10,351	–34,277	–81,333
Extend the look-through treatment of payments between related CFCs	....	–488	–838	–880	–924	–971	–1,019	–1,070	–1,124	–1,180	–1,239	–4,101	–9,733
Impose a 19-percent minimum tax on foreign income	....	11,881	19,710	19,873	20,246	20,633	21,200	21,799	22,675	23,478	24,481	92,343	205,976
Impose a 14-percent one-time tax on previously untaxed foreign income [1]	....	....	....	....	....	....	....	....	....	....	....	....	....
Limit shifting of income through intangible property transfers	....	88	167	201	237	275	315	361	413	473	542	968	3,072
Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates	....	346	616	667	708	744	784	829	863	897	934	3,081	7,388
Modify tax rules for dual capacity taxpayers	....	533	914	956	999	1,043	1,089	1,119	1,168	1,220	1,274	4,445	10,315
Tax gain from the sale of a partnership interest on look-through basis	....	183	253	266	279	293	308	323	339	356	374	1,274	2,974
Modify sections 338(h)(16) and 902 to limit credits when non-double taxation exists ...	....	55	95	102	105	105	105	105	105	106	106	462	989
Close loopholes under subpart F	....	1,449	2,519	2,699	2,890	3,094	3,312	3,543	3,789	4,051	4,330	12,651	31,676
Restrict the use of hybrid arrangements that create stateless income	....	116	201	215	230	246	264	283	304	326	350	1,008	2,535
Limit the ability of domestic entities to expatriate	....	113	311	530	769	1,031	1,317	1,630	1,970	2,340	2,743	2,754	12,754
Total, reform the U.S. international tax system	....	11,396	19,145	19,837	20,780	21,796	24,716	27,254	29,116	31,014	33,231	92,954	238,285
Simplification and tax relief for small business:													
Expand and permanently extend increased expensing for small business	–7,200	–10,941	–8,935	–7,300	–6,254	–5,502	–5,108	–4,968	–4,896	–4,929	–5,012	–38,932	–63,845
Expand simplified accounting for small business and establish a uniform definition of small business for accounting methods	....	–5,812	–3,809	–1,443	–762	–507	–492	–493	–488	–479	–472	–12,333	–14,757
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	–206	–710	–1,277	–1,811	–2,342	–2,869	–206	–9,215
Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures	....	–359	–446	–440	–434	–431	–428	–426	–423	–419	–415	–2,110	–4,221
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance [2]	–24	–305	–328	–218	–174	–148	–102	–113	–76	–60	–26	–1,173	–1,550
Total, simplification and tax relief for small business	–7,224	–17,417	–13,518	–9,401	–7,624	–6,794	–6,840	–7,277	–7,694	–8,229	–8,794	–54,754	–93,588
Incentives for manufacturing, research, and clean energy:													

Table 12–3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Enhance and make permanent research incentives	–3,552	–7,529	–9,290	–10,356	–11,389	–12,396	–13,387	–14,370	–15,352	–16,336	–17,327	–50,960	–127,732
Extend and modify certain employment tax credits, including incentives for hiring veterans	–403	–796	–885	–950	–997	–1,033	–1,074	–1,121	–1,167	–1,210	–1,255	–4,661	–10,488
Modify and permanently extend renewable electricity production tax credit and investment tax credit [2]	....	596	–869	–2,323	–2,775	–3,283	–3,695	–4,075	–4,524	–4,991	–5,513	–8,654	–31,452
Modify and permanently extend the deduction for energy-efficient commercial building property	....	–170	–256	–294	–302	–298	–290	–280	–270	–260	–252	–1,320	–2,672
Provide a carbon dioxide investment and sequestration tax credit [2]	....	....	....	–174	–1,094	–1,149	–600	–466	–495	–521	–541	–2,417	–5,040
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project	....	....	–73	–192	–1,111	–772	–94	14	48	40	37	–2,148	–2,103
Provide new Manufacturing Communities tax credit	....	–87	–256	–457	–600	–683	–745	–784	–689	–447	–145	–2,083	–4,893
Extend the tax credit for second generation biofuel production	–35	–80	–119	–149	–163	–175	–183	–158	–113	–65	–18	–686	–1,223
Total, incentives for manufacturing, research, and clean energy	–3,990	–8,066	–11,748	–14,895	–18,431	–19,789	–20,068	–21,240	–22,562	–23,790	–25,014	–72,929	–185,603
Incentives to promote regional growth:													
Modify and permanently extend the NMTC	–18	–119	–289	–491	–720	–968	–1,226	–1,470	–1,605	–1,620	–1,586	–2,587	–10,094
Reform and expand the LIHTC	....	–9	–42	–130	–233	–345	–441	–541	–641	–751	–860	–759	–3,993
Total, incentives to promote regional growth	–18	–128	–331	–621	–953	–1,313	–1,667	–2,011	–2,246	–2,371	–2,446	–3,346	–14,087
Incentives for investment in infrastructure:													
Provide America Fast Forward Bonds and expand eligible uses [2]	....	–1	–5	–11	–14	–22	–28	–35	–41	–48	–53	–53	–258
Allow current refundings of State and local governmental bonds	....	–1	–5	–5	–5	–5	–5	–5	–5	–5	–5	–21	–46
Repeal the $150 million non-hospital bond limitation on all qualified 501(c)(3) bonds	....	....	–1	–3	–5	–7	–9	–11	–13	–16	–17	–16	–82
Increase national limitation amount for qualified highway or surface freight transfer facility bonds	–6	–28	–60	–93	–125	–153	–167	–163	–136	–96	–55	–459	–1,076
Provide a new category of qualified private activity bonds for infrastructure projects referred to as QPIBs	....	–25	–117	–251	–386	–524	–638	–695	–714	–733	–751	–1,303	–4,834
Modify qualified private activity bonds for public education facilities	....	....	....	....	....	....	....	....	....	....	....	....	....
Modify treatment of banks investing in tax-exempt bonds	....	–5	–38	–131	–225	–317	–405	–493	–574	–630	–616	–716	–3,434
Repeal tax-exempt bond financing of professional sports facilities	....	3	11	23	35	47	60	72	85	97	109	119	542
Allow more flexible research arrangements for purposes of private business use limits	....	....	....	....	–1	–1	–1	–3	–3	–3	–4	–2	–16
Modify tax-exempt bonds for ITGs	....	–4	–12	–12	–12	–12	–12	–12	–12	–12	–12	–52	–112
Exempt foreign pension funds from the application of FIRPTA	....	–120	–206	–216	–227	–238	–250	–263	–276	–290	–304	–1,007	–2,390
Total, incentives for investment in infrastructure	–6	–181	–433	–699	–965	–1,232	–1,455	–1,608	–1,689	–1,736	–1,708	–3,510	–11,706
Eliminate fossil fuel tax preferences:													
Treat publicly-traded partnerships for fossil fuels as C corporations	....	....	....	....	....	....	303	322	341	358	375	....	1,699
Eliminate oil and natural gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and natural gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	2,267	3,182	2,351	1,867	1,566	1,243	848	695	723	753	11,233	15,495

Table 12–3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued

(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Repeal deduction for tertiary injectants ...	....	7	10	10	10	10	10	10	10	10	10	47	97
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	9	17	19	20	20	20	20	20	20	20	85	185
Repeal percentage depletion for oil and natural gas wells	....	1,118	1,790	1,669	1,585	1,498	1,375	1,246	1,122	994	856	7,660	13,253
Repeal domestic manufacturing deduction for oil and natural gas production	....	647	1,115	1,139	1,173	1,208	1,242	1,280	1,321	1,366	1,413	5,282	11,904
Increase geological and geophysical amortization period for independent producers to seven years	....	91	341	537	532	440	337	226	147	125	100	1,941	2,876
Subtotal, eliminate oil and natural gas preferences	....	4,139	6,455	5,725	5,187	4,742	4,227	3,630	3,315	3,238	3,152	26,248	43,810
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	40	68	70	74	77	77	75	73	71	69	329	694
Repeal percentage depletion for hard mineral fossil fuels	....	183	299	288	278	266	254	241	228	214	199	1,314	2,450
Repeal capital gains treatment for royalties	....	27	54	53	54	55	58	61	61	62	62	243	547
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels	....	45	48	50	53	54	57	59	62	65	68	250	561
Subtotal, eliminate coal preferences ...	....	295	469	461	459	452	446	436	424	412	398	2,136	4,252
Total, eliminate fossil fuel tax preferences	....	4,434	6,924	6,186	5,646	5,194	4,976	4,388	4,080	4,008	3,925	28,384	49,761
Reform the treatment of financial and insurance industry products:													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary	....	2,926	4,769	4,138	2,731	1,733	1,186	731	531	535	516	16,297	19,796
Modify rules that apply to sales of life insurance contracts	....	23	43	46	48	50	54	56	58	61	63	210	502
Modify proration rules for life insurance company general and separate accounts	....	385	676	722	762	792	816	836	843	849	862	3,337	7,543
Expand pro rata interest expense disallowance for corporate-owned life insurance		65	159	252	364	492	641	809	980	1,160	1,357	1,332	6,279
Conform NOL rules of life insurance companies to those of other corporations	....	15	27	29	30	32	34	36	37	39	40	133	319
Total, reform the treatment of financial and insurance industry products	....	3,414	5,674	5,187	3,935	3,099	2,731	2,468	2,449	2,644	2,838	21,309	34,439
Other revenue changes and loophole closers:													
Repeal LIFO method of accounting for inventories	....	5,505	7,866	7,812	8,012	7,908	8,070	7,752	7,644	7,931	7,592	37,103	76,092
Repeal lower-of-cost-or-market inventory accounting method	....	743	1,491	1,501	1,511	889	266	278	291	304	317	6,135	7,591
Modify like-kind exchange rules for real property and collectibles	....	659	2,005	2,026	2,048	2,070	2,094	2,119	2,145	2,174	2,202	8,808	19,542
Modify depreciation rules for purchases of general aviation passenger aircraft	....	108	338	499	531	596	593	395	198	139	141	2,072	3,538
Expand the definition of substantial built-in loss for purposes of partnership loss transfers	....	6	7	7	7	7	8	8	10	10	10	34	80
Extend partnership basis limitation rules to nondeductible expenditures	....	69	97	102	105	108	110	112	114	116	118	481	1,051
Limit the importation of losses under related party loss limitation rules	....	63	87	92	95	97	99	100	102	104	106	434	945
Deny deduction for punitive damages	....	30	43	44	45	46	47	48	49	51	52	208	455
Conform corporate ownership standards	....	1	17	32	33	34	35	36	38	40	42	117	308
Tax corporate distributions as dividends	....	48	82	86	90	94	98	103	108	113	118	400	940

Table 12–3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued

(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Repeal FICA tip credit	....	480	993	1,062	1,137	1,216	1,301	1,389	1,483	1,581	1,687	4,888	12,329
Repeal the excise tax credit for distilled spirits with flavor and wine additives [4]	....	85	112	112	112	112	112	112	112	112	112	533	1,093
Total, other revenue changes and loophole closers	....	7,797	13,138	13,375	13,726	13,177	12,833	12,452	12,294	12,675	12,497	61,213	123,964
Total, reserve for business tax reform that is revenue neutral in the long run [5]	**–11,238**	**1,249**	**18,851**	**18,969**	**16,114**	**14,138**	**15,226**	**14,426**	**13,748**	**14,215**	**14,529**	**69,321**	**141,465**

[1] The Administration believes that this proposal should be enacted in the context of comprehensive business tax reform that is revenue neutral in the long run. However, the proposal generates one-time transition revenue in the short run, which the Budget proposes to dedicate to surface transportation reauthorization. Therefore, the effect of the proposal on receipts, shown below, is also included in the Budget estimates presented in Table 12–4 and is counted in the Budget's receipt and deficit totals.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Impose a 14-percent one-time tax on previously untaxed foreign income	....	34,559	56,407	54,420	52,434	50,448	19,861	....	....	....	....	248,268	268,129

[2] This proposal affects both receipts and outlays for refundable tax credits. Both effects are shown above. The outlay effects included in these estimates are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	6	76	68	32	23	21	11	10	8	8	4	220	261
Modify and permanently extend renewable electricity production tax credit and investment tax credit	....	....	20	47	63	71	78	83	90	95	101	201	648
Provide a carbon dioxide investment and sequestration tax credit	....	....	....	....	729	728	170	28	48	65	76	1,457	1,844
Provide America Fast Forward Bonds and expand eligible uses	....	306	1,397	3,006	4,689	6,438	8,244	10,101	11,994	13,911	15,845	15,836	75,931
Total, outlay effects of reserve for business tax reform that is revenue neutral in the long run	6	382	1,485	3,085	5,504	7,258	8,503	10,222	12,140	14,079	16,026	17,714	78,684

[3] This provision is estimated to have zero receipt effect under the Administration's current economic projections.

[4] Net of income offsets.

[5] These amounts are not counted in the Budget's receipt and outlay totals and are not counted toward meeting the Administration's deficit reduction goals. The Administration believes that these proposals should be enacted in the context of comprehensive business tax reform.

OTHER BUDGET PROPOSALS

The Administration's receipt proposals begin the process of comprehensively reforming the Internal Revenue Code to help address the challenges that working families face. These proposals help make work pay by expanding the EITC for workers without qualifying children and creating a new second earner credit, reform and simplify tax incentives that help families save for retirement and pay for college and child care, and reform capital gains taxation to eliminate a loophole that lets substantial capital gains income escape tax. They also reduce the deficit and make the tax system fairer by eliminating a number of tax loopholes and reducing tax benefits for higher-income taxpayers. The Administration's proposals that affect receipts are described below.

Tax Reform for Families and Individuals

Reform child care tax incentives.—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable expense is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit of up to 35 percent of up to $3,000 in eligible expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every $2,000 of adjusted gross income (AGI) over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). The income phasedown and the credit are not indexed for inflation. The proposal would repeal dependent care flexible spending accounts, increase the start of income phasedown of the child and dependent care credit from $15,000 to $120,000, and create a larger credit for taxpayers with children under age five. Taxpayers with young children could claim a child care credit of up to 50 percent of up to $6,000 ($12,000 for two children) of eligible expenses. The credit rate for the young child credit would phase down at a rate of one percentage point for every $2,000 (or part thereof) of AGI over $120,000 until the rate reaches 20 percent for taxpayers with incomes above $178,000. The expense limits and incomes at which the credit rates begin to phase down would be indexed for inflation for both young children and other dependents. The proposal would be effective for taxable years beginning after December 31, 2015.

Simplify and better target tax benefits for education.—Because there are multiple tax benefits for the same higher education expenses, incomplete information reporting, and a lack of coordination between Federal grant and tax benefits, many middle- and lower-income families do not claim all the education-related tax benefits to which they are entitled. To simplify and better target these benefits, the Administration proposes to consolidate the lifetime learning credits into an expanded permanent AOTC, which would be available for five years instead of four. As under current law, the AOTC for students attending school at least half time would be 100 percent of the first $2,000 of expenses and 25 percent of the next $2,000 of expenses for a maximum annual credit of $2,500. In addition, less than half-time undergraduate students would be eligible for a part-time AOTC equal to 50 percent of the first $2,000 of eligible expenses plus 12.5 percent of the next $2,000 of eligible expenses for a maximum credit of $1,250. The Administration also proposes to increase the refundable portion of the AOTC from 40 percent of the otherwise allowable credit to the first $1,500 of AOTC (first $750 for students enrolled less than half time). The expense limits and the amount that is refundable would be indexed for inflation.

To further simplify education benefits for low-income students, the proposal would exclude all Pell grants from gross income and allow low-income students to claim an AOTC without reducing eligible expenses for claiming the AOTC by the amount of their Pell grant. In addition, the Administration proposes to require institutions of higher education to report amounts paid, not billed, on Form 1098-T and require any entity issuing a scholarship or grant in excess of $500 (indexed for inflation) that is not processed or administered by an institution of higher education to report the scholarship or grant on Form 1098-T.

In addition, the Administration proposes to repeal the deduction for student loan interest for new students. Not only would new students be able to reduce their borrowing due to the expanded AOTC, but all new borrowers would have access to Pay-As-You-Earn, a generous income-driven repayment option that limits payments to affordable levels and forgives remaining balances after a limited repayment period. The Administration further proposes to exclude the forgiven portion of the student loan from gross income and to exclude from gross income debt forgiven and certain scholarship amounts for participants in the Indian Health Service Health Professions Programs. The Administration would also allow the Department of Education to obtain from the IRS the addresses of borrowers who are delinquent in repaying their loans (in addition to allowing access to addresses of defaulted borrowers as under current law).

To help pay for the expanded benefits for low-income students and reduce tax benefits disproportionately claimed by high-income families, the Administration proposes to repeal Coverdell education savings accounts (ESAs) and reduce the Federal tax benefits allowed to qualified tuition programs, also known as section 529 ESAs. No new contributions would be allowed to Coverdell ESAs. Qualifying distributions of earnings on contributions to Coverdell and section 529 ESAs made prior to the date of enactment would continue to be excludable from gross income. Distributions of earnings on contributions to section 529 ESAs made after the date of enactment would no longer be excludable from gross income but would still benefit from being includable only in the gross income of the student beneficiary, not the gross income of the account holder.

The proposal would generally be effective for taxable years beginning after December 31, 2015.

Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment.—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to their employees to provide automatic enrollment in an IRA. Employers with 10 or fewer employees and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or opting for a traditional IRA. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified).

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement (including those that are not required to do so) would be entitled to a temporary business tax credit for the employer's expenses associated with the arrangement up to $1,000 per year for three years. Furthermore, these employers would be entitled to an additional credit of $25 per participating employee up to a total of $250 per year for six years.

Under current law, small employers (those that have no more than 100 employees) that adopt a new qualified retirement plan, Simplified Employee Plan (SEP), or Savings Incentive Match Plan for Employees (SIMPLE plan) are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan and any employer contributions. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, the Administration proposes to encourage small employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE plan to do so by tripling this tax credit to a maximum of $1,500 per year for three years and extending it to four years (rather than three) for any small employer that adopts a new qualified retirement plan, SEP, or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement. In addition, small employers would be allowed a credit of $500 per year for up to three years, for new or existing defined contribution plans that add auto-enrollment. The proposal would be effective for taxable years beginning after December 31, 2016.

Expand penalty-free withdrawals for long-term unemployed.—Under current law, a 10-percent additional tax applies to early withdrawals from a tax-qualified retirement plan or IRA, unless an exception applies. IRA account holders who have been unemployed for 12 weeks can withdraw funds during a two-year period to pay for health insurance without paying the 10-percent additional tax, but the unemployment exception does not extend to withdrawals used for any other purpose. There is no exception to the 10-percent additional tax for early withdrawals from a qualified plan due to unemployment. The Administration proposes to expand the exception from the 10-percent additional tax to withdrawals by long-term unemployed individuals from IRAs, 401(k) plans, or other tax-qualified defined contribution plans for any use. For this purpose, long-term unemployed individuals would be individuals who have been unemployed for at least 27 weeks (or, if less, the maximum period of unemployment benefits available under applicable state law). Under the proposal, the exception would not apply to IRA distributions that exceed 50 percent of the fair market value of all the individual's IRAs or a distribution from a retirement plan that exceeds 50 percent of the individual's vested accrued benefit in all tax-qualified retirement plans, and would be subject to an aggregate annual maximum of $50,000. The first $10,000 of distributions would not be subject to the 50-percent of the IRA or plan limitation. The proposal would be effective for distributions occurring after December 31, 2015.

Require retirement plans to allow long-term part-time workers to participate.—Under current law, a qualified retirement plan sponsor generally is not required to extend eligibility for coverage to employees who are credited with fewer than 1,000 hours in a year (about half time). Similar to the 1,000-hour threshold for coverage eligibility, employees also are not required to be credited with a year of service for purposes of vesting in employer contributions unless they earn 1,000 hours of service in a year. To increase coverage and vesting for long-term part-time employees, the Administration proposes to require that employees be permitted to make contributions in lieu of salary if they have had at least 500 hours of service per year with the employer for at least three consecutive years. These plans would also be required to credit, for each year in which employees have at least 500 hours of service, a year of service for purposes of vesting in any employer contributions. With respect to employees newly covered under the proposed change, employers would receive nondiscrimination testing relief (similar to current-law relief for plans covering otherwise excludable employees), including permission to exclude these employees from top-heavy benefit requirements. The proposal would be effective for plan years beginning after December 31, 2015.

Facilitate annuity portability.—Under current law, 401(k) and other defined contribution retirement plans may not permit distributions absent a distributable event. Distributable events for 401(k) plans include severance from employment and attainment of age 59½. Sponsors of defined contribution plans that want to offer annuities (for example, qualified longevity annuity contracts (QLACs) and deferred annuities inside target date funds) may be discouraged from doing so if the sponsor has no clear way to allow employees to continue existing annuities if the annuity product is no longer supported by the plan at some point in the future (for example, because of a change in trustee or recordkeeper or a reassessment of the value of an annuity option in light of take-up or because the annuity product is no longer available on favorable terms). To facilitate the offering of annuities, the Administration proposes to allow defined contribution plans to let participants take a distribution – through a direct rollover to an IRA or other retirement plan – of an annuity in the event the annuity is no longer authorized to be held as an investment under the plan, without regard to whether a distributable event (such as severance from employment) has occurred. The proposal would be effective for plan years beginning after December 31, 2015.

Simplify minimum required distribution (MRD) rules.—The MRD rules generally require that owners of IRAs and participants in tax-favored retirement plans commence distributions shortly after attaining age 70 1/2 and that these retirement assets be distributed to them (or their spouses or other beneficiaries) over a period based on the joint life expectancy of the owner or plan participant and the designated beneficiary. The penalty for failure to take a minimum required distribution by the applicable deadline is 50 percent of the amount not withdrawn. The Administration proposes to simplify tax compliance for retirees of modest means by exempting an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed $100,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between $100,000 and $110,000. The initial measurement date for the dollar threshold would be the beginning of the year in which the individual turns 70 1/2 or dies, with additional measurement dates only if the individual is subsequently credited with amounts (other than earnings) that were not previously taken into account. The Administration also proposes to harmonize the application of the MRD requirements for holders of designated Roth accounts and of Roth IRAs by generally treating Roth IRAs in the same manner as all other tax-favored retirement accounts, i.e., requiring distributions to begin shortly after age 70 1/2, without regard to whether amounts are held in designated Roth accounts or in Roth IRAs. Consistent with this change to the MRD rules for Roth IRAs, individuals also would not be permitted to make additional contributions to Roth IRAs after they reach age 70 1/2. The proposal would be effective for taxpayers attaining age 70 1/2 and taxpayers who die before age 70 1/2 after December 31, 2015.

Allow all inherited plan and IRA balances to be rolled over within 60 days.—Generally, most amounts distributed from qualified plans or IRAs may be rolled over into another IRA or into an eligible retirement plan. However, the movement of assets from a plan or IRA account inherited by a non-spouse beneficiary cannot be accomplished by means of a 60-day rollover. This difference in treatment between plan and IRA accounts inherited by a non-spouse beneficiary and accounts of living participants serves little if any purpose, generates confusion among plan and IRA administrators, and creates a trap for unwary beneficiaries. The Administration proposes to permit rollovers of distributions to all designated beneficiaries of inherited IRA and plan accounts, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2016.

Expand the EITC for workers without qualifying children.—Low and moderate income workers may be eligible for a refundable EITC. The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, and is gradually phased out once income exceeds a specified threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. Taxpayers with low wages who do not have a qualifying child and are at least 25 years old and less than 65 years old (or for whom, if filing jointly, the age of at least one spouse is within these limits) may be eligible to claim the small EITC for workers without qualifying children. The Administration proposes to increase the credit for workers without qualifying children. The phasein rate and the phaseout rate would be increased from 7.65 percent to 15.30 percent, which would double the size of the maximum credit from about $500 to about $1,000 in 2016. The income at which the credit would begin to phase out would be increased to $11,500 ($17,090 for joint filers) in 2016 and indexed thereafter. The Administration also proposes to expand eligibility to workers at least 21 years old and less than 67 years old. As under current law, taxpayers who may be claimed as a dependent or as the qualifying child of another taxpayer (e.g., taxpayers who are dependent students age 19 to age 23), may not claim the EITC for workers without children. This proposal would be effective for taxable years beginning after December 31, 2015.

Simplify the rules for claiming the EITC for workers without qualifying children.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. In general, taxpayers with low wages who do not have a qualifying child may be eligible to claim the small EITC for workers without qualifying children. However, if the taxpayer resides with a qualifying child whom the taxpayer does not claim (perhaps because that child is claimed by another individual within the household), the taxpayer is not eligible for any EITC. The Administration proposes to allow otherwise eligible taxpayers residing with qualifying children to claim the EITC for workers without qualifying children. This proposal would be effective for taxable years beginning after December 31, 2015.

Provide a second-earner tax credit.—Married couples generally file jointly on their Federal individual income tax returns and cannot choose single or head of household filing status. Because tax rates rise with taxable income under a progressive tax system, the lower earner in a married couple may be discouraged to work when these second earners make their labor supply decisions conditional on the primary earners' decisions, effectively treating their earnings as taxed at the couples' highest marginal rates. In addition, low- and moderate-income married couples can face a high marginal tax rate due to the phaseout of tax credits and other benefits. To provide tax relief for working families and promote employment among secondary earners, the Administration proposes a second-earner tax credit. Two-earner married couples who file a joint Federal income tax return would be eligible for a nonrefundable tax credit equal to a percentage of the lower earner's earned income up to $10,000. The credit rate would be 5 percent and would phase down at a rate of one-half of one percentage point for every $10,000 of AGI over $120,000. Therefore, the credit would be fully phased out at AGI above $210,000. The maximum creditable earned income ($10,000) and the AGI at which the credit rate starts to phase down ($120,000) would be indexed for inflation. The proposal would be effective for taxable years beginning after December 31, 2015.

Extend exclusion from income for cancellation of certain home mortgage debt.—The Administration proposes to extend the provision that excludes from gross income amounts that are realized from discharges of qualified principal residence indebtedness. This provision expired on December 31, 2014. The exclusion would be extended for three years, to apply to amounts that are discharged after December 31, 2014, and before January 1, 2018, or that are discharged pursuant to an arrangement entered into before January 1, 2018.

Reforms to Capital Gains Taxation, Upper-Income Tax Benefits, and the Taxation of Financial Institutions

Reduce the value of certain tax expenditures.—The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would reduce the value of the specified exclusions and deductions that would otherwise reduce taxable income in the top three individual income tax rate brackets of 33, 35, and 39.6 percent to 28 percent. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions. If a deduction or exclusion for contributions to retirement plans or individual retirement arrangements is limited by this proposal, the taxpayer's basis would be increased to reflect the additional tax paid. The limit would be effective for taxable years beginning after December 31, 2015.

Reform the taxation of capital income.—Capital gains are taxable only upon the sale or other disposition of an appreciated asset. Under current law, most capital gains are taxed at graduated rates, with 20 percent generally being the highest rate. In addition, higher-income taxpayers are subject to a tax of 3.8 percent of the lesser of net investment income, including capital gains, or modified AGI in excess of a threshold. When a donor gives an appreciated asset to a donee during life, the donee takes the donor's basis in the asset and there is no recognition of capital gains until the donee later disposes of that asset. When an appreciated asset is held by a decedent at death, the decedent's heir receives a basis in that asset equal to its fair market value at the date of decedent's death. As a result, the appreciation accruing during the decedent's life on assets that are still held by the decedent at death is never subjected to the capital gains tax.

Under this proposal, the 20-percent capital gains tax rate would be increased to 24.2 percent (for a total of 28 percent for gains also subject to the net investment income tax). This would also increase the tax rate on qualified dividends, which would be taxed at the same rate as capital gains. In addition, transfers at death or by gift would result in recognition of gain. In the case of a gift, the gain would be taxable on the donor's income tax return for the year in which the gift was made. In the case of death, the tax would be reported either on the decedent's final income tax return or on a new income tax return created for this purpose. The proposal would exempt gain on household furnishings and personal effects (excluding collectibles) and allow a $100,000 exclusion of other gains recognized at death (which would be indexed for inflation and would be portable to a surviving spouse resulting in a $200,000 per couple exclusion). In addition, the current law ($250,000 per person) exclusion of capital gains from a principal residence would apply to all residences at death. If any share of a personal residence is bequeathed to a spouse, the spouse would be allowed the use of the first spouse's exclusion of gain (that is, the $250,000 personal residence exclusion would be portable). The unlimited use of capital losses and carryforwards would be allowed against ordinary income on the decedent's final income tax return, and the capital gains tax imposed at death would be deductible on the decedent's estate tax return. Appreciated property given to charity would be exempt from the capital gains tax. Gifts or bequests to a spouse would carry the basis of the donor or decedent, and capital gain would not be realized until the spouse disposes of the asset or dies. The proposal would provide for the deferral of tax payment (with interest) on the appreciation of certain small family-owned businesses, until the business is sold or transferred to owners outside the family. The proposal would further allow a 15-year fixed-rate payment plan for the capital gains tax on assets other than liquid assets such as publicly traded financial assets transferred at death. This proposal would be effective for gifts, deaths, qualified dividends received, and other capital gains realizations in taxable years beginning after December 31, 2015.

Implement the Buffett Rule by imposing a new "Fair Share Tax".—The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high-income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit equals 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over the sum of the taxpayer's: (1) regular income tax (after certain credits) including the 3.8 percent net investment income tax, (2) the AMT, and (3) the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax excludes the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The tax is phased in linearly starting at $1 million of AGI ($500,000 in the case of a married individual filing a separate return). The tax is fully phased in at $2 million of AGI ($1 million in the case of a married individual filing a separate return). The threshold is indexed for inflation beginning after 2016. The proposal would be effective for taxable years beginning after December 31, 2015.

Impose a financial fee.—The Administration proposes to impose a fee on banks, both U.S. and foreign, and would also apply to bank holding companies and "nonbanks," such as insurance companies, savings and loan holding companies, exchanges, asset managers, broker-dealers, specialty finance corporations, and financial affiliates with assets in excess of $50 billion. Firms with worldwide consolidated assets of less than $50 billion would not be subject to the fee for the period when their assets are below this threshold. U.S. subsidiaries of international firms that fall into these categories with assets in excess of $50 billion would also be covered. The fee base is assets less equity (also known as liabilities) for banks and nonbanks based on audited financial statements with a deduction for separate account (primarily for insurance companies). The fee rate would be seven basis points and would be effective on January 1, 2016. The fee is intended to discourage excessive risk-taking by financial firms, who were key contributors to the recent financial crisis. The fee would also satisfy the statutory requirement for the President to propose a means to recoup the net costs of assistance provided through the Troubled Asset Relief Program.

Loophole Closers

Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt.—Just as original issue discount (OID) is part of the yield of a debt instrument purchased at original issuance, market discount generally enhances the yield to a purchaser of debt in the secondary market. Unlike OID, however, recognition of market discount is generally deferred under current law until a debt instrument matures or is otherwise sold or transferred. The Administration's proposal would require taxpayers to accrue market discount into income currently, in the same manner as original issue discount. To prevent over-accrual of market discount on distressed debt, the accrual would be limited to the greater of (1) an amount equal to the bond's yield to maturity at issuance plus five percentage points, or (2) an amount equal to the Applicable Federal Rate plus 10 percentage points. The proposal would apply to debt securities acquired after December 31, 2015.

Require that the cost basis of stock that is a covered security must be determined using an average cost basis method.—Current regulations permit taxpayers to use "specific identification" when they sell or otherwise dispose of stock. Specific identification allows taxpayers who hold identical shares of stock that have different tax basis to select the amount of gain or loss to recognize on the disposition. The Administration's proposal would require the use of average cost basis for all identical shares of portfolio stock held by a taxpayer that have a long-term holding period. The proposal would apply to covered securities acquired after December 31, 2015.

Tax carried (profits) interests as ordinary income.—A partnership does not pay Federal income tax; instead, an item of income or loss of the partnership and associated character flows through to the partners who must include such items on their income tax returns. Certain partners receive partnership interests, typically interests in future profits, in exchange for services (commonly referred to as "profits interests" or "carried interests"). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 20-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as an "investment services partnership interest" (ISPI) and to tax a partner's share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for taxable years ending after December 31, 2015.

Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years.—Under current law, owners of IRAs and employees with tax-favored retirement plans generally must take distributions from those retirement accounts beginning at age 70 1/2. The minimum amount required to be distributed is based on the joint life expectancy of the owner or plan participant and the designated beneficiary, calculated at the end of each year. Minimum distribution rules also apply to balances remaining after a participant or IRA owner has died. Heirs who are designated as beneficiaries under IRAs and qualified retirement plans may receive distributions over their lifetimes, no matter what the age difference between the deceased IRA owner or plan participant and the beneficiary. The Administration proposes to require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years. Exceptions would be provided for disabled beneficiaries and beneficiaries within 10 years of age of the deceased IRA owner or plan participant. Minor children would be allowed to receive payments up to five years after they attain the age of majority. This proposal would be effective for distributions with respect to participants or IRA owners who die after December 31, 2015.

Limit the total accrual of tax-favored retirement benefits.—The Administration proposes to limit the deduction or exclusion for contributions to defined contribution plans, defined benefit plans, or IRAs for an individual who has total balances or accrued benefits under those plans that are sufficient to provide an annuity equal to the maximum allowable defined benefit plan benefit. This maximum, currently an annual benefit of $210,000 payable in the form of a joint and survivor benefit commencing at age 62, is indexed for inflation. The proposal would be effective for taxable years beginning after December 31, 2015.

Conform Self-Employment Contributions Act (SECA) taxes for professional service businesses.—The self-employment tax system treats business owners differently according to the legal form of their ownership, rather than their operational roles in the business. In some cases the rules are outdated and do not reflect significant changes to State law business forms. As a result, many owners of pass-through entities avoid payroll tax on income that looks like self-employment earnings and that would be taxed as self-employment earnings (subject to employment taxes) if the business had a different legal structure. The Administration proposes to tax owners of pass-through businesses providing professional services consistently, regardless of the legal form of the organization. Owners who provide services and materially participate in a business that provides professional services would be subject to self-employment tax on their distributive shares of income, as currently applied to general partners and sole proprietors. Owners who do not materially participate would be subject to self-employment tax only on an amount equal to reasonable compensation for services provided. The proposal would be effective for taxable years beginning after December 31, 2015.

Limit Roth conversions to pre-tax dollars.—Subject to certain restrictions, taxpayers can convert traditional IRA/401(k) balances to Roth IRA/Roth 401(k) balances by paying tax at ordinary rates on the amount of the conversion in excess of basis. No tax is paid on the portion of the conversion that is a return of basis. The limits on after-tax contributions to plans and nondeductible contributions to IRAs (which generate basis) are weaker than those on pre-tax and Roth contributions. Taxpayers may exploit those weaker limits by performing a Roth conversion immediately after making such a contribution and thereby obtain—at no additional cost—the full benefits of Roth treatment on a less-advantaged after-tax or nondeductible contribution. The proposal would limit Roth conversions to pre-tax dollars, which would reduce the scope for strategies of this nature by precluding Roth conversions of after tax or nondeductible contributions. The proposal would be effective for taxable years beginning after December 31, 2015.

Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans (ESOPs).—Generally, corporations do not receive a corporate income tax deduction for dividends paid to their shareholders. However, a deduction for dividends paid on employer securities is allowed under a special rule for ESOPs, including, for example, dividends paid on employer stock held in an "ESOP account" that is one of the investment options available to employees under a typical 401(k) plan. This special rule has been justified as encouraging employee ownership, which has been viewed as having a productivity incentive effect. However, ownership of stock of a publicly-traded corporation generally does not result in employees owning a significant percentage of the corporation and can result in an excessive concentration of assets intended for retirement security in a single investment. The Administration's proposal would repeal the deduction for dividends paid with respect to employer stock held by an ESOP that is sponsored by a publicly-traded corporation. This proposal would be effective with respect to dividends paid after the date of enactment.

Repeal exclusion of net unrealized appreciation (NUA) in employer securities.—In general, distributions from retirement plans are taxed as ordinary income. However, for employer securities received as part of a lump-sum distribution, more favorable tax treatment generally is available under which the excess of the market value of the employer stock at the time of the distribution over the cost or other basis of that stock to the plan (the net unrealized appreciation) is excluded from gross income at the time of distribution. The net unrealized appreciation generally is taxed as a capital gain at the time the employer stock is sold by the recipient. The Administration proposes to repeal this special exclusion for employer stock for retirement plan participants who have not attained age 50 on or before December 31, 2015. The proposal would be effective for distributions occurring after December 31, 2015.

Disallow the deduction for charitable contributions that are a prerequisite for purchasing tickets to college sporting events.—Under current law, donors who receive benefits in exchange for a charitable contribution must reduce the value of their charitable contribution deduction by the fair market value of the benefits they receive. Many colleges and universities give exclusive or priority purchasing privileges for sports ticket sales to donors, with the priority often dependent on the size of the gift. In contrast to the general rule for valuing donations in exchange for benefits, donors to colleges and universities who receive the right to purchase tickets for seating at an athletic event may deduct 80 percent of the contribution even when the value of the ability to purchase the tickets is far in excess of 20 percent of the contributed amount. The proposal would deny the deduction for contributions that entitle donors to a right to purchase tickets to sporting events. The proposal would be effective for contributions made in taxable years beginning after December 31, 2015.

Incentives for Job Creation, Clean Energy, and Manufacturing

Designate Promise Zones.—The Administration proposes to designate 20 Promise Zones (14 in urban areas and six in rural areas), inclusive of the five zones that have already been chosen. Zone designations would become effective with regard to tax incentives in 2016 and would last for 10 years. The zones would be chosen through a competitive application process based on the strength of the applicant's "competitiveness plan," economic indicators, and other criteria. Two tax incentives would be applicable to designated promise zones after the incentives' enactment. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first $15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

Provide a tax credit for the production of advanced technology vehicles.—Current law provides a tax credit for plug-in electric drive motor vehicles. The Administration proposes to replace this credit with a credit for advanced technology vehicles. The credit would be available for a vehicle that meets the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of January 1, 2014, there are few vehicles in operation in the United States using the same technology as such vehicle; and (3) the technology used by the vehicle substantially exceeds the footprint-based target miles per gallon. In general, the credit would be scalable based on the vehicle's miles per gallon gasoline equivalent, but would be capped at $10,000 ($7,500 for vehicles with a manufacturer's suggested retail price above $45,000). The credit for a battery-powered vehicle would be determined under current law rules for the credit for plug-in electric drive motor vehicles if that computation results in a greater credit. The credit would be allowed for vehicles placed in service after December 31, 2015, and before January 1, 2023. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2020, to 50 percent of such amount for vehicles placed in service in 2021, and to 25 percent of such amount for vehicles placed in service in 2022. The credit would be allowed to the vehicle manufacturer and would be transferable.

Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles.—Current law provides no tax incentive for alternative-fuel vehicles (other than fuel-cell vehicles) weighing more than 14,000 pounds. The Administration proposes to provide a tax credit for dedicated alternative-fuel commercial vehicles weighing more than 14,000 pounds. The credit would be $25,000 for vehicles weighing between 14,000 and 26,000 pounds and $40,000 for vehicles weighing more than 26,000 pounds. The credit would be allowed for vehicles placed in service after December 31, 2015, and before January 1, 2022. For vehicles placed in service in calendar year 2021, the credit would be limited to 50 percent of the otherwise allowable amount. The credit would be allowed to the manufacturer of the vehicle and would be transferable.

Modify and extend the tax credit for the construction of energy-efficient new homes.—Under the Administration's proposal, the tax credit for energy-efficient new homes, which expired on December 31, 2014, would be extended through December 31, 2015. The Administration proposes replacing this credit with a two-tier credit starting in 2016. The first tier would provide a $1,000 tax credit to homebuilders for the construction of each qualified ENERGY STAR certified new home that meets guidelines for energy efficiency and construction set by the Environmental Protection Agency. The second tier would provide a $4,000 tax credit for the construction of each qualified Department of Energy (DOE) Zero Energy Ready Home certified to meet substantially higher standards for energy savings and construction set by the DOE. To ensure that a new home meets the ENERGY STAR or DOE Zero Energy Ready Home guidelines, verification by a qualified third party would be required. The new credits would apply to qualified new homes acquired from the homebuilder for use as a residence after December 31, 2015, and before January 1, 2026.

Reduce excise taxes on liquefied natural gas (LNG) to bring into parity with diesel.—The Administration proposes to reduce the excise tax on LNG from 24.3 cents to 14.1 cents per gallon after December 31, 2015.

Enhance and modify the conservation easement deduction.—A deduction is generally available for charitable contributions of cash and property. In general, no charitable deduction is allowed for a contribution of a partial interest in property. An exception to this rule allows a donor to deduct the value of a conservation easement (a partial interest) that is donated to a qualified charitable organization exclusively for conservation purposes, including the preservation of recreational outdoor spaces and certain certified historical structures. The value of the deduction for any contribution that produces a return benefit to the donor must be reduced by the value of the benefit received. Special rules for the deductibility of qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2015. These enhancements, originally enacted in the Pension Protection Act of 2006, temporarily raised the percentage-of-income limitations for gifts of conservation easements made after December 31, 2005, allowing individuals to deduct up to 50 percent of their contribution base (generally, adjusted gross income computed without regard to the net operating loss carryback) and allowing qualified farmers and ranchers to deduct up to 100 percent of their contribution base. Certain corporate farmers and ranchers could deduct the value of contributions of property used in agriculture or livestock production (and restricted so as to remain available for such production) up to 100 percent of taxable income. Additionally, these donors could deduct any remaining value of the donated easement over the succeeding 15 years.

The Administration proposes the following enhancements and modifications to the conservation easement deduction, effective for contributions made after the date of enactment, unless otherwise stated. First, the Administration proposes to make permanent the temporary enhanced incentives for conservation easement contributions that expired on December 31, 2014. In addition, to address concerns regarding abusive uses of this deduction and to promote effective, high-value conservation efforts, the Administration proposes to strengthen standards for organizations to qualify to receive deductible contributions of conservation easements; modify the definition of eligible conservation purpose and require that, prior to taking a deduction, donors of conservation easements establish that the easement furthers a clearly delineated Federal conservation policy or an authorized State or tribal government policy and will yield a significant public benefit; require that organizations receiving deductible contributions of easements certify the Federal conservation purposes served and public benefits yielded by the easement and attest that the fair market value of the easement reported by the donor to the IRS is accurate; penalize organizations that attest to values that they know (or should know) are substantially overstated or for receiving contributions that do not serve a conservation purpose; and require additional reporting by organizations receiving deductible contributions of conservation easements, including information about the contributed easements and their fair market values.

Second, the Administration proposes to pilot a non-refundable credit for conservation easement contributions as an alternative to the current deduction. The credits of $100 million per year would be allocated by a Federal board to qualified charitable organizations and governmental entities that hold and enforce conservation easements. These conservation organizations would in turn allocate the credits to donors of conservation easements. Donors would receive up to a maximum of 50 percent of the fair market value of the contributed easement in credits and could use the credits to offset up to 100 percent of their income tax liability. Any unused credit amounts could be carried forward for up to 15 years. Under the proposal, donors would have enhanced incentives to contribute because the value of the credits is not limited to the donor's tax rate, and there would be fewer regulatory requirements and restrictions on taking the credit. Qualified conservation organizations would have flexibility to direct the credits toward easements with greatest conservation value and to utilize their credit allocation to maximize the conservation achieved in exchange for the tax benefits. Finally, the costs of tax administration could be reduced because conservation organizations, rather than donors, would determine the value of easements and be responsible for allocating the tax benefits to donors of valuable easements, eliminating much of the need for IRS enforcement activity to challenge overvalued easements deductions. Verification of donor compliance would be simplified as well, as regulatory requirements on donors necessary to support significant IRS examination activity of deductions would no longer be needed for the credit. The proposal also calls for a report to the Congress from the Department of the Treasury in collaboration with the Department of Agriculture and the Department of the Interior on the relative merits of the conservation credit and the deduction for conservation contributions, including an assessment of the conservation benefits and costs of conservation of both tax benefits.

Third, contributions of easements on golf courses have raised concerns that the deduction amounts claimed for such easements are excessive and that the conservation easement deduction is not narrowly tailored to promote only bona fide conservation activities, as opposed to the private interests of donors. The Administration proposes to amend the charitable contribution deduction provision to prohibit a deduction for any contribution of a partial interest in property that is, or is intended to be, used as a golf course.

Fourth, concerns have been raised that the deduction amounts claimed for contributions of conservation easements for historic preservation are excessive and may not appropriately take into account existing limitations on the property. The Administration proposes to disallow a deduction for any value associated with forgone upward development above an historic building. The Administration also proposes to require contributions of conservation easements on all historic buildings, including those listed in the National Register of Historic Places, to comply with a 2006 amendment that requires contributions of historic preservation easements on buildings in registered historic districts to comply with special rules relating to the preservation of the entire exterior of the building and the documentation of the easement contribution.

Modify Estate and Gift Tax Provisions

Restore the estate, gift, and generation-skipping transfer (GST) tax parameters in effect in 2009.— Under current law, estates, gifts, and GSTs are taxed at a maximum tax rate of 40 percent with a lifetime exclusion of $5 million, indexed for inflation after 2011. The Administration proposes to restore and permanently extend estate, gift, and GST tax parameters as they applied for calendar year 2009. Under those parameters, estates and GSTs would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $3.5 million. Gifts would be taxed at a maximum tax rate of 45 percent with a lifetime exclusion of $1 million. These parameters would be effective for the estates of decedents dying and transfers made after December 31, 2015, and would not be indexed for inflation.

Require consistency in value for transfer and income tax purposes.—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. (A special limitation based on fair market value at the time of the gift applies if the property subsequently is sold by the donee at a loss.) Elsewhere in this Budget the Administration proposes to tax accrued capital gains (that is, fair market value in excess of the basis) when assets are transferred by death or gift. Although generally the same standards apply to determine the value subject to estate or gift tax as apply to computing basis under current law or to computing gain under the Administration's proposal, there is no explicit consistency rule that would require the recipient of the property to use for income tax purposes the value used for estate or gift tax purposes as the recipient's basis in that property when the basis is determined by reference to the fair market value on the date of death or gift. The Administration proposes to require that, for decedents dying and gifts made after enactment, the fair market value used for computing the recipient's basis or for computing capital gain generally must equal (but in no event may exceed) the value of the property as determined for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donor to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropriate. The proposal would be effective for transfers after the year of enactment.

Modify transfer tax rules for grantor retained annuity trusts (GRATs) and other grantor trusts.—Current law provides that the value of the remainder interest in a GRAT for gift tax purposes is determined by deducting the present value of the annuity to be paid during the GRAT term from the fair market value of the property contributed to the GRAT. If the grantor of the GRAT dies during that term, the portion of the trust assets needed to produce the annuity is included in the grantor's gross estate for estate tax purposes. In practice, grantors commonly use brief GRAT terms (often of less than two years) and significant annuities to minimize both the risk of estate tax inclusion and the value of the remainder for gift tax purposes. The Administration proposes to add the following requirements for GRATs: (1) the GRAT must have a minimum term of 10 years and a maximum term of 10 years more than the annuitant's life expectancy, (2) the remainder interest must have a minimum value at the creation of the GRAT equal to the greater of 25 percent of the value of the property contributed to the GRAT or $500,000 (but not more than the value of the assets contributed), (3) no decrease in the annuity during the GRAT term is permitted, and (4) no tax-free exchange of any GRAT asset with the grantor is permitted.

This proposal also would address the sale of an asset to a grantor trust, specifically, a trust of which the seller is the deemed owner for income tax purposes. A grantor trust is ignored for income tax purposes, even though the trust may be irrevocable and the deemed owner may have no beneficial interest in the trust or its assets. The lack of coordination between the income tax and transfer tax rules applicable to a grantor trust creates opportunities to structure transactions between the trust and its deemed owner that are ignored for income tax purposes and can result in the transfer of significant wealth by the deemed owner without transfer tax consequences. The proposal would provide that a person who is a deemed owner of all or a portion of a trust engages in a transaction with that trust that constitutes a sale, exchange, or comparable transaction that is disregarded for income tax purposes by reason of the person's treatment as a deemed owner of the trust under the grantor trust rules, then the portion of the trust attributable to the property received by the trust in that transaction, net of the consideration received by the person in the transaction, will be: (1) subject to estate tax as part of the deemed owner's gross estate, (2) subject to gift tax at any time during the deemed owner's life when his or her treatment as a deemed owner of the trust is terminated, and (3) treated as a gift by the deemed owner to the extent any distribution is made to another (except in discharge of the deemed owner's obligation to the distributee) during the deemed owner's life. The transfer taxes would be payable from the trust. The proposal would be effective with regard to GRATs created after the date of enactment, and to other grantor trusts that engage in a described transaction on or after the date of enactment.

Limit duration of GST tax exemption.—Current law provides that each person has a lifetime GST tax exemption ($5,430,000 in 2015) that may be allocated to the person's transfers to or for the benefit of transferees who are two or more generations younger than the transferor ("skip persons"). The allocation of a person's GST exemption to such a transfer made in trust exempts from the GST tax not only the amount of the transfer (up to the amount of exemption allocated), but also all future appreciation and income from that amount during the existence of the trust. At the time of the enactment of the GST tax provisions, the law of almost all States included a Rule Against Perpetuities (RAP) that required the termination of every trust after a certain period of time. Because many States now either have repealed or limited the application of their RAP laws, trusts subject to the laws of those States may continue in perpetuity. As a result of this change in State laws, the transfer tax shield provided by the GST exemption effectively has been expanded from trusts funded with $1 million and a maximum duration limited by the RAP, to trusts funded with $5,430,000 and continuing (and growing) in perpetuity. The Administration proposes to limit the duration of the benefit of the GST tax exemption by imposing a bright-line test, more clearly administrable than the common law RAP, which, in effect, would terminate the GST tax exclusion on the 90th anniversary of the creation of the trust. An exception would be made for trusts that are distributed to another trust for the sole benefit of one individual if the distributee trust will be includable in the individual's gross estate for Federal estate tax purposes to the extent it is not distributed to that individual during his or her life. The proposal would apply to trusts created after enactment, and to the portion of a pre-existing trust attributable to additions to such a trust made after that date.

Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business.—There is a lien on nearly all estate assets for the 10-year period immediately following a decedent's death to secure the full payment of the Federal estate tax. However, the estate tax payments on interests in certain closely held businesses are deferred for 14 years after the due date of the return (or nearly 15 years after the date of death). Thus, this lien expires approximately five years before the due date of the final payment of the deferred tax. Existing methods of protecting the Federal Government's interest in collecting the amounts due are expensive and may be harmful to businesses. The Administration proposes to extend the existing estate tax lien throughout the deferral period to eliminate the need for any additional security in most cases in a manner that is economical and efficient for both taxpayers and the Federal Government. The proposal would be effective for the estates of all decedents dying on or after the date of enactment, as well as for all estates of decedents dying before the date of enactment as to which the lien has not then expired.

Modify GST tax treatment of Health and Education Exclusion Trusts (HEETs).—Payments made by a donor directly to the provider of medical care for another or directly to a school for another's tuition are exempt from gift tax. These direct transfers also are exempt from the GST tax. However, payments made to a trust, to be expended by the trust for the same purposes, are not exempt from the gift tax. Some contributors to HEETs interpret the GST tax exclusion to apply also to distributions made from the HEET in payment of medical expenses or tuition, and claim that those distributions are exempt from the GST tax. The Administration proposes to provide that the GST tax exclusion for transfers exempt from the gift tax is limited to outright transfers by the donor to the provider of the medical care or education and does not apply to distributions for those same purposes from a trust. The proposal would apply to trusts created after the introduction of the bill enacting this change and to transfers after that date made to pre-existing trusts.

Simplify gift tax exclusion for annual gifts.—The annual per-donee gift tax exclusion (currently $14,000) is available only for gifts of "present interests," but generally a transfer can be converted into a present interest by granting the donee an immediate right to withdraw the property ("Crummey power"). In an effort to simplify tax compliance and administration, and to prevent the possible abuse of such withdrawal powers, the Administration proposes to eliminate the present interest requirement, define a new category of transfers that will not be affected by withdrawal or put rights, and impose an annual per-donor cap of $50,000 (indexed for inflation) on the total amount of gifts in that new category that can be exempted from gift tax by the annual per-donee exclusion. The new category would include transfers in trust (other than to a trust described in section 2642(c)(2) of the Internal Revenue Code), transfers of interests in pass-through entities, transfers of interests subject to a prohibition on sale, and other transfers of property that, without regard to withdrawal, put, or other such rights in the donee, cannot be immediately liquidated by the donee. The proposal would be effective for gifts made after the year of enactment.

Expand applicability of definition of executor.—Under current law, the statutory definition of executor applies only for purposes of the estate tax; therefore, an executor of an estate does not have the authority to extend a statute of limitations, claim a refund, agree to a compromise or assessment, or pursue judicial relief for a tax liability that arose prior to the decedent's death. To empower an authorized party to act on behalf of the decedent in such matters (whether arising before, upon, or after death), the Administration proposes to make the statutory definition of executor applicable for all tax purposes, and to authorize such executor to do anything on behalf of the decedent in connection with the decedent's pre-death tax liabilities or obligations that the decedent could have done if still living. In addition, because this definition frequently results in multiple parties being an executor, the proposal would grant regulatory authority to adopt rules to resolve conflicts among multiple executors authorized by that definition. The proposal would be effective upon enactment, regardless of the decedent's date of death.

Other Revenue Raisers

Increase and modify Oil Spill Liability Trust Fund financing.—An excise tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported petroleum products entered into the United States for consumption, use, or warehousing; and (3) any domestically produced crude oil that is used in (other than on the premises where produced for extracting oil or natural gas) or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. Under current law, the tax does not apply to some types of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax is deposited in the Oil Spill Liability Trust Fund. Amounts in the trust fund are used for several purposes, including the payment of costs associated with responding to and removing oil spills. The tax imposed on crude oil and imported petroleum products is eight cents per barrel, effective for periods after December 31, 2008, and before January 1, 2017, and nine cents per barrel, effective for periods after December 31, 2016. The Administration proposes to increase these taxes by one cent per barrel, to nine cents per barrel for periods after

December 31, 2015, and to 10 cents per barrel for periods after December 31, 2016. In addition, the Administration proposes to update the law to include other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax would cover, at the applicable rate, other sources of crudes received at a U.S. refinery, entered into the United State, or used or exported as described above after December 31, 2015. Finally, the proposal would place a prohibition on the drawback of the tax. The prohibition would be effective for periods after December 31, 2015.

Reinstate Superfund taxes.—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the Nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or taxable years (income tax) beginning after 2015, with expiration for periods and taxable years after 2025. The proposed taxes include the following: (1) an excise tax of 9.7 cents per barrel on crude oil and imported petroleum products; (2) an excise tax on specified hazardous chemicals at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use the specified hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds $2 million. Consistent with the Administration's proposal regarding taxes deposited in the Oil Spill Liability Trust Fund, the Superfund excise tax on crude oil and petroleum products would cover other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock.

Increase tobacco taxes and index for inflation.— Under current law, cigarettes are taxed at a rate of $50.33 per 1,000 cigarettes. This is equivalent to just under $1.01 per pack, or approximately $22.88 per pound of tobacco. Taxes on other tobacco products range from $0.5033 per pound for chewing tobacco to $24.78 per pound of roll-your-own tobacco. The Administration proposes to raise tobacco taxes and increase parity in tax rates among similar tobacco products. Cigarettes and small cigars would be taxed at $97.50 per 1,000 units, or about $1.95 per pack of cigarettes. Large cigars would be taxed at an approximately equivalent rate (using five per-unit rates that vary according to the cigar's weight. Pipe tobacco, and roll-your-own tobacco would be taxed at $44.23 per-pound, also roughly equivalent to the implied per-pound tax for cigarettes and cigars. Snuff and chewing tobacco would both be taxed at $10.00 per pound. The Administration also proposes to clarify that roll-your-own tobacco includes any processed tobacco that is removed for delivery to anyone other than a manufacturer of tobacco products or exporter. The new tax rates would be effective for articles held for sale or removed after December 31, 2015, and indexed for inflation after 2016.

Make unemployment insurance (UI) surtax permanent.—The net Federal UI tax on employers dropped from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to permanently reinstate the 0.8 percent rate, effective with respect to wages paid on or after January 1, 2016.

Expand Federal Unemployment Tax Act (FUTA) base.—Many States' UI systems are chronically underfunded and required Federal borrowing to cover benefits during the most recent downturn. The Administration proposes to improve system solvency by helping States rebuild their trust fund balances to repay their loans, cover current benefits, and create reserves so they are better prepared for the next downturn. Under this proposal, the FUTA taxable wage base would increase in 2017 to $40,000 (approximately average insured wages) and would be indexed thereafter. This wage base increase would be accompanied by a decrease in the tax rate to avoid a Federal tax increase in the first year.

Reform the UI extended benefits program.—The UI program is a key stabilizer during economic downturns. The Administration proposes reforms to strengthen UI's economic stabilization function by creating a new permanent federally funded extended benefits program that would respond quickly when State unemployment rates rise and provide more robust Federal assistance. This new program would provide up to 52 weeks of additional federally funded benefits, with the greatest number of weeks in States with higher unemployment rates. The proposal would provide up to 13 weeks of additional benefits each time States hit certain unemployment rate triggers—6.5 percent, 7.5 percent, 8.5 percent, and 9.5 percent. Under the proposal, these threshold rates can be lower in States where unemployment is increasing especially rapidly. States that offer fewer than 26 weeks of regular benefits would only be reimbursed for 50 percent of extended benefits, requiring them to raise additional revenue to cover the benefit costs.

Modernize the UI program.—The Administration proposes to modernize the UI system by improving its connection to jobs and making sure benefits are available to more workers who need them. To do this, the Budget includes a UI modernization fund that will provide incentive payments to States that adopt measures to expand both program eligibility and work-based learning opportunities and training for unemployed workers. A State can receive incentive payments if it adopts two measures that expand eligibility and two measures that improve connections to training and employment. States that maintain these changes for at least four years will also receive a bonus payment. States will need to raise additional revenue to cover the proposed benefit expansions.

Levy a fee on the production of hardrock minerals to restore abandoned mines.—Until 1977, there were no Federal requirements to restore land after mining for coal, leaving nearly $4 billion worth of abandoned coal mine hazards remaining today. The Department of the Interior collects a fee on every ton of coal produced in the United States to finance the reclamation of these abandoned coal mines. Historic mining of hardrock minerals, such as gold and copper, also left numerous abandoned mine lands (AML); however, there is no similar source of

Federal funding to reclaim these sites. Just as the coal industry is held responsible for past mining practices, the Administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposed fee on the production of hardrock minerals would be charged per volume of material displaced after December 31, 2016, and the receipts would be distributed through a set allocation between Federal and non-Federal lands. Funds would be used to restore the most hazardous hardrock AML sites, on both public and private lands. The receipts allocated to restoration of non-Federal lands would be distributed to States and Tribes based on need, with each State and Tribe selecting its own priority projects within certain national criteria**.**

Return fees on the production of coal to pre-2006 levels to restore abandoned mines.—Since October 1, 1977, the Department of the Interior has collected fees on every ton of coal produced in the United States to finance the reclamation of abandoned coal mines. The fees levied on mine operators were originally $0.35 per ton for surfaced mined coal and $0.15 per ton for underground mined coal. The 2006 amendments to the Surface Mining Control and Reclamation Act instituted a phased reduction in these fees beginning in 2006. However, nearly $4 billion worth of abandoned coal mine hazards remain today. The Administration proposes to restore the fees to their original level, effective for coal mined after September 30, 2015, to provide additional resources to continue addressing the legacy of abandoned coal mines.

Reduce the Tax Gap and Make Reforms

Expand Information Reporting

Improve information reporting for certain businesses and contractors.—The Administration proposes to require a contractor receiving payments of $600 or more in a calendar year from a particular business to furnish to the business (on Form W-9) the contractor's certified taxpayer identification number (TIN). A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. If a contractor failed to furnish an accurate certified TIN, the business would be required to withhold a flat-rate percentage of gross payments. Contractors receiving payments of $600 or more in a calendar year from a particular business could require the business to withhold a flat-rate percentage of their gross payments, with the flat-rate percentage of 15, 25, 30, or 35 percent being selected by the contractor.

In addition, the Administration proposes to require life insurance companies to report to the IRS, for each contract whose cash value is partially or wholly invested in a private separate account for any portion of the taxable year and represents at least 10 percent of the value of the account, the policyholder's TIN, the policy number, the amount of accumulated untaxed income, the total contract account value, and the portion of that value that was invested in one or more private separate accounts. For this purpose, a private separate account would be defined as any account with respect to which a related group of persons owns policies whose cash values, in the aggregate, represent at least 10 percent of the value of the separate account. Whether a related group of persons owns policies whose cash values represent at least 10 percent of the value of the account would be determined quarterly, based on information reasonably within the issuer's possession.

The proposal would be effective for payments made to contractors after December 31, 2015, or private separate accounts maintained on or after December 31, 2015.

Provide an exception to the limitation on disclosing tax return information to expand TIN matching beyond forms where payments are subject to backup withholding.—The IRS is prohibited from disclosing Federal tax returns and return information (FTI). There are certain very narrow exceptions. Even where disclosure is permitted, recipients of FTI must safeguard the information and cannot redisclose it unless permitted. The Secretary of the Treasury is required to notify information return filers in certain circumstances where backup withholding is required if the recipient's TIN is not correct. Filers are required to keep this information confidential and are prohibited from using the information for purposes other than backup withholding. The IRS has broad regulatory authority to implement backup withholding. Under this authority, the IRS has established a TIN matching program that allows the IRS to verify the TINs of payees submitted by filers in the case of payments subject to backup withholding. The proposal would provide an exception to the limitation on disclosing FTI to permit the IRS to do TIN matching even in cases where the filer is not making a payment that is subject to backup withholding. The proposal would be effective on the date of enactment.

Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA).—In many cases, foreign law would prevent foreign financial institutions from complying with the FATCA provisions of the Hiring Incentives to Restore Employment Act of 2010 by reporting to the IRS information about U.S. accounts. Such legal impediments can be addressed through intergovernmental agreements under which the foreign government agrees to provide the information required by FATCA to the IRS. Requiring U.S. financial institutions to report similar information to the IRS with respect to non-resident accounts would facilitate such intergovernmental cooperation by enabling the IRS to reciprocate in appropriate circumstances by exchanging similar information with cooperative foreign governments to support their efforts to address tax evasion by their residents. The proposal would require certain financial institutions to report the account balance for U.S. financial accounts held by foreign persons, expand the current reporting required with respect to U.S. source income paid to accounts held by foreign persons to include similar non-U.S. source payments, and provide the Secretary of the Treasury with authority to prescribe regulations that would require reporting of such other information that is necessary to enable the IRS to facilitate FATCA implementation by exchanging similar information with cooperative foreign governments in appropriate circumstances. The proposal would also require that this information, as well as information reported by foreign financial institutions to the IRS, be furnished to the account holders in order to encourage voluntary tax compliance. The proposal would be effective for returns required to be filed after December 31, 2016.

Improve mortgage interest deduction reporting.— Under current law, if any person in a trade or business receives in any calendar year from any individual more than $600 of interest on a loan primarily secured by real property, that person is required to file an information return with the IRS and provide a copy to the borrower. The information contained in Form 1098 does not provide the IRS with all of the information that is needed to verify all of the requirements for claiming the mortgage interest deduction. To enhance IRS administration of the mortgage interest deduction and to improve administration of the deduction for real estate taxes, the Administration proposes requiring the information returns on mortgage interest to include the outstanding principal balance of the mortgage as of the beginning of the calendar year; the address of the property securing the mortgage; information on whether the mortgage is a refinancing of an existing mortgage during the calendar year; property taxes, if any, paid from escrow; and the loan origination date. Having this information reported also has the potential to improve taxpayer compliance. The proposal would be effective for calendar years beginning after December 31, 2015.

Require Form W-2 reporting for employer contributions to defined contribution plans.— Employers are currently required to report on Form W-2 an employee's elective deferrals under a cash or deferred arrangement, such as a 401(k) plan. Employers, however, are not required to report amounts that they contribute to an employee's retirement plan accounts. The proposal would require employer contributions to a defined contribution plan to be reported on Form W-2, thus providing employees with a convenient annual statement of the amounts that are contributed on their behalf by their employers under defined contribution plans and facilitating compliance with overall contribution limits.

Improve Compliance by Businesses

Increase certainty with respect to worker classification.— Under current law, worker classification as an employee or as a self-employed person (independent contractor) is generally based on a common-law test for determining whether an employment relationship exists. Under a special provision (section 530 of the Revenue Act of 1978), a service recipient may treat a worker who may actually be an employee as an independent contractor for Federal employment tax purposes if, among other things, the service recipient has a reasonable basis for treating the worker as an independent contractor. If a service recipient meets the requirements of this special provision with respect to a class of workers, the IRS is prohibited from reclassifying the workers as employees, even prospectively. The special provision also prohibits the IRS from issuing generally applicable guidance about the proper classification of workers. The Administration proposes to permit the IRS to issue generally applicable guidance about the proper classification of workers and to permit the IRS to require prospective reclassification of workers who are currently misclassified and whose reclassification is prohibited under the special provision. Penalties would be waived for service recipients with only a small number of employees and a small number of misclassified workers, if the service recipient had consistently filed all required information returns reporting all payments to all misclassified workers and the service recipient agreed to prospective reclassification of misclassified workers. It is anticipated that after enactment, new enforcement activity would focus mainly on obtaining the proper worker classification prospectively, since in many cases the proper classification of workers may not be clear.

Increase information sharing to administer excise taxes.— Current law allows the IRS and the Alcohol and Tobacco Tax and Trade Bureau to disclose specific items of tax return information to permit the effective administration of excise taxes. This disclosure provision is too narrow and prevents effective administration and enforcement of the excise tax rules. The Administration proposes to facilitate excise tax administration and increase collections by amending current law to permit disclosure of tax return information to Department of Homeland Security employees (customs officials) whose job responsibilities include tax administration. The proposal would be effective upon enactment.

Provide authority to readily share information about beneficial ownership information of U.S. companies with law enforcement.— Illicit actors may abuse legal entities to commit financial crimes, including laundering criminal proceeds and financing terrorism through the international banking system. Knowledge of beneficial owners of an entity can help law enforcement officials identify and investigate criminals engaged in these activities.

For anti-money laundering and counter-terrorism financing (AML/CTF) purposes, the beneficial owner of a foreign private banking account is currently defined in Treasury regulations under Title 31 of the U.S. Code to mean an individual who has a level of control over, or entitlement to, the funds or assets in the account that, as a practical matter, enables the individual(s), directly or indirectly, to control, manage, or direct the account. For Federal tax purposes, most U.S. entities are required to obtain an employer identification number (EIN). A company applying for an EIN must provide the IRS with the name of a responsible party who will be the IRS contact for the company. Generally, for a company that is not publicly traded, the responsible party is the person who has a level of control over, or entitlement to, the funds or assets in the entity that, as a practical matter, enables the individual to directly or indirectly control, manage, or direct the entity and the disposition of its funds or assets. Because this definition is similar to the AML/CTF definition of beneficial owner, the responsible party of an entity for Federal tax purposes will generally be considered a beneficial owner of an account nominally owned by the entity for AML/CTF purposes. Although this responsible party information may be useful to law enforcement when investigating financial crimes, under current law it cannot be shared with law enforcement officials without a court order.

The proposal would allow the Secretary of the Treasury or his delegate to share responsible party information with law enforcement without a court order to combat money laundering, terrorist financing, and other financial crimes. Such sharing would advance criminal investigations and successful prosecution, and assist in identifying criminal proceeds and assets. In addition, the proposal would require all companies formed in the United States to obtain an EIN, which would provide a universal identifier for these companies and ensure that responsible party information is provided for every U.S. entity. Further, the proposal would provide the Secretary of the Treasury with the authority to impose AML/CTF obligations on persons in the business of forming companies. Finally, the proposal would establish standards that States would be encouraged to adopt to improve their regulation and oversight of the incorporation process.

Strengthen Tax Administration

Impose liability on shareholders to collect unpaid income taxes of applicable corporations.—Certain shareholders, corporate officers and directors, and their advisors have engaged in "Intermediary Transaction Tax Shelters." In a typical case, an intermediary entity purportedly purchases the shareholders' stock, either after or shortly before the corporation sells its assets. The cash from the asset sale effectively finances the purchase of the shareholders' stock and no assets are left to pay the corporate tax liability. Existing law does not adequately protect the Federal Government's interest in collecting the amounts due from selling shareholders as a result of these transactions. The Administration therefore proposes to add a new section to the Internal Revenue Code that would impose on the shareholders who sell stock of an "applicable C corporation" secondary liability (without resort to any State law) for payment of such corporation's unpaid corporate taxes. Shareholders would be liable to the extent they received proceeds, directly or indirectly, for their shares in an applicable C corporation. This proposal would be effective for sales of stock of applicable C corporations occurring on or after April 10, 2013.

Increase levy authority for payments to Medicare providers with delinquent tax debt.—The Administration proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Under current law, the Department of the Treasury is authorized to continuously levy up to 30 percent of a payment to a Medicare provider to collect delinquent tax debt. The proposal would allow the Department of the Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes, effective for payments made after the date of enactment.

Implement a program integrity statutory cap adjustment for tax administration.—The Administration proposes an adjustment to the discretionary spending limits, as established in the BBEDCA, as amended, for IRS tax enforcement, compliance, and related activities, including tax administration activities at the Alcohol and Tobacco Tax and Trade Bureau (TTB). In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2016 cap adjustment for the IRS and TTB will fund $667 million in enforcement and compliance initiatives and investments above current levels of enforcement and compliance activity. Beyond 2016, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2017 through 2020 and to sustain all of the new initiatives plus inflationary costs via adjustments through 2025. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be $18.7 billion over the 10-year budget window, and is estimated to generate an additional $59.7 billion in revenue over that same period for a net savings of $41.0 billion. These resources will help the IRS and TTB continue to work on closing the tax gap, defined as the difference between taxes owed and those paid on time and estimated at $450 billion in 2006. Enforcement funds provided through the 2016 cap adjustment will continue to target international tax compliance and restore previously reduced enforcement levels.

Streamline audit and adjustment procedures for large partnerships.—Under current law, large partnerships, other than electing large partnerships (ELPs), are subject to the unified audit rules established under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Since the enactment of the ELP regime, few large partnerships have elected into the ELP regime. Thus, the more complex and inefficient TEFRA partnership audit and adjustment procedures apply for most large partnerships. The Administration proposes to mandate new simplified partnership procedures for certain partnerships, including any partnership that has at least one partner that is another partnership, estate, trust, S corporation, nominee, or similar person ("pass-through partner") at any time during the taxable year. Direct partners that are pass-through partners are responsible for paying the tax on behalf of those owners. Pass-through partners would have 180 days to challenge the assessment. The proposal would apply to a partnership's taxable year ending on or after the date that is two years from the date of enactment.

Revise offer-in-compromise application rules.—Current law provides that the IRS may compromise with a taxpayer to settle any civil or criminal case arising under the Internal Revenue Code prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the requirement that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer's offer. The proposal would be effective for offers-in-compromise submitted after the date of enactment.

Expand IRS access to information in the National Directory of New Hires (NDNH) for tax administration purposes.—Employment data are useful to the IRS in administering a wide range of tax provisions, including verifying taxpayer claims and identifying levy sources. Currently, the IRS may obtain employment and unemployment data on a State-by-State basis, which is a costly and time-consuming process. The Administration proposes to amend the Social Security Act to expand IRS access to the NDNH data for general tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Data obtained by the IRS from the NDNH would be protected by existing taxpayer privacy laws, including civil and criminal sanctions. The proposal would be effective upon enactment.

Make repeated willful failure to file a tax return a felony.—Current law provides that willful failure to file a tax return is a misdemeanor punishable by a term of imprisonment for not more than one year, a fine of not more than $25,000 ($100,000 in the case of a corporation), or both. The Administration would modify this rule such that any person who willfully fails to file tax returns in any three years within any period of five consecutive years, if the aggregate tax liability for such period is at least $50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a term of imprisonment for not more than five years, a fine of not more than $250,000 ($500,000 in the case of a corporation), or both. The proposal would be effective for returns required to be filed after December 31, 2015.

Facilitate tax compliance with local jurisdictions.—Although Federal tax returns and return information (FTI) generally are confidential, the IRS and Department of the Treasury may share FTI with States as well as certain local government entities that are treated as States for this purpose. IRS and Department of the Treasury compliance activity, especially with respect to alcohol, tobacco, and fuel excise taxes, may necessitate information sharing with Indian Tribal Governments (ITGs). The Administration's proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed protocols. The proposal would be effective for disclosures made after enactment.

Extend statute of limitations for assessment for overstated basis and State adjustments.—In general, additional Federal tax liabilities in the form of tax, interest, penalties, and additions to tax must be assessed by the IRS within three years after the date a return is filed. The general three-year assessment period is increased to six years if the taxpayer omits an amount of gross income that is more than 25 percent of the gross income stated on the return and the omission is not disclosed. An overstatement of the adjusted basis of property, which results in an understatement of gain reported on a return, is not treated as an omission of gross income for purposes of determining whether there is a more than 25 percent omission of gross income stated on the return, even though the need for more time is the same regardless of whether there is an omission of gross income or an understatement of gain. The Administration therefore proposes to amend the rules for determining gross income for purposes of the six-year assessment period to provide that an understatement of gain is treated as an omission from gross income.

Pursuant to agreement, the IRS and State and local revenue agencies exchange reports of adjustments made through examination so that corresponding adjustments can be made by each taxing authority. The general statute of limitations for assessment of Federal tax liabilities serves as a barrier to the effective use by the IRS of State and local tax adjustment reports when the reports are provided by the State or local revenue agency to the IRS with little time remaining for assessments to be made at the Federal level. The Administration therefore proposes an additional exception to the general three-year statute of limitations for assessment of Federal tax liability resulting from adjustments to State or local tax liability. The statute of limitations would be extended to the later of: (1) one year from the date the taxpayer first files an amended tax return with the IRS reflecting adjustments to the State or local tax return; or (2) two years from the date the IRS first receives information from the State or local revenue agency under an information sharing agreement in place between the IRS and a State or local revenue agency. The statute of limitations would be extended only with respect to the increase in Federal tax attributable to the State or local tax adjustment. The statute of limitations would not be further extended if the taxpayer files additional amended returns for the same tax periods as the initial amended return or the IRS receives additional information from the State or local revenue agency under an information sharing agreement.

The proposal would be effective for returns required to be filed after December 31, 2015.

Improve investigative disclosure statute.—Generally, tax return information is confidential, unless a specific exception in the Internal Revenue Code applies. In the case of tax administration, the Internal Revenue Code permits the Department of the Treasury and IRS officers and employees to disclose return information to the extent necessary to obtain information not otherwise reasonably available, in the course of an audit or investigation, as prescribed by regulation. Department of the Treasury regulations effective since 2003 state that the term "necessary" in this context does not mean essential or indispensable, but rather appropriate and helpful in obtaining the information sought. Determining if an investigative disclosure is "necessary" is inherently factual, leading to inconsistent opinions by the courts. Eliminating this uncertainty from the statute would facilitate investigations by IRS officers and employees, while setting forth clear guidance for taxpayers, thus enhancing compliance with the Internal Revenue Code. The Administration proposes to clarify the taxpayer privacy law by stating that it does not prohibit Department of the Treasury and IRS officers and employees from identifying themselves, their organizational affiliation, and the nature and subject of an investigation, when contacting third parties in connection with a civil or criminal tax investigation. The proposal would be effective for disclosures made after enactment.

Allow the IRS to absorb credit and debit card processing fees for certain tax payments.—Taxpayers may make credit or debit card payments by phone through IRS-designated third-party service providers, who charge taxpayers a convenience fee for processing the payment over and above the taxes due. Under current law, if the IRS were to accept credit or debit card payments directly from taxpayers, the IRS would be prohibited from absorbing credit and debit card processing fees. The Administration recognizes that it is inefficient for both the IRS and taxpayers to require credit and debit card payments to be made through a third-party service provider, and that charging an additional convenience fee increases taxpayers' costs. The proposal would permit the IRS to accept credit and debit card payments directly from taxpayers and to absorb the credit and debit card processing fees, but only in situations authorized by regulations. The proposal would be effective for payments made after the date of enactment.

Provide the IRS with greater flexibility to address correctable errors.—The IRS may correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer's correct tax liability without following the regular deficiency procedures (this authority is generally referred to as "math error authority"). The Internal Revenue Code specifically identifies a list of circumstances where the IRS has math error authority. The Administration proposes to remove the existing specific grants of math error authority, and provide that "math error authority" will refer only to computational errors and the incorrect use of any table provided by the IRS. In addition, the proposal will add a new category of "correctable errors." Under this new category, the Department of the Treasury would have regulatory authority to permit the IRS to correct errors in cases where: (1) the information provided by the taxpayer does not match the information contained in government databases; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with his or her return documentation that is required by statute. The proposal would increase efficiency by eliminating the need to enact legislation specifically extending math error authority to the IRS on a case-by-case basis, and would promote the efficient use of IRS and taxpayer resources. The proposal would be effective on the date of enactment. However, the IRS' current grant of math error authority would continue to apply until the Department of the Treasury and the IRS issue final regulations addressing correctable errors.

Enhance electronic filing of returns.—Generally, regulations may require businesses and tax-exempt organizations that file at least 250 returns and information returns during the calendar year to file electronically (e-File). Partnerships with more than 100 partners are required to e-File, regardless of how many returns they file. A tax return preparer that expects to file more than 10 individual income tax returns (Forms 1040 and 1041) is generally required to e-File these tax returns. Certain pension plans are required to electronically file certain information with the Department of Labor, which shares the information with the IRS. However, certain tax-only information is not required to be e-filed to the IRS. The proposal would strengthen the requirements for entities to e-File, expand the preparer e-File mandate for individual returns to apply to entity returns, require scannable codes on paper returns prepared using software, expand regulatory authority related to information returns, and add a specific penalty for failure to e-File when required to do so. Regulatory authority would be expanded to allow reduction of the 250-return threshold for certain other information returns. The proposal would generally be effective for taxable years beginning after the date of enactment, with transition relief available for certain taxpayers.

Improve the whistleblower program.—Under current law, the Internal Revenue Code does not protect whistleblowers from retaliatory actions; therefore, potential whistleblowers may be discouraged from filing claims with the IRS. The Administration proposes to amend the Internal Revenue Code to protect whistleblowers from retaliation, which should incentivize potential whistleblowers to file claims and increase the tax administration benefit of the whistleblower program. The IRS Whistleblower Office may disclose tax return information, which is generally confidential, to whistleblowers and their legal representatives as part of a whistleblower administrative proceeding. Although whistleblowers and their legal representatives must sign a confidentiality agreement before tax return information is shared, the statutory prohibitions on redisclosure of tax return information and safeguarding requirements do not apply. The Administration proposes to amend the whistleblower rules to explicitly protect whistleblowers from retaliatory actions, consistent with the protections currently available to whistleblowers under the False Claims Act. In addition, the Administration proposes to amend the taxpayer information protections to extend the safeguarding requirements and prohibition on redisclosure of tax return information to whistleblowers and their legal representatives. In addition, the Administration proposes to extend penalties for unauthorized redisclosure of tax return information to whistleblowers and their legal representatives. This proposal will improve the efficiency of the whistleblower award determination proceedings, while increasing the protection available to taxpayers. The proposal would be effective upon enactment.

Index all civil tax penalties for inflation.—Currently, the amount of a tax penalty that is a set dollar amount is established when the penalty is added to the Internal Revenue Code and is only increased by amendments to the Internal Revenue Code. As a result, under current practices, the amount of the penalty is often not increased until significant time has passed and the penalty amount is too low to continue serving as an effective deterrent. The Administration proposes to index all penalties for inflation and round the indexed amount to the next hundred dollars. This proposal would increase the penalty regime's effectiveness in deterring negative behavior and would increase efficiency by eliminating the need to enact increases to individual penalties. While recent amendments to the Internal Revenue Code index select penalty provisions to inflation and resolve these issues for those few penalties, a more comprehensive approach is needed to achieve increased effectiveness and efficiency of tax penalties. The proposal would be effective upon enactment.

Extend IRS authority to require truncated Social Security numbers (SSNs) on Form W-2.—Employers are required to file Form W-2 with the IRS, indicating the SSN, wages paid, taxes withheld and other information for each employee. Employers must also provide a copy of Form W-2 to each employee. If a copy of Form W-2 is lost or misdirected, the SSN may be used to steal the worker's identity. The proposal would allow IRS to require employers to show only the last four digits of the SSN on the employees' copies of Form W-2 to prevent identity theft. The proposal would be effective upon enactment.

Combat tax-related identity theft.—Tax refund-related identity theft has expanded exponentially in recent years. The Aggravated Identity Theft Statute contains a list of felony violations that constitute predicate offenses for aggravated identity theft but the list does not currently include any tax offenses. The Administration proposes to add tax-related offenses to the list of predicate offenses contained in the Aggravated Identity Theft Statute. The Administration also proposes to impose a $5,000 civil penalty (indexed) in tax identity theft cases. The proposal would be effective upon enactment.

Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail.—Under current law, the Department of the Treasury, Bureau of Fiscal Service, may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. With respect to all other types of debts, including Federal nontax, child support, and State unemployment insurance compensation debts, the statute is silent as to the notice delivery method. However, the regulations require that for all debts other than State income tax obligations, Federal and State creditor agencies send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. The Administration's proposal would remove the statutory requirement to use certified mail, thereby allowing States to send notices for delinquent State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. The proposal would be effective upon enactment.

Rationalize tax return filing due dates so they are staggered.—The Administration's proposal would modify tax filing due dates so that the information statements of pass-through entities would be due before individual income tax returns and the income tax returns of non-pass-through entities. The proposal would also accelerate the due date for filing information returns with the IRS or Social Security Administration (SSA) and eliminate the extended due date for electronically filed information returns. Under the Administration's proposal, which would be effective for returns required to be filed after December 31, 2015: (1) the returns of partnerships (Forms 1065 and Schedules K-1) would be due by March 15 or the 15th day of the 3rd month following the close of the taxable year in the case of fiscal year filers; (2) the returns of corporations other than S corporations would be due by April 15 or the 15th day of the 4th month following the close of the taxable year in the case of fiscal year filers; and (3) the date for filing certain information returns with the IRS or SSA would be accelerated to January 31 in most cases. The due date for the return of S corporations would remain the same. The proposal would be effective for returns required to be filed after December 31, 2015.

Increase oversight and due diligence of tax return preparers.—The proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers. This proposal would be effective on or after the date of enactment. The proposal would also increase the penalty rate on paid tax return preparers for understatements due to willful or reckless conduct to the greater of $5,000 or 75 percent (instead of the current 50 percent) of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. In addition, the proposal would extend due diligence requirements similar to those for the EITC to the child tax credit. The existing checklist would be expanded and adapted to reflect the differences in requirements between the EITC and the child tax credit, while ensuring that the additional burden to preparers and filers is minimized. The increased return preparer penalty and the extension of the due diligence requirements would be effective for returns required to be filed after December 31, 2015.

Enhance administrability of the appraiser penalty.—Current law imposes a penalty on preparers of appraisals that result in a substantial or gross valuation misstatement. There is an exception to the penalty if the value in the appraisal is "more likely than not" the proper value. Valuations of property are generally provided as a specific value or a range of values that are applicable, not as a value that is "more likely than not" the proper value. Further, there is no coordination between this penalty and the preparer understatement penalty in cases where the person providing the appraisal is also treated as a paid tax return preparer with respect to the position on the return or claim for refund relying on the valuation in the appraisal. The proposal would increase administrability of the appraiser penalty by replacing the existing "more likely than not" exception with a reasonable cause exception. In addition, under the proposal, an appraiser would not be subject to both penalties for the same conduct. The proposal would be effective for returns required to be filed after December 31, 2015.

Enhance UI program integrity.—The Administration proposes to make investments in UI program integrity by increasing funding for in-person Reemployment and Eligibility Assessments, coupled with Reemployment Services, which are conducted by the States. These assessments and supplemental services help ensure that benefits go only to eligible claimants and that they get the services they need to return to work. In general, reduced outlays allow States to keep UI taxes lower, reducing overall receipts to the UI trust funds. The Administration proposes to expand State use of the Separation Information Data Exchange System (SIDES), which already improves program integrity. SIDES allows States and employers to exchange information on reasons for a claimant's separation from employment, which helps States determine UI eligibility; separation issues are the second largest cause of UI improper payments. In addition, the Administration proposes to require States to cross match claimants against the Prisoner Update Processing System (PUPS), which is currently used by some States. Mandating the use of PUPS will reduce or eliminate improper payments to prisoners by identifying claimants ineligible due to incarceration. Finally, the Administration proposes legislation to reduce an individual's Social Security Disability Insurance (DI) benefit in any month in which that person also receives a State or Federal UI benefit. This proposal would eliminate duplicative payments covering the same period a beneficiary is out of the workforce, while still providing a base level of income support. While the primary impact of this proposal will be to reduce DI benefits, UI benefit outlays will also be reduced, with resulting effects on the receipt of UI payroll taxes.

Simplify the Tax System

Modify adoption credit to allow tribal determination of special needs.—Current law allows a more generous credit for the adoption of children with special needs. To claim this credit, a State must have made a determination that the child has special needs. Like States, many ITGs facilitate adoptions involving special needs children; however, currently, a tribe is not permitted to make the determination of special needs. The Administration proposes to allow ITGs to make this determination, effective for taxable years beginning after December 31, 2015.

Repeal non-qualified preferred stock designation.—In 1997, a provision was added to the Internal Revenue Code that treats as taxable "boot" the receipt of certain types of preferred stock known as non-qualified preferred stock (NQPS), where NQPS is issued in a corporate organization or reorganization exchange. Since enactment, taxpayers have often exploited the hybrid nature of NQPS, issuing NQPS in transactions that are inconsistent with the purpose of the 1997 provision. The Administration proposes to repeal the NQPS designation, and no longer treat the receipt of such stock as taxable boot. The proposal would be effective for stock issued after December 31, 2015.

Repeal preferential dividend rule for publicly traded and publicly offered REITs.—REITs and RICs may claim a deduction for dividends paid. Historically, however, a dividends paid deduction was not available for a "preferential dividend." A dividend is "preferential" unless it is distributed pro rata to shareholders, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class compared with another except to the extent the class is entitled to such preference. There are no exceptions for *de minimis* or accidental violations. The preferential dividend rule has been repealed for most RICs. The Administration proposes to repeal the preferential dividend rule for publicly traded and publicly offered REITs as well. The Department of the Treasury would also be given explicit authority to provide for cures of inadvertent violations of the preferential dividend rule where it continues in effect and, where appropriate, to require consistent treatment of shareholders. The proposal would apply to distributions in taxable years beginning after the date of enactment.

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 simplify the tax laws and encourage increased charitable activity, 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 1.35 percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the 1.35-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 the date of enactment.

Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer.—The Administration proposes to exempt from current law bond requirements taxpayers subject to Federal excise taxes on alcoholic beverages (manufacturers, producers, and importers of distilled spirits, wine, and beer) with an expected tax liability for these taxes of not more than $50,000 in the current year, who had a tax liability for these taxes of not more than $50,000 in the prior year. The Administration also proposes to change the excise tax filing and payment period for these taxpayers to quarterly rather than semi-monthly. A substantial number of these taxpayers continue to file and pay their taxes semi-monthly even though they are currently eligible for quarterly filing and payment because quarterly filing raises their deferral bond amounts. Eliminating the bond requirement would make quarterly filing less burdensome for these taxpayers and would reduce the burden of processing tax returns and payments for the Alcohol and Tobacco Tax and Trade Bureau. The Administration also proposes to allow taxpayers subject to Federal excise taxes on alcoholic beverages with an expected tax liability for these taxes of not more than $1,000 in the current year to file and pay their taxes annually. The provision would be effective 90 days after the date of enactment.

Simplify arbitrage investment restrictions.—Current law arbitrage investment restrictions imposed on investments of tax-exempt bond proceeds create unnecessary complexity and compliance burdens for State and local governments. These restrictions generally limit investment returns that exceed the effective interest rate on the tax-exempt bonds. One type of restriction, called "yield restriction," limits arbitrage earnings in the first instance, and the second type of restriction, called "rebate," requires repayment of arbitrage earnings to the Federal Government at periodic intervals. The two types of arbitrage restrictions are duplicative and overlapping and they address the same tax policy goal to limit arbitrage profit incentives for excess use of tax-exempt bonds. The Administration proposes to simplify the arbitrage investment restrictions on tax-exempt bonds in several respects. First, the Administration proposes to unify the arbitrage restrictions to rely primarily on the rebate requirement and to repeal yield restriction in most circumstances. Second, recognizing that limited arbitrage potential exists if issuers spend bond proceeds fairly promptly, the Administration proposes a streamlined broad three-year prompt spending exception to the arbitrage rebate requirement on tax-exempt bonds. Finally, recognizing the particular compliance burdens for small issuers, the Administration proposes to increase the small issuer exception to the arbitrage rebate requirement from $5 million to $10 million, index the size limit for inflation, and remove the general taxing power constraint on small issuer eligibility. The proposal would be effective for bonds issued after the date of enactment.

Simplify single-family housing mortgage bond targeting requirements.—Current law allows use of tax-exempt private activity bonds to finance qualified mortgages for single-family residences, subject to a number of targeting requirements, including, among others: (1) a mortgagor income limitation (generally not more than 115 percent of applicable median family income, increased to 140 percent of such income for certain targeted areas, and also increased for certain high-cost areas); (2) a purchase price limitation (generally not more than 90 percent of average area purchase prices, increased to 110 percent in targeted areas); (3) a refinancing limitation (generally permitting only new mortgages for first-time homebuyers); and (4) a targeted area availability requirement. The Administration proposes to simplify the targeting requirements for tax-exempt qualified mortgage bonds by repealing the purchase price limitation and the refinancing limitation. This proposal would be effective for bonds issued after the date of enactment.

Streamline private business limits on governmental bonds.—Tax-exempt bonds issued by State and local governments are treated as governmental bonds if the issuer limits private business use and other private involvement sufficiently to avoid treatment as "private activity bonds." Bonds generally are classified as private activity bonds under a two-part test if more than 10 percent of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from property or payments derived from private business use. A subsidiary restriction further reduces the private business limits on governmental bonds to five percent in the case of private business use that is unrelated or disproportionate to governmental use. This unrelated or disproportionate use test introduces undue complexity associated with factual determinations of relatedness, a narrow disqualification trigger, and attendant compliance burdens for State and local governments. The general 10-percent private business limit represents a sufficient and workable boundary for private involvement for governmental bonds. The Administration proposes to streamline the private business limits on governmental bonds by repealing the five-percent unrelated or disproportionate private business limit. This proposal would be effective for bonds issued after the date of enactment.

Repeal technical terminations of partnerships.—A partnership will terminate when 50 percent or more of the total interest in partnership capital and profits is sold or exchanged within a 12-month period. This is referred to as a "technical termination." This provision is a holdover that addressed the notion common under prior State laws that tied the identity of a partnership to its partners. As this view of partnerships has evolved, the utility of the provision has essentially been eliminated, and it is now primarily a trap for unwary taxpayers. The Administration proposes eliminating technical terminations effective for transfers after December 31, 2015.

Repeal anti-churning rules of section 197.—Section 197 of the Internal Revenue Code was enacted in 1993 to allow amortization of certain intangibles (such as goodwill and going concern value) that had not been amortizable under prior law. Anti-churning rules were enacted at that time to prevent taxpayers from engaging in transactions with related parties soon after the enactment of section 197 solely to generate amortizable basis. Because it has been 20 years since the enactment of section 197, the anti-churning rules are no longer necessary, and the complexity of the provision outweighs the potential application. The Administration proposes eliminating the anti-churning rules effective for acquisitions after December 31, 2015.

Repeal special estimated tax payment provision for certain insurance companies.—The deductible unpaid loss reserves of insurance companies are required to be computed on a discounted basis to reflect the time value of money. However, a taxpayer may elect to deduct an additional amount equal to the difference between discounted and undiscounted reserves, if it also makes a "special estimated tax payment" equal to the tax benefit attributable to the extra deduction. The special estimated tax payments are applied against the company's tax liability in future years as reserves are released. This provision requires complex record keeping yet, by design, is revenue neutral. The Administration proposes to repeal the provision effective for taxable years beginning after December 31, 2015.

Repeal the telephone excise tax.—Current law imposes a three-percent excise tax on amounts paid for taxable communications services, which include local telephone service and toll telephone service. Local telephone service is defined as access to a local telephone system and the privilege of telephonic communication with substantially all persons having telephones in the local system. Taxpayers are no longer required to pay tax on similar services, such as plans that provide bundled local and long distance service for either a flat monthly fee or a charge that varies with the elapsed transmission time for which the service is used. As a result, the only communications services that remain subject to the tax are purely local telephone services, of which the poor and the elderly are the primary users. The Administration proposes to repeal the tax on these services. The proposal would be effective for amounts paid pursuant to bills first rendered more than 90 days after the date of enactment.

Increase the standard mileage rate for automobile use by volunteers.—Under current law, volunteers may deduct the use of their car in the service of charitable organizations at a standard mileage rate of 14 cents per mile driven. This rate is set by statute and is not indexed for inflation; it was last increased in 1997. The Administration proposes to harmonize the standard mileage rate for the charitable contribution deduction with the rate for miles driven for purposes of the medical and moving expense deductions, which are set annually by the IRS to cover the estimated variable costs of operating an automobile. The proposal would be effective for taxable years beginning after December 31, 2015.

Consolidate contribution limitations for charitable deductions and extend the carryforward period for excess charitable contribution deduction amounts.—The income tax system limits the amount of charitable contribution deductions a donor may claim to a share of the donor's contribution base (the taxpayer's adjusted gross income computed without regard to any net operating loss carryback for the taxable year). A taxpayer may generally deduct up to 50 percent of his contribution base for contributions of cash to public charities, and up to 30 percent for cash contributions to most private foundations. A taxpayer may generally deduct up to 30 percent of his contribution base for contributions of appreciated capital gain property to public charities, and up to 20 percent to most private foundations. Finally, a taxpayer may deduct up to 20 percent of his contribution base for contributions of capital gain property for the use of a charitable organization. Charitable contributions made to an organization exceeding these limits may generally be carried forward to be deducted in the subsequent five years. The proposal would simplify this complicated set of rules regarding deductions of charitable contributions. Under the proposal, the contribution base limits would remain at 50 percent for contributions of cash to public charities. For all other contributions, a single deduction limit of 30 percent of the taxpayer's contribution base would apply, irrespective of the type of property donated, the type of organization receiving the donation, and whether the contribution is to or for the use of the organization. In addition, the proposal would extend the carry-forward period for contributions in excess of these limitations from 5 to 15 years. The proposal would be effective for contributions made in taxable years beginning after December 31, 2015.

Exclude from gross income subsidies from public utilities for purchase of water runoff management.—Under current law, subsidies for water conservation and stormwater management must be included by individuals in reported income. The Administration proposes to exclude from gross income for individuals the value of any subsidy provided by a public utility for the purchase of any water conservation measure or stormwater management measure. The term "water conservation measure" means any installation, modification, or water-use evaluation primarily designed to reduce consumption of water or to improve the management of water demand with respect to a dwelling unit. The term "stormwater management measure" means any installation or modification of property to offset or safely manage the amounts of stormwater runoff associated with a dwelling unit. The term "public utility" means an entity engaged in the sale of water to customers and includes the Federal government or a state or local government.

Provide relief for certain accidental dual citizens.—Individuals who became at birth both a citizen of the United States and a citizen of another country may not have learned until recently that they are U.S. citizens subject to U.S. Federal income tax on their worldwide income, even though they may have had minimal contacts with the United States. Some of these individuals would like to relinquish their U.S. citizenship (i.e., "expatriate"), but doing so would require them to pay significant U.S. tax under current law. The Administration's proposal would provide relief from these U.S. tax obligations for certain individuals who relinquish their U.S. citizenship within two years after the later of January 1, 2016, the effective date of the proposal, or the date on which the individual learns that he or she is a U.S. citizen.

User Fees

Reform inland waterways funding.—The Administration proposes legislation to reform the laws governing the Inland Waterways Trust Fund, including establishing an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this fund. The additional revenue would help finance future capital investments in these waterways to support economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax on diesel fuel used in inland waterways commerce, which was recently increased to 29 cents per gallon, will not produce the revenue needed to cover the required 50 percent of these costs.

Reauthorize special assessment on domestic nuclear utilities.—The Administration proposes to reauthorize the special assessment on domestic nuclear utilities, for deposit in the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources from the proposed special assessment are required due to higher-than-expected cleanup costs.

Trade Initiatives

Extend Generalized System of Preferences (GSP).—The GSP provides preferential, duty-free entry to the United States for nearly 5,000 products from 127 designated beneficiary countries and territories. Many GSP imports are used as inputs by U.S. companies to manufacture goods in the United States. The Administration proposes to extend GSP, which expired on July 31, 2013, through December 31, 2016.

Extend African Growth and Opportunity Act (AGOA).—Through AGOA, the United States provides duty-free treatment to eligible textile and apparel products made in qualifying sub-Saharan African countries; thereby increasing exports, creating jobs, and increasing opportunities for Africans and Americans alike. The Administration proposes to extend AGOA, which is scheduled to expire on September 30, 2015, through September 30, 2030.

Other Initiatives

Extend the Children's Health Insurance Program (CHIP) through 2019.—The Administration proposes to extend CHIP funding for four years, through fiscal year 2019. As a result, more children will be enrolled in CHIP and fewer children will be enrolled in a qualified Marketplace health plan. This will increase tax revenues and reduce outlays associated with the premium tax credit.

Create State option to provide 12-month continuous Medicaid eligibility for adults.—The Administration proposes to create a new continuous eligibility State plan option that would allow all adult Medicaid beneficiaries, or at State option, only those who qualify on the basis of modified adjusted gross income (MAGI), to maintain Medicaid eligibility during a 12-month continuous coverage period, regardless of changes to income or other eligibility criteria. The expanded Medicaid eligibility will result in fewer individuals being enrolled in a qualified Marketplace health plan, which will increase tax revenues and reduce outlays associated with the premium tax credit. The proposal would be effective January 1, 2016.

Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents.—Under current law, Federal tax refunds may be offset to collect delinquent State income tax obligations, but only if the delinquent taxpayer resides in the State collecting the tax. The Administration proposes to allow Federal tax refunds to be offset to collect delinquent State tax obligations regardless of where the debtor resides. The proposal would be effective on the date of enactment.

Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy.—Synchronization of business lists among the Bureau of Economic Analysis (BEA), the Bureau of Labor Statistics (BLS), and the Bureau of the Census (Census Bureau) would significantly improve the consistency and quality of sensitive economic statistics including productivity, payroll, employment, and average hourly earnings. The availability of accurate economic statistics is crucial to policy makers. Current law authorizes IRS disclosure of certain Federal tax information (FTI) for governmental statistical use. Business FTI may be disclosed to officers and employees of the Census Bureau for all businesses. Similarly, business FTI may be disclosed to BEA officers and employees, but only for corporate businesses. Currently, BLS is not authorized to receive FTI. The Census Bureau's Business Register is constructed using both FTI and non-tax business data derived from the Economic Census and current economic surveys, so that under current law it is not possible for the Census Bureau to share data with BEA and BLS in any meaningful way, making synchronizing of their business lists impossible. In addition, given the growth of non-corporate businesses, especially in the service sector, the current limitation on BEA's access to corporate FTI impedes the measurement of income and international transactions in the National Accounts. The Administration proposes to give officers and employees of BEA and BLS access to certain FTI of corporate and non-corporate businesses. Additionally, for the purpose of synchronizing BLS and Census Bureau business lists, the proposal would permit employees of State agencies to receive certain business FTI from BLS. No BEA, BLS, or State agency contractor would have access to FTI. Additionally, the Census Bureau, BEA, BLS, and the State agencies would be subject to the confidentiality safeguard procedures in the Confidential Information Protection and Statistical Efficiency Act, as well as taxpayer privacy law and related safeguards and penalties. The proposal would be effective upon enactment.

Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration (TIGTA).—Under current law, TIGTA conducts reviews to comply with reporting requirements. The Administration proposes to eliminate TIGTA's obligation to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports, review and certify annually that the IRS is complying with the requirements of section 6103(e)(8) of the Internal Revenue Code regarding information on joint filers, and annually report on the IRS's compliance with requirements that IRS employees stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation. The proposal would revise the annual reporting requirement for all remaining provisions in the IRS Restructuring and Reform Act of 1998 to a biennial reporting requirement. The proposal would be effective after December 31, 2015.

Modify indexing to prevent deflationary adjustments.—Many parameters of the tax system— including the size of personal exemptions and standard deductions, the width of income tax rate brackets, the amount of other deductions and credits, and the maximum amount of various saving and retirement deductions—may be adjusted annually for the effects of inflation, based on annual changes in the Consumer Price Index. Under current law, if price levels decline, most (but not all) of the inflation adjustment provisions would permit tax parameters to become smaller, so long as they do not decline to less than their base period values. The Administration proposes to modify inflation adjustment provisions to prevent the size of any indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases in the price index relevant for adjusting the particular tax parameter would be taken into account only to the extent that the index exceeds its highest previous level. The proposal would be effective as of the date of enactment.

Extend reserve depletion date for Social Security's Disability Insurance program.—The Social Security Administration's (SSA's) Disability Insurance (SSDI) Trust Fund provides modest benefits to 8.9 million workers with disabilities, providing a critical lifeline that helps workers and their families. The Social Security Trustees project that under current law SSDI will be unable to pay full benefits during 2016 and in subsequent years. The Administration proposes a temporary five-year reallocation of payroll taxes from the Old-Age and Survivors Insurance (OASI) Trust Fund to SSDI, effective for calendar years 2016 through 2020.

Immigration Reform

Enact comprehensive immigration reform.—The Administration proposes to enact comprehensive immigration reform that strengthens the Nation's border security, cracks down on employers who hire undocumented workers, and provides a pathway to earned citizenship for individuals who pay a penalty and taxes, learn English, pass a background check, and go to the back of the line. Comprehensive immigration reform will contribute to a safer and more just society, boost economic growth, reduce deficits, and improve the solvency of Social Security. The Administration supports the approach to immigration reform in S. 744, which passed the Senate in 2013 with bipartisan support. The Congressional Budget Office (CBO) estimated that the Senate-passed bill would reduce the deficit by about $160 billion in the first decade and by nearly $1 trillion over 20 years. The 2016 Budget includes an allowance for the budget effects of immigration reform based on the CBO cost estimate for this bill.

Table 12–4. OTHER BUDGET PROPOSALS

(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Tax reform for families and individuals:													
Reform child care tax incentives [1]	....	–4,024	–4,191	–4,429	–4,639	–4,841	–5,052	–5,292	–5,532	–5,615	–6,257	–22,124	–49,872
Simplify and better target tax benefits for education [1]	....	–5	–1,861	–4,753	–4,660	–5,027	–5,242	–5,730	–5,878	–6,337	–6,205	–16,306	–45,698
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment [1]	....	....	–993	–1,589	–1,700	–1,754	–1,831	–2,005	–2,176	–2,410	–2,661	–6,036	–17,119
Expand penalty-free withdrawals for long-term unemployed	....	–162	–235	–240	–245	–250	–255	–260	–265	–270	–276	–1,132	–2,458
Require retirement plans to allow long-term part-time workers to participate	....	–39	–55	–54	–53	–52	–50	–47	–44	–40	–34	–253	–468
Facilitate annuity portability	....	....	....	....	....	....	....	....	....	....	....	....	....
Simplify MRD rules	....	–5	–5	–3	4	14	30	51	74	105	142	5	407
Allow all inherited plan and IRA balances to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Expand the EITC for workers without qualifying children [1]	....	–460	–6,256	–6,297	–6,350	–6,481	–6,612	–6,716	–6,804	–6,921	–7,047	–25,844	–59,944
Simplify the rules for claiming the EITC for workers without qualifying children [1]	....	–44	–593	–599	–588	–605	–620	–631	–642	–653	–678	–2,429	–5,653
Provide a second-earner tax credit [1]	....	–2,067	–9,007	–9,104	–9,383	–9,502	–9,727	–9,872	–9,936	–10,127	–10,306	–39,063	–89,031
Extend exclusion from income for cancellation of certain home mortgage debt	–2,542	–3,265	–2,978	–724	....	....	....	....	....	....	....	–6,967	–6,967
Total, tax reform for families and individuals	–2,542	–10,071	–26,174	–27,792	–27,614	–28,498	–29,359	–30,502	–31,203	–32,268	–33,322	–120,149	–276,803
Reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions:													
Reduce the value of certain tax expenditures	....	28,028	46,032	50,592	54,995	59,478	63,843	68,379	72,914	77,231	81,734	239,125	603,226
Reform the taxation of capital income	3,634	9,048	20,705	18,041	21,448	21,892	21,538	22,276	23,178	24,292	25,466	91,134	207,884
Implement the Buffett Rule by imposing a new “Fair Share Tax”	....	6,671	–93	1,178	2,810	3,695	3,872	4,008	4,177	4,351	4,507	14,261	35,176
Impose a financial fee	....	5,644	11,084	10,978	11,208	11,470	11,734	12,003	12,280	12,562	12,851	50,384	111,814
Total, reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions	3,634	49,391	77,728	80,789	90,461	96,535	100,987	106,666	112,549	118,436	124,558	394,904	958,100
Loophole closers:													
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt	....	4	12	20	27	34	41	49	58	68	78	97	391
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method	....	....	69	209	353	507	597	620	645	673	702	1,138	4,375
Tax carried (profits) interests as ordinary income	....	1,294	2,417	2,421	2,316	2,204	2,094	1,692	1,271	1,036	953	10,652	17,698
Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years	....	87	237	400	567	737	786	748	694	640	583	2,028	5,479
Limit the total accrual of tax-favored retirement benefits	....	1,418	1,987	2,213	2,287	2,438	2,634	2,785	3,183	3,396	3,702	10,343	26,043
Conform SECA taxes for professional service businesses	....	4,465	6,268	6,622	6,977	7,372	7,837	8,371	8,837	9,248	8,554	31,704	74,551
Limit Roth conversions to pre-tax dollars	....	....	14	23	24	38	49	50	51	67	79	99	395
Eliminate deduction for dividends on stock of publicly-traded corporations held in ESOPs	....	589	830	851	865	879	892	907	922	936	951	4,014	8,622
Repeal exclusion of NUA in employer securities	....	145	245	249	254	260	265	270	275	281	287	1,153	2,531

Table 12–4. OTHER BUDGET PROPOSALS—Continued

(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Disallow the deduction for charitable contributions that are a prerequisite for purchasing tickets to college sporting events	....	126	201	218	233	249	266	283	302	323	345	1,027	2,546
Total, loophole closers	....	8,128	12,280	13,226	13,903	14,718	15,461	15,775	16,238	16,668	16,234	62,255	142,631
Incentives for job creation, clean energy, and manufacturing:													
Designate Promise Zones [1]	....	–604	–1,130	–1,010	–938	–890	–852	–813	–791	–792	–807	–4,572	–8,627
Provide a tax credit for the production of advanced technology vehicles	....	–581	–475	–512	–567	–507	–418	–299	6	197	209	–2,642	–2,947
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	....	–46	–76	–77	–80	–61	–26	–5	....	....	....	–340	–371
Modify and extend the tax credit for the construction of energy-efficient new homes	–60	–132	–164	–195	–227	–252	–270	–286	–302	–329	–341	–970	–2,498
Reduce excise taxes on LNG to bring into parity with diesel [2]	....	–4	–5	–6	–6	–6	–7	–7	–9	–9	–10	–27	–69
Enhance and modify the conservation easement deduction:													
Permanently enhance incentives and reform the deduction for donations of conservation easements	–59	–153	–102	–20	3	3	2	3	3	3	4	–269	–254
Pilot an allocable credit for conservation contributions	–5	–19	–25	–25	–25	–25	–25	–25	–25	–25	–25	–119	–244
Eliminate the deduction for contributions of conservation easements on golf courses	5	21	38	50	56	60	62	66	69	73	76	225	571
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation	2	7	13	17	20	21	22	23	24	25	27	78	199
Subtotal, enhance and modify the conservation easement deduction	–57	–144	–76	22	54	59	61	67	71	76	82	–85	272
Total, incentives for job creation, clean energy, and manufacturing	–117	–1,511	–1,926	–1,778	–1,764	–1,657	–1,512	–1,343	–1,025	–857	–867	–8,636	–14,240
Modify estate and gift tax provisions:													
Restore the estate, gift, and GST tax parameters in effect in 2009	....	....	14,611	15,938	17,310	18,723	20,444	22,230	24,261	26,612	29,182	66,582	189,311
Require consistency in value for transfer and income tax purposes	....	....	267	279	303	337	356	383	407	438	467	1,186	3,237
Modify transfer tax rules for GRATs and other grantor trusts	....	....	1,054	1,198	1,359	1,574	1,892	2,294	2,637	3,073	3,273	5,185	18,354
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business	....	....	23	23	24	25	27	29	31	32	34	95	248
Modify GST tax treatment of HEETs	....	....	–32	–31	–29	–28	–25	–24	–22	–21	–19	–120	–231
Simplify gift tax exclusion for annual gifts	....	....	78	155	217	320	389	428	517	618	724	770	3,446
Expand applicability of definition of executor	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, modify estate and gift tax provisions	....	....	16,001	17,562	19,184	20,951	23,083	25,340	27,831	30,752	33,661	73,698	214,365
Other revenue raisers:													
Increase and modify Oil Spill Liability Trust Fund financing [2]	....	105	150	155	160	165	168	176	177	181	191	735	1,628
Reinstate Superfund taxes [2]	....	1,585	2,048	2,080	2,110	2,126	2,160	2,205	2,259	2,307	2,363	9,949	21,243
Increase tobacco taxes and index for inflation [2]	....	8,434	10,826	10,663	10,633	10,301	9,860	9,403	8,850	8,342	7,830	50,857	95,142
Make UI surtax permanent [2]	....	1,108	1,527	1,552	1,575	1,596	1,620	1,643	1,669	1,695	1,701	7,358	15,686
Expand FUTA base [2]	....	....	3,634	3,618	3,457	3,600	3,901	6,485	6,313	6,647	7,100	14,309	44,755
Reform the UI extended benefits program [2]	....	52	201	208	268	364	443	483	449	462	483	1,093	3,413
Modernize the UI program [2]	....	....	....	200	120	41	41	....	....	....	....	361	402
Levy a fee on the production of hardrock minerals to restore abandoned mines	....	....	200	200	200	200	200	200	200	200	200	800	1,800

Table 12–4. OTHER BUDGET PROPOSALS—Continued
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Return fees on the production of coal to pre–2006 levels to restore abandoned mines	....	49	50	51	52	52	52	....	....	....	....	254	306
Total, other revenue raisers	....	11,333	18,636	18,727	18,575	18,445	18,445	20,595	19,917	19,834	19,868	85,716	184,375
Reduce the tax gap and make reforms:													
Expand information reporting:													
Improve information reporting for certain businesses and contractors	....	16	39	65	89	93	97	101	106	110	115	302	831
Provide an exception to the limitation on disclosing tax return information to expand TIN matching beyond forms where payments are subject to backup withholding	....	....	....	....	....	....	....	....	....	....	....	....	....
Provide for reciprocal reporting of information in connection with the implementation of FATCA	....	....	....	....	....	....	....	....	....	....	....	....	....
Improve mortgage interest deduction reporting	....	104	160	171	182	192	203	213	222	231	240	809	1,918
Require Form W–2 reporting for employer contributions to defined contribution plans	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, expand information reporting	....	120	199	236	271	285	300	314	328	341	355	1,111	2,749
Improve compliance by businesses:													
Increase certainty with respect to worker classification	....	85	420	818	978	1,063	1,155	1,250	1,356	1,465	1,580	3,364	10,170
Increase information sharing to administer excise taxes [2]	....	4	9	13	14	16	17	18	18	19	19	56	147
Provide authority to readily share information about beneficial ownership information of U.S. companies with law enforcement	....	....	1	2	9	6	4	3	3	3	3	18	34
Subtotal, improve compliance by businesses	....	89	430	833	1,001	1,085	1,176	1,271	1,377	1,487	1,602	3,438	10,351
Strengthen tax administration:													
Impose liability on shareholders to collect unpaid income taxes of applicable corporations	....	442	463	484	505	528	550	574	600	626	652	2,422	5,424
Increase levy authority for payments to Medicare providers with delinquent tax debt	....	34	50	50	51	52	54	54	56	56	57	237	514
Implement a program integrity statutory cap adjustment for tax administration	....	432	1,451	2,926	4,476	6,095	7,481	8,475	9,077	9,503	9,819	15,380	59,735
Streamline audit and adjustment procedures for large partnerships	....	190	252	249	242	236	238	243	248	253	256	1,169	2,407
Revise offer-in-compromise application rules	....	1	1	2	2	2	2	2	2	2	2	8	18
Expand IRS access to information in the NDNH for tax administration purposes	....	....	....	....	....	....	....	....	....	....	....	....	....
Make repeated willful failure to file a tax return a felony	....	....	....	....	1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions	....	1	1	1	2	2	2	2	2	2	2	7	17
Extend statute of limitations for assessment for overstated basis and State adjustments	....	....	....	....	77	90	103	118	135	155	178	167	856
Improve investigative disclosure statute	....	....	....	....	1	1	1	1	2	2	2	2	10
Allow the IRS to absorb credit and debit card processing fees for certain tax payments	....	2	2	2	2	2	2	2	2	2	2	10	20
Provide the IRS with greater flexibility to address correctable errors [1]	....	30	62	64	65	65	67	68	71	72	75	286	639
Enhance electronic filing of returns	....	....	....	....	1	1	1	1	2	2	2	2	10
Improve the whistleblower program	....	....	....	....	....	....	....	....	....	....	....	....	....
Index all civil tax penalties for inflation	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend IRS authority to require truncated SSNs on Form W–2	....	....	....	....	....	....	....	....	....	....	....	....	....

Table 12–4. OTHER BUDGET PROPOSALS—Continued
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Combat tax-related identity theft	....	....	....	....	....	....	....	....	....	....	....	....	....
Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail	....	....	....	....	....	....	....	....	....	....	....	....	....
Rationalize tax return filing due dates so they are staggered [1]	....	–180	173	181	190	196	199	207	215	221	228	560	1,630
Increase oversight and due diligence of tax return preparers:													
Extend paid preparer EITC due diligence requirements to the child tax credit	....	....	....	....	....	....	....	....	....	....	....	....	....
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers [1]	....	14	32	34	38	41	45	49	53	58	63	159	427
Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct	....	....	....	1	1	1	1	1	1	1	1	3	8
Subtotal, increase oversight and due diligence of tax return preparers	....	14	32	35	39	42	46	50	54	59	64	162	435
Enhance administrability of the appraiser penalty	....	....	....	....	....	....	....	....	....	....	....	....	....
Enhance UI program integrity [2]	....	....	....	–5	–17	–31	–52	–69	–88	–117	–133	–53	–512
Subtotal, strengthen tax administration	....	966	2,487	3,989	5,637	7,282	8,695	9,729	10,380	10,840	11,208	20,361	71,213
Total, reduce the tax gap and make reforms	....	1,175	3,116	5,058	6,909	8,652	10,171	11,314	12,085	12,668	13,165	24,910	84,313
Simplify the tax system:													
Modify adoption credit to allow tribal determination of special needs	....	....	....	....	....	....	–1	–1	–1	–1	–1	....	–5
Repeal non-qualified preferred stock designation	....	26	44	43	41	38	35	30	26	23	20	192	326
Repeal preferential dividend rule for publicly offered REITs	....	....	....	....	....	....	....	....	....	....	....	....	....
Reform excise tax based on investment income of private foundations	....	....	–6	–5	–5	–6	–6	–6	–6	–6	–7	–22	–53
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer	....	....	....	....	....	....	....	....	....	....	....	....	....
Simplify arbitrage investment restrictions	....	....	–2	–10	–18	–28	–38	–46	–58	–68	–76	–58	–344
Simplify single-family housing mortgage bond targeting requirements	....	....	–1	–3	–5	–7	–10	–12	–17	–20	–22	–16	–97
Streamline private business limits on governmental bonds	....	....	–1	–3	–5	–7	–9	–11	–13	–15	–17	–16	–81
Repeal technical terminations of partnerships	....	10	16	18	20	22	24	26	28	29	31	86	224
Repeal anti-churning rules of section 197	....	–24	–99	–198	–281	–338	–370	–378	–378	–378	–378	–940	–2,822
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal the telephone excise tax [2]	....	–296	–349	–308	–266	–225	–208	–161	–128	–80	–31	–1,444	–2,052
Increase the standard mileage rate for automobile use by volunteers	....	–15	–47	–48	–49	–50	–51	–52	–53	–55	–56	–209	–476
Consolidate contribution limitations for charitable organizations and extend the carryforward period for excess charitable contribution deduction amounts	....	–88	–49	–5	–6	–6	–6	–482	–1,168	–1,801	–2,379	–154	–5,990
Exclude from gross income subsidies from public utilities for purchase of water runoff management	....	....	....	....	....	....	....	....	....	....	....	....	....
Provide relief for certain accidental dual citizens	....	–60	–103	–55	–23	–24	–25	–26	–28	–29	–30	–265	–403
Total, simplify the tax system	....	–447	–597	–574	–597	–631	–665	–1,119	–1,796	–2,401	–2,946	–2,846	–11,773

Table 12–4. OTHER BUDGET PROPOSALS—Continued

(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
User fees:													
Reform inland waterways funding [2]	....	113	113	113	113	113	113	113	113	113	113	565	1,130
Reauthorize special assessment on domestic nuclear utilities	....	204	208	213	218	223	228	233	238	244	249	1,066	2,258
Total, user fees	....	317	321	326	331	336	341	346	351	357	362	1,631	3,388
Trade initiatives:													
Extend GSP [2]	....	–381	–164	....	....	....	....	....	....	....	....	–545	–545
Extend AGOA [2]	....	–88	–120	–133	–147	–162	–178	–195	–215	–235	–256	–650	–1,729
Total, trade initiatives	....	–469	–284	–133	–147	–162	–178	–195	–215	–235	–256	–1,195	–2,274
Other initiatives:													
Extend CHIP through 2019 [1]	....	320	3,901	4,882	5,341	975	....	....	....	....	....	15,419	15,419
Create State option to provide 12-month continuous Medicaid eligibility for adults [1]	....	301	962	1,977	2,390	2,522	2,645	2,781	2,926	3,163	3,320	8,152	22,987
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state-residents	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate certain reviews conducted by the U.S. TIGTA	....	....	....	....	....	....	....	....	....	....	....	....	....
Modify indexing to prevent deflationary adjustments	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend reserve depletion date for Social Security's Disability Insurance program	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, other initiatives	....	621	4,863	6,859	7,731	3,497	2,645	2,781	2,926	3,163	3,320	23,571	38,406
Impose a 14-percent one-time tax on previously untaxed foreign income	....	34,559	56,407	54,420	52,434	50,448	19,861	....	....	....	....	248,268	268,129
Enact comprehensive immigration reform	....	2,000	12,000	28,000	39,000	45,000	47,000	55,000	64,000	77,000	87,000	126,000	456,000
Total, other budget proposals	**975**	**95,026**	**172,371**	**194,690**	**218,406**	**227,634**	**206,280**	**204,658**	**221,658**	**243,117**	**260,777**	**908,127**	**2,044,617**

[1] This proposal affects both receipts and outlays for refundable tax credits. Both effects are shown above. The outlay effects included in these estimates are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Reform child care tax incentives	....	932	969	1,014	1,066	1,107	1,139	1,190	1,231	1,227	1,265	5,088	11,140
Simplify and better target tax benefits for education	....	....	1,862	4,822	4,774	4,829	5,177	5,471	5,785	6,075	6,135	16,287	44,930
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment	....	....	127	195	200	209	212	215	220	225	229	731	1,832
Expand the EITC for workers without qualifying children	....	276	5,519	5,553	5,600	5,709	5,825	5,914	5,997	6,090	6,198	22,657	52,681
Simplify the rules for claiming the EITC for workers without qualifying children	....	26	522	527	517	532	545	555	565	574	596	2,124	4,959
Provide a second-earner tax credit	....	....	732	729	750	740	761	768	770	762	767	2,951	6,779
Designate Promise Zones	....	12	28	29	31	32	34	35	37	38	41	132	317
Provide the IRS with greater flexibility to address correctable errors	....	–26	–53	–54	–55	–55	–56	–57	–59	–60	–62	–243	–537
Rationalize tax return filing due dates so they are staggered	....	–22	–22	–22	–23	–23	–23	–24	–24	–25	–25	–112	–233
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers	....	–2	–14	–15	–17	–18	–20	–21	–23	–25	–27	–66	–182
Extend CHIP through 2019	....	–296	–3,550	–4,132	–4,506	–460	....	....	....	....	....	–12,944	–12,944
Create State option to provide 12-month continuous Medicaid eligibility for adults	....	–301	–911	–1,874	–2,166	–2,319	–2,441	–2,569	–2,704	–2,934	–3,079	–7,571	–21,298
Total, outlay effects of other budget proposals	....	599	5,209	6,772	6,171	10,283	11,153	11,477	11,795	11,947	12,038	29,034	87,444

[2] Net of income offsets.

Table 12–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2014 Actual	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Individual income taxes:												
Federal funds	1,394,568	1,477,065	1,609,593	1,706,799	1,814,329	1,914,748	2,026,067	2,145,922	2,271,203	2,399,606	2,529,148	2,660,948
Legislative proposal, not subject to PAYGO	....	....	432	1,451	2,926	4,477	6,096	7,483	8,479	9,081	9,508	9,824
Legislative proposal, subject to PAYGO	....	1,011	35,603	62,097	69,629	80,575	86,243	90,245	94,486	99,650	104,646	110,404
Total, Individual income taxes	**1,394,568**	**1,478,076**	**1,645,628**	**1,770,347**	**1,886,884**	**1,999,800**	**2,118,406**	**2,243,650**	**2,374,168**	**2,508,337**	**2,643,302**	**2,781,176**
Corporation income taxes:												
Federal funds:												
Federal funds	320,731	341,724	433,462	434,249	441,385	447,831	454,806	465,704	481,447	495,803	509,731	521,107
Legislative proposal, subject to PAYGO	....	–36	38,846	64,257	60,360	58,070	56,414	26,218	6,827	7,366	7,642	7,762
Total, Federal funds	320,731	341,688	472,308	498,506	501,745	505,901	511,220	491,922	488,274	503,169	517,373	528,869
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	996	1,257	1,282	1,305	1,315	1,341	1,379	1,426	1,468	1,508
Total, Corporation income taxes	**320,731**	**341,688**	**473,304**	**499,763**	**503,027**	**507,206**	**512,535**	**493,263**	**489,653**	**504,595**	**518,841**	**530,377**
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	628,792	654,447	681,559	717,408	752,137	786,669	819,278	863,593	906,191	946,514	990,597	1,032,562
Legislative proposal, not subject to PAYGO	....	....	–42,626	–60,929	–63,874	–66,804	–69,572	–19,713	7	9	10	12
Legislative proposal, subject to PAYGO	....	....	3,138	4,058	4,517	4,888	5,126	5,488	5,644	6,124	6,485	5,747
Disability insurance (off-budget)	106,773	111,123	115,736	121,824	127,721	133,585	139,123	146,648	153,882	160,729	168,215	175,341
Legislative proposal, not subject to PAYGO	....	....	42,626	60,929	63,875	66,806	69,576	19,719	1	1	2	2
Legislative proposal, subject to PAYGO	....	....	532	688	766	829	869	930	957	1,039	1,099	975
Hospital Insurance	224,107	233,858	244,145	256,963	270,463	283,594	295,374	311,091	326,351	340,957	356,847	372,418
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	1	1	2	2	2	3
Legislative proposal, subject to PAYGO	....	....	1,103	1,911	2,649	2,960	3,113	3,304	3,444	3,683	3,891	3,880
Railroad retirement:												
Social security equivalent account	2,325	2,379	2,431	2,507	2,588	2,662	2,737	2,811	2,890	2,969	3,044	3,115
Rail pension & supplemental annuity	3,032	3,194	3,268	3,364	3,470	3,572	3,672	3,769	3,869	3,975	4,074	4,356
Total, Employment and general retirement	965,029	1,005,001	1,051,912	1,108,723	1,164,312	1,218,761	1,269,297	1,337,641	1,403,238	1,466,002	1,534,266	1,598,411
On-budget	(229,464)	(239,431)	(250,947)	(264,745)	(279,170)	(292,788)	(304,897)	(320,976)	(336,556)	(351,586)	(367,858)	(383,772)
Off-budget	(735,565)	(765,570)	(800,965)	(843,978)	(885,142)	(925,973)	(964,400)	(1,016,665)	(1,066,682)	(1,114,416)	(1,166,408)	(1,214,639)
Unemployment insurance:												
Deposits by States [1]	46,450	47,786	46,482	45,683	44,356	44,029	44,696	45,751	46,990	49,362	50,721	51,854
Legislative proposal, not subject to PAYGO	....	....	....	....	–6	–18	–30	–50	–67	–81	–98	–114
Legislative proposal, subject to PAYGO	....	....	72	5,025	5,663	4,798	4,722	4,915	7,846	7,283	7,390	7,905
Federal unemployment receipts [1]	8,471	8,490	8,192	7,794	8,274	5,911	5,994	6,080	6,172	6,271	6,367	6,390
Legislative proposal, subject to PAYGO	....	....	1,385	1,712	1,373	2,049	2,347	2,655	2,980	3,311	3,656	3,739
Railroad unemployment receipts [1]	36	75	129	148	141	117	110	125	137	139	134	134
Total, Unemployment insurance	54,957	56,351	56,260	60,362	59,801	56,886	57,839	59,476	64,058	66,285	68,170	69,908
Other retirement:												
Federal employees retirement-employee share	3,446	3,635	3,731	4,181	4,440	4,729	5,055	5,418	5,815	6,240	6,693	7,168

Table 12–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2014 Actual	Estimate 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Non-Federal employees retirement [2]	26	25	23	22	22	22	21	19	18	18	17	17
Total, Other retirement	3,472	3,660	3,754	4,203	4,462	4,751	5,076	5,437	5,833	6,258	6,710	7,185
Total, Social insurance and retirement receipts (trust funds)	**1,023,458**	**1,065,012**	**1,111,926**	**1,173,288**	**1,228,575**	**1,280,398**	**1,332,212**	**1,402,554**	**1,473,129**	**1,538,545**	**1,609,146**	**1,675,504**
On-budget	(287,893)	(299,442)	(310,961)	(329,310)	(343,433)	(354,425)	(367,812)	(385,889)	(406,447)	(424,129)	(442,738)	(460,865)
Off-budget	(735,565)	(765,570)	(800,965)	(843,978)	(885,142)	(925,973)	(964,400)	(1,016,665)	(1,066,682)	(1,114,416)	(1,166,408)	(1,214,639)
Excise taxes:												
Federal funds:												
Alcohol	9,815	9,589	10,030	10,332	10,547	10,764	10,989	11,227	11,470	11,693	11,928	12,165
Tobacco	15,562	15,257	15,067	14,910	14,801	14,725	14,557	14,412	14,301	14,252	14,102	14,020
Legislative proposal, subject to PAYGO	....	....	11,246	14,434	14,218	14,178	13,734	13,146	12,538	11,801	11,122	10,440
Transportation fuels	–3,509	–3,398	–1,015	–1,023	–1,026	–1,027	–1,027	–1,029	–1,032	–1,034	–1,038	–1,041
Telephone and teletype services	611	586	526	467	410	354	299	276	214	170	107	42
Legislative proposal, subject to PAYGO	....	....	–395	–467	–410	–354	–299	–276	–214	–170	–107	–42
High-cost health insurance coverage	....	....	....	....	736	2,638	3,412	4,649	6,121	7,896	9,921	12,449
Health insurance providers	7,987	11,125	11,299	13,898	14,300	15,076	15,873	16,712	17,585	18,504	19,475	20,494
Indoor tanning services	92	95	99	103	106	109	112	116	119	122	125	128
Medical devices	1,977	2,068	2,097	2,168	2,310	2,445	2,603	2,774	2,946	3,116	3,306	3,353
Other Federal fund excise taxes	1,705	2,439	2,383	2,395	2,431	2,490	2,559	2,633	2,721	2,813	2,900	2,987
Legislative proposal, subject to PAYGO	....	....	6	6	13	17	18	19	20	20	21	20
Total, Federal funds	34,240	37,761	51,343	57,223	58,436	61,415	62,830	64,659	66,789	69,183	71,862	75,015
Trust funds:												
Transportation	39,049	39,261	39,560	39,811	39,890	39,896	39,959	40,010	40,116	40,084	40,161	40,224
Legislative proposal, subject to PAYGO	....	....	–5	–7	–8	–8	–8	–9	–9	–11	–12	–14
Airport and airway	13,513	13,138	14,699	15,391	15,987	16,407	17,001	17,464	17,793	18,130	18,491	19,061
Sport fish restoration and boating safety	569	534	537	541	545	549	553	555	559	563	567	571
Tobacco assessments	1,140	278	....	....	....	....	....	....	....	....	....	....
Black lung disability insurance	579	568	551	558	577	363	270	274	278	281	285	290
Inland waterway	82	97	107	107	106	105	105	105	103	103	103	103
Legislative proposal, subject to PAYGO	....	....	3	3	3	3	3	3	3	3	3	3
Hazardous substance superfund (Legislative proposal subject to PAYGO)	....	....	787	1,055	1,064	1,073	1,082	1,092	1,101	1,111	1,119	1,140
Oil spill liability	436	501	503	551	563	560	559	560	555	555	553	561
Legislative proposal, subject to PAYGO	....	....	140	199	207	212	220	223	233	236	243	255
Vaccine injury compensation	243	242	250	255	262	270	277	283	292	300	310	319
Leaking underground storage tank	173	205	208	207	206	204	204	202	201	199	197	197
Supplementary medical insurance	3,209	2,940	3,000	3,980	4,098	2,826	2,800	2,800	2,800	2,800	2,800	2,800
Patient-centered outcomes research	135	373	401	422	443	471	499	529	559	590	623	658
Total, Trust funds	59,128	58,137	60,741	63,073	63,943	62,931	63,524	64,091	64,584	64,944	65,443	66,168
Total, Excise taxes	**93,368**	**95,898**	**112,084**	**120,296**	**122,379**	**124,346**	**126,354**	**128,750**	**131,373**	**134,127**	**137,305**	**141,183**
Estate and gift taxes:												
Federal funds	19,300	19,738	21,340	22,758	24,144	25,584	26,963	28,661	30,316	32,184	34,224	36,389
Legislative proposal, subject to PAYGO	....	....	....	7,720	8,837	10,148	11,580	13,343	15,193	17,305	19,730	22,145
Total, Estate and gift taxes	**19,300**	**19,738**	**21,340**	**30,478**	**32,981**	**35,732**	**38,543**	**42,004**	**45,509**	**49,489**	**53,954**	**58,534**
Customs duties and fees:												
Federal funds:												

Table 12–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2014 Actual	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Federal funds	32,337	35,071	37,254	40,424	43,226	45,733	48,113	50,681	53,481	56,372	59,373	62,474
Legislative proposal, subject to PAYGO	....	....	–626.000	–378.000	–178	–197	–216	–238	–261	–287	–313	–341
Total, Federal funds	32,337	35,071	36,628	40,046	43,048	45,536	47,897	50,443	53,220	56,085	59,060	62,133
Trust funds:												
Trust funds	1,589	1,691	1,746	1,814	1,866	1,899	1,933	1,979	2,033	2,087	2,143	2,199
Total, Customs duties and fees	**33,926**	**36,762**	**38,374**	**41,860**	**44,914**	**47,435**	**49,830**	**52,422**	**55,253**	**58,172**	**61,203**	**64,332**
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	584	504	506	507	508	510	511	512	513	514	516	517
Deposit of earnings, Federal Reserve System	99,235	94,015	77,420	47,521	38,860	40,860	46,182	51,557	56,136	61,162	65,251	67,935
Transfers from the Federal Reserve	534	582	606	632	653	672	686	701	716	731	746	762
Fees for permits and regulatory and judicial services	14,609	27,207	27,520	27,423	24,848	26,364	27,319	26,804	27,105	27,312	28,343	28,818
Legislative proposal, subject to PAYGO	....	....	253	458	464	470	475	480	433	438	444	449
Fines, penalties, and forfeitures	19,488	14,636	12,526	28,206	30,047	29,974	31,957	33,533	35,111	36,639	38,221	39,905
Legislative proposal, subject to PAYGO	....	....	–1	–9	–18	–10	–2	4	3	3	3	3
Refunds and recoveries	–37	–42	–42	–42	–42	–42	–42	–42	–42	–42	–42	–42
Total, Federal funds	134,413	136,902	118,788	104,696	95,320	98,798	107,086	113,549	119,975	126,757	133,482	138,347
Trust funds:												
United Mine Workers of America, combined benefit fund	21	23	24	22	21	18	17	13	12	11	9	8
Defense cooperation	102	303	126	544	521	590	569	307	127	129	130	132
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	110	110	110	110	110	110	110	110	110	110
Fines, penalties, and forfeitures	1,600	1,670	1,475	1,576	1,683	1,540	1,580	1,621	1,663	1,703	1,744	1,784
Total, Trust funds	1,723	1,996	1,735	2,252	2,335	2,258	2,276	2,051	1,912	1,953	1,993	2,034
Total, Miscellaneous receipts	**136,136**	**138,898**	**120,523**	**106,948**	**97,655**	**101,056**	**109,362**	**115,600**	**121,887**	**128,710**	**135,475**	**140,381**
Allowance for immigration reform	**........**	**........**	**2,000**	**12,000**	**28,000**	**39,000**	**45,000**	**47,000**	**55,000**	**64,000**	**77,000**	**87,000**
Total, budget receipts	**3,021,487**	**3,176,072**	**3,525,179**	**3,754,980**	**3,944,415**	**4,134,973**	**4,332,242**	**4,525,243**	**4,745,972**	**4,985,975**	**5,236,226**	**5,478,487**
On-budget	(2,285,922)	(2,410,502)	(2,724,214)	(2,911,002)	(3,059,273)	(3,209,000)	(3,367,842)	(3,508,578)	(3,679,290)	(3,871,559)	(4,069,818)	(4,263,848)
Off-budget	(735,565)	(765,570)	(800,965)	(843,978)	(885,142)	(925,973)	(964,400)	(1,016,665)	(1,066,682)	(1,114,416)	(1,166,408)	(1,214,639)

[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 administrative 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.