FEDERAL RECEIPTS

15. GOVERNMENTAL RECEIPTS

During his first two years in office, President Obama signed several major tax bills designed to jumpstart the economy and provide tax relief. These actions began within a month of taking office, when the President signed the American Recovery and Reinvestment Act of 2009 (ARRA). The tax provisions of ARRA provided immediate tax relief to small businesses and to 95 percent of working American families. It is estimated that as of the end of the third quarter of 2010, tax reductions (including refundable tax credits) provided in ARRA total $243 billion.[1]

Most recently, in the final days of the 111th Congress, the President negotiated a key compromise to prevent tax increases on middle-income families. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 includes a temporary extension of the 2001 and 2003 tax cuts that would have expired at the end of 2010, as well as relief from scheduled increases in the Alternative Minimum Tax (AMT), an extension of key temporary provisions of ARRA that provided tax relief to working American families, and a temporary reduction in payroll taxes paid by workers. In 2010, President Obama worked with the Congress to enact additional recovery measures that provided targeted tax relief, including the Hiring Incentives to Restore Employment (HIRE) Act and the Small Business Jobs Act of 2010. In addition, the President's efforts to expand health care coverage and reduce the cost of health care culminated with enactment of the Patient Protection and Affordable Care Act on March 23, 2010, as amended by the Health Care and Education Reconciliation Act of 2010 one week later (collectively referred to as the Affordable Care Act). In 2010, President Obama also signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was the most sweeping overhaul of U.S. financial regulations since the 1930s.

The Budget proposes to restore balance to the tax code by providing permanent tax relief to middle-income families, and asking certain businesses and high-income families to pay more. It does this by permanently extending the 2001 and 2003 tax cuts for middle-income families, permanently extending key tax relief provided to middle-income families in ARRA, returning top ordinary income tax rates to what they were during most of the 1990s for families making more than $250,000, and eliminating subsidies and loopholes that benefit only narrow and often well-funded interest groups, such as oil companies. Further, the Budget will impose a fee on the largest financial institutions to provide a deterrent against excessive leverage. The Budget will also reform the international tax laws by reducing incentives for U.S.-based multinational corporations to invest abroad rather than in the United States.

[1] As reported in *The Economic Impact of the American Recovery and Reinvestment Act of 2009, Fifth Quarterly Report, November 18, 2010,* Executive Office of the President, Council of Economic Advisers.

Table 15–1. RECEIPTS BY SOURCE—SUMMARY
(In billions of dollars)

	2010 Actual	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individual income taxes	898.5	956.0	1,140.5	1,344.1	1,508.4	1,648.0	1,786.0	1,922.6	2,055.6	2,187.2	2,314.5	2,439.5
Corporation income taxes	191.4	198.4	329.3	405.4	439.6	455.1	466.7	478.5	479.2	482.4	495.4	512.3
Social insurance and retirement receipts	864.8	806.8	925.1	1,016.5	1,094.6	1,162.9	1,234.1	1,292.2	1,353.1	1,409.5	1,463.4	1,537.2
(On-budget)	(233.1)	(247.4)	(266.4)	(286.5)	(323.1)	(348.0)	(364.2)	(377.7)	(389.6)	(395.6)	(407.7)	(428.6)
(Off-budget)	(631.7)	(559.4)	(658.7)	(730.0)	(771.5)	(814.9)	(869.9)	(914.5)	(963.5)	(1,013.9)	(1,055.7)	(1,108.6)
Excise taxes	66.9	74.1	103.1	121.5	137.9	145.1	148.7	155.2	163.7	175.9	181.8	189.4
Estate and gift taxes	18.9	12.2	13.6	14.6	25.0	27.6	30.0	32.4	34.9	37.4	40.1	43.1
Customs duties	25.3	27.7	29.8	33.0	35.7	37.8	39.4	41.4	44.0	46.5	49.1	51.6
Miscellaneous receipts	96.8	98.4	86.1	68.2	91.4	106.6	114.2	119.8	126.6	134.0	142.1	149.7
Total, receipts	**2,162.7**	**2,173.7**	**2,627.4**	**3,003.3**	**3,332.6**	**3,583.0**	**3,819.1**	**4,042.2**	**4,257.0**	**4,473.0**	**4,686.5**	**4,922.8**
On-budget	1,531.0	1,614.3	1,968.7	2,273.3	2,561.1	2,768.1	2,949.2	3,127.6	3,293.5	3,459.1	3,630.7	3,814.1
Off-budget	631.7	559.4	658.7	730.0	771.5	814.9	869.9	914.5	963.5	1,013.9	1,055.7	1,108.6
Total receipts as a percentage of GDP	14.9	14.4	16.6	17.9	18.7	19.1	19.3	19.5	19.6	19.8	19.9	20.0

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 $2,173.7 billion in 2011, an increase of only $11.0 billion or 0.5 percent from 2010. This small increase is in large part attributable to the more than $400 billion in estimated tax reductions for 2011 provided in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Receipts in 2011 are estimated to be 14.4 percent of Gross Domestic Product (GDP), the lowest share since 1950, when receipts also were 14.4 percent of GDP.

Receipts are estimated to rise to $2,627.4 billion in 2012, an increase of $453.7 billion or 20.9 percent relative to 2011. This estimated increase is not due to government expansion, but is instead attributable in large part 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 are projected to grow at an average annual rate of 9.8 percent between 2012 and 2016, rising to $3,819.1 billion. Receipts are projected to rise to $4,922.8 billion in 2021, growing at an average annual rate of 5.2 percent between 2016 and 2021. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation. The Administration's proposals to restore balance to the tax code, to close loopholes, and to eliminate subsides to special interests also contribute to the growth in receipts between 2012 and 2021.

As a share of GDP, receipts are projected to increase from 14.4 percent in 2011 to 16.6 percent in 2012, and to rise annually thereafter to 20.0 percent in 2021. However, as a share of GDP, receipts would still be lower than in 2000, when receipts reached 20.6 percent of GDP.

LEGISLATION ENACTED IN 2010 THAT AFFECTS GOVERNMENTAL RECEIPTS

With the 2010 enactment of the Affordable Care Act, Congress and the Administration expanded health insurance to millions of uninsured individuals and cut long-term health care costs for individuals and the Federal Government. In 2010 President Obama also signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was the most sweeping overhaul of U.S. financial regulations since the 1930s. He also signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which temporarily extended the 2001 and 2003 tax cuts, key tax reductions provided to the middle class in ARRA, and other temporary tax provisions that had expired or were scheduled to expire under prior law, as well as temporarily reducing payroll taxes on working people. Other legislation enacted in 2010 included provisions that provided tax relief to small businesses, provided pension funding relief to employers, extended the authority to collect taxes that fund the Airport and Airway Trust Fund, extended the ban on imports from Burma, and modernized the tax rules for regulated investment companies.

The major provisions of legislation enacted in 2010 that affect receipts are described below. [2]

TO ACCELERATE THE INCOME TAX BENEFITS FOR CHARITABLE CASH CONTRIBUTIONS FOR THE RELIEF OF VICTIMS OF THE EARTHQUAKE IN HAITI (Public Law 111-126)

Under this Act, which was signed into law by President Obama on January 22, 2010, taxpayers who made certain charitable contributions in 2010 that would otherwise be deductible from their 2010 taxable income were provided the option to deduct those contributions from their 2009 taxable income. To qualify for this deduction, contributions otherwise eligible for deductibility had to be made in cash after January 11, 2010, and before March 1, 2010, to aid victims of the January 12, 2010, earthquake in Haiti. Individuals who opted to accelerate such deductions cannot deduct those same contributions from their 2010 taxable income.

TEMPORARY EXTENSION ACT OF 2010 (Public Law 111-144)

Under this Act, which was signed into law by President Obama on March 2, 2010, the initial eligibility period for emergency unemployment compensation and several other unemployment programs was extended from February 28, 2010, through April 5, 2010. This Act also extended eligibility for COBRA health insurance premium assistance to qualified individuals involuntarily terminated after February 28, 2010, and before April 1, 2010, and expanded eligibility to include certain employees who lost group health coverage due to a reduction in hours of employment and were subsequently involuntarily terminated.

HIRING INCENTIVES TO RESTORE EMPLOYMENT (HIRE) ACT (Public Law 111-147)

This Act, which was signed into law by President Obama on March 18, 2010, provided tax incentives for businesses hiring new workers, and extended higher expensing limits for small businesses making capital investments. This Act also expanded certain qualified tax credit bond programs for school and energy purposes to give State and local governmental issuers an option to receive Federal direct payments instead of investor tax

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

credits for borrowing cost subsidies similar to the Build America bond program. The cost of these incentives was offset with provisions requiring additional withholding and information reporting. The major provisions affecting receipts are described below.

Incentives for Hiring and Retaining Unemployed Workers

Provide payroll tax forgiveness to employers for hiring certain unemployed workers.—This Act provided qualified employers an exemption from the employer-share of Social Security payroll taxes (6.2 percent of the first $106,800 of taxable wages in 2010) levied on the taxable wages of qualified employees hired after February 3, 2010, and before January 1, 2011, who had been unemployed for at least 60 days. The payroll tax exemption only applies to wages paid to these employees after March 18, 2010, and before January 1, 2011. A qualified employer is any employer other than the United States, any State, any local government, or any instrumentality of such governments (excluding public institutions of higher education). A qualified employee is any individual who: (1) began work with a qualified employer after February 3, 2010, and before January 1, 2011; (2) certified that they were employed for a total of 40 hours or less during the 60-day period ending on the date such employment began; (3) was not employed to replace another employee of the employer unless such employee separated from employment voluntarily or for cause; and (4) was not a related party of the employer. The Social Security Trust Fund is held harmless and receives transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to the payroll tax forgiveness provided under this provision.

Provide business credit for retention of certain newly hired workers.—A credit equal to the lesser of $1,000 or 6.2 percent of wages paid was provided to qualified employers for each qualified individual eligible for the payroll tax forgiveness provision who was employed for a period of at least 52 consecutive weeks and received wages for such employment during the last 26 weeks of that period equal to at least 80 percent of wages received for the first 26 weeks of that period. To the extent the credit exceeds the employer's tax liability for the taxable year, the credit may be carried back one year (provided that this year did not begin prior to March 18, 2010) and carried forward 20 years.

Expensing for Small Businesses

Extend temporary increase in expensing for small businesses.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. This Act extended the $250,000 expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010.

Qualified Tax Credit Bonds

Provide payments in lieu of tax credits for certain qualified tax credit bonds.—Prior to this Act, existing law authorized State and local governments to issue various types of qualified tax credit bonds for school and energy purposes, which provided deep Federal subsidies for borrowing costs through tax credits to holders of the bonds in lieu of all or a major portion of the interest payments on the bonds. Types of qualified tax credit bonds included qualified school construction bonds, qualified zone academy bonds, qualified energy conservation bonds, and new clean renewable energy bonds. The Federal borrowing subsidy levels are estimated to cover 100 percent of the interest on the school bonds and 70 percent of the interest on the energy bonds. This Act expanded these qualified tax credit bonds programs to give State and local government issuers the option to elect to receive Federal direct payments for these borrowing subsidies in lieu of tax credits to investors. The Federal direct payments are based on the lower of actual interest rates or tax credit rates set by the Department of the Treasury. This direct payment option is effective for qualified tax credit bonds issued after March 18, 2010.

Offsets

Combat underreporting of income through the use of accounts and entities in offshore jurisdictions.— To reduce the ability of some Americans to evade their taxpaying responsibilities by hiding unreported income in a foreign financial account, trust, or corporation, this Act included a series of measures to strengthen the information reporting and withholding systems that support U.S. taxation of income earned or held through offshore accounts or entities. This Act also included a provision to prevent those who receive the benefit of U.S.-source dividend payments from avoiding U.S. withholding taxes.

Delay implementation of the world-wide interest allocation rules.—Subject to various limitations, U.S. taxpayers may credit foreign income taxes paid or accrued against U.S. tax on foreign-source income. The American Jobs Creation Act of 2004 made several changes to the foreign tax credit rules, including a modification to the interest expense allocation rules. One provision of that Act permitted taxpayers a one-time election to use an alternative method for allocating interest expenses of the domestic members of a worldwide affiliated group between U.S.-source and foreign-source income on a worldwide group basis ("worldwide affiliated group election"), effective for taxable years beginning after December 31, 2008. The Housing and Economic Recovery Act of 2008 delayed the effective date of the election for two years, so that it would apply to taxable years beginning after December

31, 2010, and provided a special phase-in rule for the first year the election is in effect. The Worker, Homeownership and Business Assistance Act of 2009 delayed the effective date of the election for an additional seven years, so that it would apply to taxable years beginning after December 31, 2017, and repealed the special phase-in rule for the first year the election is in effect. This Act delayed the effective date for an additional three years, so that it would apply to taxable years beginning after December 31, 2020.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments otherwise due in July through September by corporations with assets of at least $1 billion to 157.75 percent in 2014, 121.5 percent in 2015, and 106.5 percent in 2019. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

PATIENT PROTECTION AND AFFORDABLE CARE ACT AS AMENDED BY THE HEALTH CARE AND EDUCATION RECONCILIATION ACT OF 2010 (Public Laws 111-148 and 111-152)

The Administration's effort to find a way to expand health insurance to millions of uninsured individuals, to improve health care for millions more, and to cut long-term health care costs for individuals and the Federal government culminated with enactment of the Patient Protection and Affordable Care Act on March 23, 2010, as amended by the Health Care and Education Affordability Reconciliation Act of 2010 on March 30, 2010, and collectively referred to as the Affordable Care Act. The major provisions of these Acts that affect receipts are described below.

Health Insurance Reform

Provide a refundable tax credit for health insurance purchased through an exchange.—This Act provided a "premium assistance tax credit" to certain individuals who purchase health insurance through a Health Insurance Exchange, which is created to provide individuals private health insurance choices. The credit is refundable and payable in advance to the insurer. Eligibility for the advanced credit is based initially on the individual's household income and family size for the most recent taxable year; however, eligibility may be updated to reflect changes in circumstances, including changes in income, in marital or other household circumstances, and in employment status. The credit is available to individuals (single or joint filers) with household income between 100 and 400 percent of the Federal poverty level (FPL) for the relevant family size who are not eligible for certain other health care programs (e.g., Medicare, Medicaid, CHIP, or TRICARE) or health insurance through their employer or their spouse's employer (unless the cost to the taxpayer of such employer-provided health insurance coverage exceeds 9.5 percent of household income or the employer-provided coverage fails to meet a minimum value standard). Household income is the sum of the taxpayer's modified adjusted gross income (AGI) and the aggregate modified AGIs of all other individuals taken into account in determining the taxpayer's family size, but only if such individuals are required to file a tax return for the taxable year. Modified AGI is AGI increased by the amount of the exclusion from gross income (if any) for citizens or residents living abroad and any tax-exempt interest received or accrued during the tax year. To be eligible for the credit, taxpayers who are married must file a joint return; individuals who qualify as dependents are ineligible for the premium assistance credit. The amount of the credit equals the lesser of: (1) the actual premiums for the qualified health insurance purchased through a Health Insurance Exchange, or (2) the excess of the cost of a statutorily-identified benchmark plan ("second lowest-cost silver plan") over a required payment by the taxpayer that rises from two percent of income for those at 100 percent of FPL (for the relevant family size) to 9.5 percent of income for those at 400 percent of FPL (for the relevant family size). The applicable benchmark premium used to determine the credit with respect to a taxpayer is the second lowest-cost silver plan offered through an exchange in the rating area where the individual resides, that provides self-only coverage in the case of an individual who is covered by self-only coverage, or family coverage in the case of any other individual. If the plan in which the individual enrolls offers benefits in addition to essential health benefits, the premium that is allocable to those additional benefits is disregarded in determining the premium assistance credit amount, even if the State in which the individual resides requires such additional benefits (the State is required to defray the cost of any additional benefits it requires). Premium assistance credits may be used for any plan (bronze, silver, gold, platinum, or catastrophic) purchased through an exchange. Beginning in 2015, the specified percentages of income of the required payment by the taxpayer are indexed to the excess of premium growth over income growth for the preceding calendar year. Beginning in 2019, if the aggregate amount of premium assistance credits and cost-sharing reductions[3] exceeds 0.504 percent of GDP for that year, the percentage of income is also adjusted to reflect the excess (if any) of premium growth over the rate of growth in the consumer price index (CPI) for the preceding calendar year. If the premium assistance received through an advance payment exceeds the amount of the credit to which the taxpayer is entitled, the excess advance payment is treated as an increase in tax (which is limited for certain

[3] This legislation also provided a subsidy to individuals and households between 100 and 400 percent of FPL (for the relevant family size) that reduces annual out-of-pocket cost-sharing expenses. These subsidies affect outlays; they do not affect receipts.

taxpayers[4]). The credit is effective for taxable years ending after December 31, 2013.

Provide tax credit to qualified small business employers for non-elective contributions to employee health insurance.—This Act provided a tax credit to qualified small business employers who make non-elective contributions on behalf of each employee enrolled in a qualifying employer-provided health insurance plan. The credit is a general business credit that may be carried back for one year and carried forward for 20 years. For taxable years beginning in 2010 through 2013, the credit is available for health insurance coverage purchased from an insurance company licensed under State law. For taxable years beginning after 2013, the credit is only available for health insurance purchased through a Health Insurance Exchange and only for a maximum coverage period of two consecutive taxable years beginning with the first year in which the employer or any predecessor first offers one or more qualified plans to its employees through an exchange. A qualified small business employer for purposes of the credit generally has fewer than 25 full-time equivalent employees (FTEs) during the taxable year with annual full-time equivalent wages that average less than $50,000. However, the full amount of the credit is available only to employers with 10 or fewer FTEs during the taxable year with annual full-time equivalent wages that average $25,000 or less; the credit is reduced for all other qualified small business employers with fewer than 25 employees and annual full-time equivalent wages that average less than $50,000. These wage limits are indexed to the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning in 2014. For taxable employers, the credit is equal to the applicable tax credit percentage (35 percent for taxable years beginning in 2010 through 2013 and 50 percent for taxable years beginning after 2013) multiplied by the lesser of the following two amounts: the amount of contributions the employer made on behalf of the employees during the taxable year for the qualifying health coverage and the amount of contributions that the employer would have made during the taxable year if each employee had enrolled in coverage with a small business benchmark premium. The benchmark premium is the average total premium cost in the small group market for employer-sponsored coverage in the rating area in which the employee enrolls for coverage (for tax years 2010 through 2013, the benchmark premium is equal to the average premium in the small group market in the State and varies based on the type of coverage being provided - single or family). Tax-exempt organizations (section 501(c) organizations) that would otherwise qualify for the credit are eligible to receive the credit; however, for such organizations the applicable tax credit percentage is 25 percent for taxable years beginning in 2010 through 2013 and 35 percent for taxable years beginning after 2013. The credit for tax-exempt employers for any taxable year cannot exceed the organization's liability as an employer for Medicare payroll taxes and the amount of income and Medicare payroll taxes withheld from its employees.

Require Americans to maintain minimum essential health coverage.—This Act imposed a penalty, beginning in 2014, on non-exempt U.S. citizens and legal residents who do not maintain minimum essential health insurance coverage for themselves, their spouse (if married filing jointly), and their dependents. Minimum essential coverage includes coverage under government sponsored programs, eligible employer-sponsored plans, plans in the individual market, grandfathered health plans and other coverage recognized by the Secretary of Health and Human Services in coordination with the Secretary of the Treasury. Individuals are exempt from the requirement if they are incarcerated, not legally present in the United States, or acquire a religious conscience exemption or hardship exemption. All members of Indian tribes and individuals with household income below their tax filing threshold are also exempt from the penalty. Individuals for whom the required contribution for employer-sponsored coverage or the lowest cost bronze plan in the local exchange (less the amount of the premium assistance tax credit allowable to the individual) exceeds eight percent (increased by the amount by which premium growth exceeds income growth beginning in 2015) of household income for the year are exempt from the penalty. No penalty is imposed on individuals who do not maintain health insurance for continuous periods of three months or less.

The penalty applies to each month beginning after 2013 that an individual fails to maintain minimum essential coverage (for the individual, the individual's spouse, and any dependent for whom the individual is liable). The total annual penalty is the lesser of: (1) the sum of the monthly penalty amounts, or (2) the national average bronze plan premium for the individual's family size. The monthly penalty amount is equal to one-twelfth of the greater of: (1) a specified percentage (1.0 percent in 2014, 2.0 percent in 2015, and 2.5 percent in each subsequent year) of the taxpayer's household income for the year in excess of the individual income tax filing threshold for that taxpayer ($9,500 for single taxpayers or married taxpayers filing separately and $19,000 for married taxpayers filing jointly in 2011), or (2) a specified amount per uninsured adult for whom the individual is liable ($95 in 2014, $325 in 2015, $695 in 2016, and indexed annually thereafter in accordance with the CPI-U, rounded to the next lowest $50). The specified amount for uninsured individuals under age 18 is one half of the adult amount and the specified amount for a household may not exceed 300 percent of the per-adult penalty.

Require certain employers to provide affordable health insurance coverage for employees.—Under this Act, beginning in 2014, an applicable large employer that does not offer coverage for its full-time employees (and their dependents) is required to pay a penalty if at least one full-time employee is certified as having enrolled in health insurance coverage purchased through a Health

[4] The Medicare and Medicaid Extenders Act of 2010 (Public Law 111-309) altered the limitation on the amount that must be repaid by certain taxpayers.

Insurance Exchange with respect to which a premium tax credit or cost-sharing reduction was allowed or paid. In addition, an applicable large employer that does offer coverage for its full-time employees is required to pay a penalty for each full-time employee who is certified as having enrolled in health insurance coverage purchased through a Health Insurance Exchange with respect to which a premium tax credit or cost-sharing reduction was allowed or paid. Employees who are offered minimum essential coverage by their employers are generally eligible for premium tax credits and cost-sharing reductions only if: (1) the minimum essential coverage is unaffordable, or (2) the minimum essential coverage consists of a plan under which the plan's share of the total allowed cost of benefits is less than 60 percent. The employer-sponsored minimum essential coverage is considered unaffordable if the employee's required contribution with respect to the plan exceeds 9.5 percent of the employee's household income. An employer generally is an applicable large employer during a taxable year if it employed an average of at least 50 full-time employees during the preceding calendar year. In determining whether an employer is an applicable large employer, a full-time employee is counted as one employee and all other employees are counted on a pro-rated basis. The monthly penalty for an applicable large employer that fails to offer its full-time employees and their dependents the opportunity to enroll in minimum essential coverage is equal to the number of full-time employees over a 30-employee threshold multiplied by one twelfth of $2,000. After 2014, this $2,000 amount is increased by the percentage, if any, by which the average per capita premium for health insurance coverage in the United States for the preceding calendar year exceeds the average per capita premium for 2013 rounded down to the nearest $10. The monthly penalty for an applicable large employer that offers minimum essential coverage that is unaffordable or consists of a plan under which the plan's share of the total allowed cost of benefits is less than 60 percent is equal to the number of full-time employees receiving a premium tax credit or cost-sharing subsidy through a Health Insurance Exchange times one-twelfth of $3,000. The monthly penalty for each offering employer is capped at an amount equal to the number of full-time employees in excess of 30, multiplied by one-twelfth of $2,000. After 2014, the $3,000 and $2,000 amounts are increased by the percentage, if any, by which the average per capita premium for health insurance coverage in the United States for the preceding calendar year exceeds the average per capita premium for 2013 rounded down to the nearest $10.

Establish a reinsurance and risk adjustment program in each State.—This Act required health insurance issuers and third party administrators on behalf of group plans to make payments to an applicable reinsurance entity during the three-year period beginning January 1, 2014. For any plan year, the amount contributed by each issuer is based on that issuer's relative market share and a specified aggregate contribution amount for all States equal to $12 billion for plan years beginning in 2014, $8 billion for plan years beginning in 2015, and $5 billion for plan years beginning in 2016. The contribution by each issuer can be increased to include an amount to fund the administrative expenses of the applicable reinsurance entity and any additional amounts that a State may choose to collect. Amounts collected are distributed to health insurance issuers that provide coverage to high-risk individuals in the individual market.

In addition, each State is required to assess a charge on health plans and health insurance issuers that provide coverage in the individual or small group market within the State if the actuarial risk of the enrollees of such plans or coverage for a year is less than the average actuarial risk of all enrollees in all plans or coverage in such State for such year that are not self-insured group health plans. Each State shall provide a payment to health plans and health insurance issuers if the actuarial risk of the enrollees of such plans or coverage for a year is greater than the average actuarial risk of all enrollees in all plans and coverage in such State for such year that are not self-insured group health plans.

Tax high-cost employer-sponsored health insurance coverage.—This Act imposed an excise tax on health insurance providers if the value of employer-sponsored health insurance coverage for an employee - including a former employee, a surviving spouse and any other primary insured individual - exceeds a specified threshold. The tax, which is effective for taxable years beginning after December 31, 2017, is equal to 40 percent of the aggregate value of coverage in excess of the threshold amount. For 2018, the threshold is $10,200 for self-only coverage and $27,500 for family coverage, subject to an adjustment if actual growth of health care costs between 2010 and 2018 exceeds projected growth in costs. The thresholds are indexed at CPI-U plus one percentage point for 2019 and by CPI-U for each succeeding year. The threshold amounts are increased for retired individuals age 55 and older and for employees engaged in specified high-risk professions. Employers with age and gender demographics that result in higher premiums are allowed an additional adjustment. Certain employer-sponsored coverage that is not subject to the portability, access and renewability requirements of the Health Insurance Portability and Accountability Act is excluded from the tax as are separate plans that provide benefits substantially all of which are for treatment of the mouth or eye..

Tax branded prescription pharmaceutical manufacturers and importers.—Effective for calendar years beginning after 2010, this Act imposed an excise tax on each covered manufacturer or importer of branded prescription drugs for sale to any specified government program or pursuant to coverage under any such program. The tax imposed on each covered manufacturer or importer during a calendar year is based on its relative market share of such branded prescription drug sales during the preceding calendar year and the following amounts, which are the aggregate annual excise taxes levied on all covered entities: $2.5 billion for calendar year 2011, $2.8

billion for calendar years 2012 and 2013, $3.0 billion for calendar years 2014 through 2016, $4.0 billion for calendar year 2017, $4.1 billion for calendar year 2018, and $2.8 billion for calendar year 2019 and each subsequent year. Amounts collected are deposited in the Supplementary Medical Insurance (SMI) Trust Fund.

Tax indoor tanning services.—This Act imposed an excise tax, equal to 10 percent of the amount paid, on indoor tanning services performed after June 30, 2010.

Tax manufacturers of medical devices.—This Act imposed an excise tax, equal to 2.3 percent of the sales price, on the sale of any taxable medical device by the manufacturer, producer, or importer of the device after December 31, 2012. A taxable medical device is any device defined in section 201(h) of the Federal Food, Drug, and Cosmetic Act, intended for humans. The tax does not apply to eyeglasses, contact lenses, hearing aids, and any other medical devices determined to be of a type that is generally purchased by the general public at retail for individual use.

Tax health insurance providers.—This Act imposed an excise tax on each covered entity engaged in the business of providing health insurance with respect to U.S. health risks, for each calendar year beginning after 2013. The aggregate amount of the tax on all covered entities is the following: $8.0 billion for calendar year 2014, $11.3 billion for calendar years 2015 and 2016, $13.9 billion for calendar year 2017, and $14.3 billion for calendar year 2018, indexed to the rate of premium growth for each subsequent year. The tax for each calendar year is allocated among the covered entities based on their relative market share of U.S. health insurance business during the preceding calendar year.

Tax insured and self-insured health plans to finance the Patient-Centered Outcomes Research Trust Fund.—This Act imposed an excise tax on each health insurance policy issued by an applicable insured or self-insured health plan. The tax is equal to one dollar for policy years ending during fiscal year 2013 and two dollars for policy years ending during fiscal year 2014, multiplied by the average number of lives covered under the plan. For policy years ending during fiscal year 2015 and later fiscal years, the tax is equal to the sum of: the dollar amount of the tax for policy years ending in the preceding fiscal year, plus the product of the dollar amount of the tax for policy years ending in the preceding fiscal year and the percentage increase in the projected per capital amount of National Health Expenditures, as most recently published before the beginning of the fiscal year. In the case of insured plans, the issuer of the policy is liable for payment of the tax; in the case of self-insured plans, the sponsor is liable for payment of the tax.

Increase the penalty on nonqualified distributions from health savings accounts (HSAs).— Individuals with a high deductible health plan may establish and make tax-deductible contributions to an HSA. Distributions that are used for qualified medical expenses or are made after the death, disability, or attainment of the age of Medicare eligibility are excluded from gross income for tax purposes. All other distributions are included in gross income and subject to an additional tax, which was ten percent of the disbursed amount under prior law. Effective for such distributions made in taxable years beginning after December 31, 2010, this Act increased the additional tax to 20 percent of the disbursed amount.

Limit qualified benefits under health flexible spending arrangements (health FSAs) under cafeteria plans.—In general, both the value of employer-provided health coverage and any reimbursements for medical care expenses provided under an accident or health plan are excluded from the gross income of the employee for income and payroll tax purposes. Health coverage may also be provided by an employer through health FSAs, which allow reimbursement for medical care expenses not reimbursed by a health insurance plan, up to a specified dollar amount. Health coverage provided in the form of one of these flexible spending arrangements is also excluded from gross income for income and payroll tax purposes. Under this Act, in order for the health coverage provided by a health FSA to be excluded from gross income for income and payroll tax purposes, the maximum amount of salary reduction by each employee in taxable year 2013 may not exceed $2,500. For taxable years beginning after December 31, 2013, this amount is indexed annually to the CPI-U, with any increase that is not a multiple of $50 rounded down to the next multiple of $50.

Eliminate deduction for prescription drug plan costs allocable to excludable subsidy payments.— Sponsors of qualified retiree prescription drug plans are eligible for subsidy payments with respect to a portion of each qualified covered retiree's gross covered prescription drug costs. Under current law, these prescription drug costs are deductible, even though the subsidy payments allocable to a portion of these expenses were excluded from the plan sponsor's gross income for purposes of the regular income tax and the AMT. Under this Act, effective for taxable years beginning after December 31, 2012, the amount otherwise allowable as a deduction for prescription drug expenses is reduced by the amount of the excludable subsidy payments received.

Modify the itemized deduction for medical expenses.—For purposes of the regular individual income tax, taxpayers are allowed an itemized deduction for unreimbursed medical expenses to the extent that such expenses exceed 7.5 percent of AGI. For purposes of the AMT, medical expenses are deductible only to the extent that they exceed 10 percent of AGI. Effective for taxable years beginning after December 31, 2012, this Act increased the threshold for the itemized deduction to 10 percent of AGI for regular income tax purposes. However, for taxable years 2013 through 2016, the threshold re-

mains at 7.5 percent of AGI if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year. For purposes of the AMT, the 10-percent threshold of current law is unchanged.

Conform the definition of medical expenses to the definition used for the medical expense itemized deduction.—Employees generally are not taxed on the value of employer-provided health coverage under an accident or health plan, or on any reimbursements for medical care expenses provided under an accident or health plan, a health FSA, a health reimbursement arrangement, a health savings account, or an Archer medical savings account. Prior to this Act, the definition of medical care for purposes of the exclusion from income for such employer-provided health coverage and reimbursements included expenses for medicine available without a prescription (over-the-counter medicines). In contrast, any amount paid for medicine or drugs that is not reimbursed by insurance or otherwise is deductible as a medical expense only if the medicine or drug is a prescribed drug or insulin. Any uncompensated amount paid for over-the-counter medicine is not deductible. Under this Act, effective for expenses incurred after December 31, 2010, the cost of over-the-counter medicines reimbursed through a health FSA, a health reimbursement arrangement, a health savings account, or an Archer medical savings account is no longer excluded from taxable income. The provision does not apply to reimbursements for over-the-counter medicines prescribed by a physician.

Limit the deduction for compensation paid to certain employees by a covered health insurance provider.—An employer generally may deduct reasonable compensation for personal services as an ordinary and necessary business expense. However, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly held corporation is limited to no more than $1 million per year. Under this Act, the deduction limit is reduced to $500,000 with respect to compensation for services performed for a "covered health insurance provider" by any officer, employee, director or other worker or service provider. In general, a health insurance provider is a covered health insurance provider if at least 25 percent of its gross premiums from health insurance is from minimum essential coverage. Simply maintaining a self-insured plan does not cause an employer to become a covered health insurance provider. The limitation is effective for compensation paid in taxable years beginning after December 31, 2012, with respect to services performed after December 31, 2009.

Non-Health-Related Offsets

Levy an additional payroll tax on the wages of high-income employees.—The Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA) impose Medicare (HI) payroll taxes on the covered wages of employees and covered net earnings of self-employed individuals, respectively. Currently, the employee's share of HI payroll taxes is equal to 1.45 percent of covered wages and the HI payroll tax paid by self-employed individuals is equal to 2.9 percent of covered net earnings from self-employment. Effective for covered wages paid and covered net earnings from self-employment received in taxable years beginning after December 31, 2012, this Act levied an additional HI payroll tax of 0.9 percent on covered wages and covered net self-employment earnings in excess of the following threshold amounts: $250,000 for married taxpayers filing a joint return or a surviving spouse, $125,000 for married taxpayers filing a separate return, and $200,000 for all other returns. For married taxpayers filing a joint return the additional tax is on the combined wages of the employee and the employee's spouse. This Act did not index the income thresholds for inflation.

Levy an additional tax on the net investment income of certain individuals, estates and trusts.—Effective for taxable years beginning after December 31, 2012, this Act levied an additional tax on the net investment income of an individual, an estate, or a trust. In the case of an individual, the tax is 3.8 percent of the lesser of net investment income or the excess of modified AGI (AGI increased by the amount excluded from income as foreign earned income) over the following threshold amounts: $250,000 for married taxpayers filing a joint return or a surviving spouse, $125,000 for married taxpayers filing a separate return, and $200,000 for all other returns. In the case of estates and trusts, the tax is 3.8 percent of the lesser of undistributed net investment income or the excess of AGI (as defined in section 67(e) of the Internal Revenue Code) over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins. Investment income is the sum of: (1) gross income from interest, dividends, annuities, royalties, and rents (other than those derived from any trade or business to which the tax does not apply); (2) other gross income derived from any business to which the tax applies; and (3) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property other than property held in a trade or business to which the tax does not apply. Net investment income is investment income reduced by the deductions properly allocable to such income. This Act did not index the income thresholds for inflation.

Modify cellulosic biofuel producer credit.—An income tax credit is provided for cellulosic biofuel produced by the taxpayer. Under prior law, the credit was available (with certain exceptions for nonbusiness use) for all cellulosic biofuel sold or used by the producer. Cellulosic biofuel was defined as any liquid fuel that: (1) is produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis, and (2) meets the registration requirements for fuels and fuel additives established by the Environmental Protection Agency (EPA) under section 211 of the Clean Air Act (EPA registration requirements). Liquid byproducts derived from the kraft

process for making paper or pulp (known as black liquor) are produced from lignocellulosic or hemicellulosic matter available on a renewable or recurring basis. Any such liquid byproducts that meet the EPA registration requirements would qualify as cellulosic biofuel under prior law and, to the extent so qualifying, result in substantial revenue losses and a windfall to the paper industry. This Act modified the cellulosic biofuel producer credit to exclude fuels with significant water, sediment, or ash content such as black liquor. Credits ceased to be available effective for such fuels sold or used on or after January 1, 2010.

Codify "economic substance" doctrine.—The economic substance doctrine is a judicial rather than statutory tax doctrine that has been used by the Internal Revenue Service (IRS) and applied by the courts for many years to disallow tax benefits from transactions that do not meaningfully change a taxpayer's economic position, even if the transactions technically comply with the Internal Revenue Code. This Act added a new provision to the Internal Revenue Code clarifying that a transaction must have both objective economic substance and a substantial nontax business purpose to satisfy the judicial economic substance doctrine. The new provision addresses what constitutes objective economic substance and a substantial nontax business purpose. This Act also imposed a 20-percent penalty on any understatement of tax resulting from a transaction lacking economic substance, even when the taxpayer has reasonable cause for the understatement. The penalty is increased to 40 percent if the taxpayer does not adequately disclose the relevant facts affecting the tax treatment in the return or in a statement attached to the return. These changes apply to transactions entered into after March 30, 2010.

Require information reporting on payments to corporations and payments for property.—Generally, under prior law, a taxpayer making payments to a recipient aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year was required to send an information return to the IRS setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). This information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, this Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments due in July through September of 2014 by corporations with assets of at least $1 billion by 15.75 percentage points to 173.5 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

Adoption Assistance

Extend and modify the adoption tax credit.—Under prior law, a nonrefundable tax credit was provided for the first $10,000 of qualified expenses paid or incurred in the adoption of a child before January 1, 2011. The $10,000 amount was indexed annually for inflation, effective for taxable years beginning after December 31, 2002. For a child with special needs, the maximum credit was provided regardless of whether qualified adoption expenses were incurred. The credit phased out ratably for taxpayers with modified AGI between $150,000 and $190,000. The start of the phase-out range was indexed annually for inflation effective for taxable years beginning after December 31, 2002, but the width of the phase-out range remained at $40,000. The adoption tax credit was allowed against the AMT. This Act increased the maximum credit, which was $12,170 per eligible child in 2010 under prior law, to $13,170 per eligible child in 2010, made the credit refundable, and extended the increased credit (adjusted for inflation) through December 31, 2011.

Extend and modify the exclusion for employer-provided adoption assistance.—Under prior law, up to $10,000 per child in qualified adoption expenses paid or reimbursed by an employer under an adoption assistance program was excluded from the gross income of an employee, effective for expenses incurred before January 1, 2011. The $10,000 amount was indexed annually for inflation, effective for taxable years beginning after December 31, 2002. For the adoption of a child with special needs, the exclusion was provided regardless of whether qualified adoption expenses were incurred. The exclusion phased out ratably for taxpayers with modified AGI between $150,000 and $190,000. The start of the phase-out range was indexed annually for inflation, effective for taxable years beginning after December 31, 2002, but the width of the phase-out range remained at $40,000. This Act increased the maximum exclusion amount, which was $12,170 per eligible child in 2010 under prior law, to $13,170 per eligible child in 2010, and extended the increased exclusion amount (adjusted for inflation) through December 31, 2011.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2010 (Public Law 111-153)

This Act, which was signed into law by President Obama on March 31, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through April 30, 2010. These taxes had been scheduled to expire after March 31, 2010, under prior law.

CONTINUING EXTENSION ACT OF 2010 (Public Law 111-157)

Under this Act, which was signed into law by President Obama on April 15, 2010, the initial eligibility period for emergency unemployment compensation and several other unemployment programs was extended from April 5, 2010, through June 2, 2010. This Act also extended eligibility for COBRA health insurance premium assistance to qualified individuals involuntarily terminated after March 31, 2010, and before June 1, 2010. Retroactive eligibility was provided for individuals who became eligible for COBRA assistance between April 1, 2010, and April 15, 2010.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010 (Public Law 111-161)

This Act, which was signed into law by President Obama on April 30, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through July 3, 2010. These taxes had been scheduled to expire after April 30, 2010, under prior law.

HAITI ECONOMIC LIFT PROGRAM (HELP) ACT OF 2010 (Public Law 111-171)

This Act, which was signed into law by President Obama on May 24, 2010, extended both the Haitian Opportunity through Partnership Encouragement (HOPE) program and the Caribbean Basin Trade Partnership Act, under which Haiti receives unilateral preferences, through September 30, 2020. This Act also expanded duty-free access to the U.S. market for additional Haitian textile and apparel exports by increasing tariff preference levels for certain knit and woven apparel products. In addition, estimated tax payments due in July through September by corporations with assets of at least $1 billion were increased to 174.25 percent of the amount otherwise due in 2014 and to 122.25 percent of the amount otherwise due in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

PRESERVATION OF ACCESS TO CARE FOR MEDICARE BENEFICIARIES AND PENSION RELIEF ACT OF 2010 (Public Law 111-192)

This Act, which was signed into law by President Obama on June 25, 2010, reversed a 21.3 percent cut in Medicare physician reimbursements that took effect on June 1, 2010, provided a 2.2 percent update to physician payment rates through November 30, 2010, and provided pension funding relief to single-employer and multiemployer defined benefit pension plans. The pension funding relief measures, which affect governmental receipts, were intended to give plan sponsors additional time to amortize pension funding shortfalls. Under this Act, sponsors of single-employer plans were allowed to elect a "2 plus 7" payment schedule under which they make interest-only payments for two years and amortize the balance of any shortfall over the next seven years, or a 15-year amortization schedule. Employers that accept the funding relief provided in this Act are required to reduce that relief by amounts spent on excessive compensation and certain large dividends and stock repurchases. Multiemployer plans were allowed to elect an extended (up to 30-year) amortization period for certain losses incurred during the first two plan years ending after August 31, 2008, and the maximum smoothing period for determining plan asset values was extended from five years to ten years for the first two plan years ending after August 31, 2008.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART II (Public Law 111-197)

This Act, which was signed into law by President Obama on July 2, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through August 1, 2010. These taxes had been scheduled to expire after July 3, 2010, under prior law.

HOMEBUYER ASSISTANCE AND IMPROVEMENT ACT OF 2010 (Public Law 111-198)

This Act, which was signed into law by President Obama on July 2, 2010, extended the closing deadline for qualifying home purchases to be eligible for the homebuyer tax credit through September 30, 2010. Under prior law, to be eligible for the credit, homeowners were required to close on the purchase of qualifying property before July 1, 2010. This Act also expanded the prior law penalty for a bad check or money order in payment to the IRS to apply to electronic payments.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (Public Law 111-203)

This Act, the most sweeping overhaul of U.S. financial regulations since the 1930s, was signed into law by President Obama on July 21, 2010. In addition to promoting the financial stability of the United States by improving accountability and transparency in the financial sector and securities market, this Act established a new consumer protection bureau and increased oversight of derivatives markets. The major provisions of this Act that affect receipts are described below.

Establish and fund an Office of Financial Research.—This Act created a Financial Stability Oversight Council (FSOC), supported by an Office of Financial Research (OFR). The purpose of the FSOC is to identify risks to the financial stability of the United States, promote market discipline by eliminating expectations that the Government will shield compa-

nies from losses in the event of failure, and respond to emerging threats to the stability of the United States financial system. The purpose of the OFR is to support the FSOC in fulfilling its purposes and duties by collecting data, performing research, and developing tools for risk measurement and monitoring. Any expenses of the FSOC are treated as expenses of, and paid by, the OFR from amounts deposited in the Financial Research Fund. During the two-year period beginning July 22, 2010, the Federal Reserve System will provide funds sufficient to cover the expenses of the OFR. These deposits are recorded as governmental receipts transferred from the Federal Reserve, consistent with the existing treatment of deposits of excess earnings of the Federal Reserve System. At the end of that two-year period, the OFR will be funded by an assessment on bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies supervised by the Federal Reserve.

Establish and fund an orderly liquidation authority.—This Act established an orderly liquidation authority to mitigate serious adverse effects on financial stability in the United States. All costs associated with this authority, including those associated with the orderly liquidation of covered financial companies and the payment of administrative expenses, are borne first by shareholders and unsecured creditors, and then, if necessary, by risk-based assessments on bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies supervised by the Federal Reserve. The assessments, which are deposited in the Orderly Liquidation Fund, are imposed on a graduated basis, with financial companies having greater assets and risk being assessed at a higher rate.

Authorize the Federal Reserve to levy assessments on regulated entities to cover the costs of examinations.—This Act authorized the Federal Reserve to levy assessments on bank holding companies with total consolidated assets of $50 billion or more, savings and loan holding companies with total consolidated assets of $50,000 or more, and nonbank financial companies supervised by the Federal Reserve. The amount collected will equal the total amount estimated by the Federal Reserve to be necessary or appropriate to carry out its supervisory and regulatory responsibilities with respect to such companies.

Authorize the Securities and Exchange Commission (SEC) to levy fees on security sales sufficient to cover all costs.—This Act authorized the SEC to collect transaction fees on the dollar amount of security sales sufficient to recover the costs to the Federal Government of the annual appropriation to the SEC by Congress. These fees generally would be effective October 1, 2011.

Establish and fund the Bureau of Consumer Financial Protection.—This Act established the Bureau of Consumer Financial Protection in the Federal Reserve to regulate the offering and provision of consumer financial products or services under the Federal consumer financial laws. Each fiscal year the Federal Reserve is required to deposit in the Bureau of Consumer Financial Protection Fund an amount less than or equal to a specified fixed percentage of total operating expenses of the Federal Reserve, as reported in its 2009 annual report. Amounts transferred may not exceed the following percentages of total operating expenses: 10 percent in 2011, 11 percent in 2012, and 12 percent in 2013, indexed annually for inflation in each subsequent year. These amounts are recorded as governmental receipts transferred from the Federal Reserve, consistent with the existing treatment of deposits of excess earnings of the Federal Reserve System.

Establish and fund a Consumer Financial Civil Penalty Fund.—This Act established the Consumer Financial Civil Penalty Fund in the Federal Reserve to compensate victims of activities for which civil penalties have been imposed under the Federal consumer financial laws. Any civil penalty obtained by the Bureau of Consumer Financial Protection against any person in any judicial or administrative action under Federal consumer financial laws is deposited in the Fund.

Establish and fund a Securities and Exchange Commission Investor Protection Fund.—This Act enhanced whistleblower protections for securities and created the Securities and Exchange Commission Investor Protection Fund to provide financial awards to whistleblowers and to fund the activities of the Inspector General of the Commission. Any monetary sanctions collected by the Commission in any judicial or administrative action under the securities laws that is not added to a disgorgement or other fund or otherwise distributed to victims of a violation of the securities laws is deposited in the Fund, provided the balance of the Fund at the time the monetary judgment is collected does not exceed $300 million.

Exempt swaps and certain other derivative contracts from section 1256 of the Internal Revenue Code.—Under current law, taxpayers are generally required to mark their section 1256 contracts to market on the last day of their taxable year and to treat income and loss from such contracts as 60 percent long-term and 40 percent short-term, assuming that the contracts are capital assets. Over-the-counter derivatives, on the other hand, have not been governed by section 1256. Under this Act, many over-the-counter swap contracts are required to be cleared and settled on regulated clearinghouses and exchanges, creating uncertainty about whether these swap contracts become section 1256 contracts. Therefore, this Act exempted income on any interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap, or similar agreement from section 1256, thereby allowing non-section 1256 character and timing rules to apply.

RENEWAL OF IMPORT RESTRICTIONS UNDER BURMESE FREEDOM AND DEMOCRACY ACT OF 2003 (Public Law 111-210)

This Act, which was signed into law by President Obama on July 27, 2010, extended for one year, through July 28, 2011, the ban on all imports from Burma, including a ban on imports of certain gemstones originating from Burma and on jewelry containing such gemstones. In addition, estimated tax payments due in July through September by corporations with assets of at least $1 billion were increased to 122.5 percent of the amount otherwise due in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AIRLINE SAFETY AND FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2010 (Public Law 111-216)

This Act, which was signed into law by President Obama on August 1, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2010. These taxes had been scheduled to expire after August 1, 2010, under prior law.

EDUCATION JOBS AND MEDICAID ASSISTANCE ACT (Public Law 111-226)

This Act, which was signed into law by President Obama on August 10, 2010, provided temporary increased funding to States for Medicaid and education programs. The cost of the increased funding was paid for by reductions in spending for other Federal programs, limitations on the use of foreign tax credits, and elimination of the advanced refundability of the earned income tax credit. The major provisions of the Act that affect receipts are described below.

Limit the Use of Foreign Tax Credits

Under current law, subject to certain limitations, a taxpayer may choose to claim a credit against its U.S. income tax liability for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or any possession of the United States. The person considered to have paid the foreign taxes is the person on whom foreign law imposes legal liability for such taxes. The foreign tax credit generally is limited to a taxpayer's U.S. tax liability on foreign-source taxable income. If the total amount of foreign income taxes paid for the year exceeds the taxpayer's foreign tax credit limitation for the year, the excess foreign taxes may be carried back to the previous taxable year or carried forward ten years. The foreign tax credit limitation generally is applied separately for income in two different "baskets" (passive basket income and general basket income). Passive basket income generally includes investment income; general basket income is all income that is not in the passive basket. Credits for foreign taxes imposed on income in one basket cannot be used to offset U.S. taxes on income in the other basket. This Act included several provisions that limited the use of foreign tax credits, which include the following:

Provide rules to prevent splitting foreign tax credits from the income to which they relate.— Under this Act, foreign income taxes paid or accrued by a U.S. taxpayer will not be taken into account for Federal tax purposes before the taxable year in which the related income is taken into account by the taxpayer. The provision generally is effective with respect to foreign income taxes paid or accrued by U.S. taxpayers in taxable years beginning after December 31, 2010.

Deny foreign tax credit with respect to foreign income that is not subject to U.S. taxation by reason of covered asset acquisitions.—Under this Act, a foreign tax credit is denied for the portion of any foreign income tax paid or accrued on income that is not subject to U.S taxation by reason of a "covered asset acquisition." The provision generally is effective for covered asset acquisitions after December 31, 2010.

Provide other limitations on the use of foreign tax credits and address loopholes in certain international tax provisions.—Effective for taxable years beginning after December 31, 2010, this Act terminated the special rules for interest and dividends received from persons meeting the 80-percent foreign business requirements. In addition, this Act: (1) modified the affiliation rules for purposes of allocating the interest expense of an affiliated group of corporations (effective for taxable years beginning after August 10, 2010); (2) applied a separate foreign tax credit limitation for each item of income that is resourced under a U.S. income tax treaty (effective for taxable years beginning after August 10, 2010); (3) limited the amount of foreign taxes deemed paid with respect to any section 956 inclusion (effective for acquisitions of U.S. property after December 31, 2010); and (4) modified the special rule with respect to certain redemptions by foreign corporations (effective for acquisitions after August 10, 2010).

Earned Income Tax Credit (EITC)

Eliminate advanced EITC.—Under prior law, taxpayers eligible for the refundable EITC who had one or more qualifying children were allowed to elect to receive advanced payment of a portion of the credit through their employer. This Act repealed the advanced refundability option, effective for taxable years beginning after December 31, 2010. Taxpayers with positive tax liability can, however, continue to receive all or part of the nonrefundable portion of the EITC during the year by adjusting their withholding.

UNITED STATES MANUFACTURING ENHANCEMENT ACT OF 2010 (Public Law 111-227)

This Act, which was signed into law by President Obama on August 11, 2010, suspended tariffs on more than 600 items imported into the United States through December 31, 2012. These suspensions, many of which were retroactive to December 31, 2009, applied to various chemicals, textiles and consumer goods that are not produced in the United States and needed as inputs in the production process by U.S. manufacturers. This Act also increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 123.25 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

FIREARMS EXCISE TAX IMPROVEMENT ACT OF 2010 (Public Law 111-237)

This Act, which was signed into law by President Obama on August 16, 2010, modified the timing of the payment of Federal excise taxes imposed on firearms, shells, and cartridges and required that orders of restitution for victims of crime be assessed and collected in the same manner as delinquent taxes. This Act also increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 122.75 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

SMALL BUSINESS JOBS ACT OF 2010 (Public Law 111-240)

This Act, which was signed into law by President Obama on September 27, 2010, included a number of provisions that provide tax relief to small businesses and included revenue-raising provisions that reduce the tax gap, promote retirement preparation, and close unintended loopholes in the U.S. tax system. The major provisions of the Act that affect receipts are described below.

Provide Tax Relief to Small Businesses

Provide temporary increase in exclusion from tax for capital gains realizations on certain small business stock.—Current law provides a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to individual investments and not the investments of a corporation. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. This Act increased the exclusion to 100 percent, effective for qualified small business stock issued after September 27, 2010 and before January 1, 2011, and held for more than five years.

Allow five-year carryback of the general business credit for eligible small businesses.—Under current law, the general business credit may be carried back one year and carried forward up to 20 years. This Act provided eligible small businesses the election to increase the carryback period for the general business credit to five years, effective for tax credits applicable to the first taxable year of the taxpayer beginning in 2010. This Act also allowed eligible small businesses to use the general business credit against AMT liability. Eligible small businesses include sole proprietorships, partnerships, and non-publicly traded corporations with $50 million or less in average annual gross receipts for the prior three years.

Provide a temporary reduction in the recognition period for the taxation of S corporation built-in gains.—Unlike C corporations, S corporations generally pay no corporation income tax. Instead, each shareholder takes into account their share of the income or loss of the S corporation on their individual income tax return. However, if a C corporation converts to an S corporation, corporation income taxes are levied on the gains that arose prior to the conversion to an S corporation if such gains are recognized during the 10-year recognition period, which begins the first day of the first taxable year for which the S corporation election is in effect. The recognition period is reduced to seven years if the seventh taxable year in the recognition period precedes taxable years 2009 or 2010. This Act temporarily reduced the recognition period to five years if the fifth year in the recognition period precedes taxable year 2011.

Expand and temporarily increase expensing for small business.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. Earlier in 2010, the HIRE Act extended the $250,000 annual expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010. In 2011, the annual expensing and investment limits were scheduled to decline to $25,000 and $200,000, respectively. This Act increased the annual expensing and investment limits to $500,000 and $2,000,000, respectively, effective for taxable years beginning in 2010 and 2011. In addition, this Act expanded the definition of qualifying property to include certain real property, such as qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property for taxable years beginning in 2010 and 2011. However, the maximum amount of such real property that may be expensed is $250,000.

Extend temporary bonus depreciation for certain property.—Under temporary provisions of prior laws, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired and placed in service in calendar years 2008 and 2009. The placed-in-service deadline was extended through 2010 for certain longer-lived and transportation property, but only basis attributable to manufacture, construction, or production before January 1, 2010 qualified for the additional allowance. Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property. This Act extended the bonus depreciation provision for one year, but did not extend the election to claim additional research or AMT tax credits in lieu of the additional first-year depreciation. The provision applies to qualifying property acquired and placed in service in calendar year 2010 (with an extension of the placed-in-service deadline through 2011 for certain longer-lived and transportation property).

Disregard bonus depreciation for the purpose of computing percentage completion.—In general, the taxable income from a long-term contract is determined each year by recognizing the portion of contract revenue that corresponds with the percentage of a contract that has been completed under the percentage-of-completion method. Under such method, the percentage of completion is determined by comparing costs (including depreciation) allocated to the contract and incurred before the end of the taxable year, with the estimated total cost of the contract. Under this Act, solely for purposes of determining the percentage of completion, the cost of qualified property is taken into account as if bonus depreciation had not been enacted. Qualified property is property otherwise eligible for bonus depreciation that has a Modified Accelerated Cost Recovery System (MACRS) recovery period of 7 years or less and that is placed in service after December 31, 2009, and before January 1, 2011 (before January 1, 2012, in the case of certain long-lived and transportation property).

Provide temporary increase in the deduction for start-up expenditures.—A taxpayer generally is allowed to elect to deduct up to $5,000 of start-up expenditures (amounts otherwise deductible as an expense had they not been paid or incurred before business begins) in the taxable year in which the active trade or business begins. The $5,000 amount is reduced (but not below zero), by the amount by which the cumulative cost of start-up expenditures exceeds $50,000. Effective for taxable years beginning in 2010, this Act increased the amount of start-up expenditures a taxpayer may elect to deduct to $10,000; that amount is reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds $60,000.

Modify the penalty for failure to disclose certain information with regard to "reportable transactions."—Taxpayers are required to disclose on their tax return certain information with respect to each reportable transaction (a transaction identified by the IRS as having the potential for tax avoidance or evasion) in which they participate. There are five categories of reportable transactions: listed transactions, confidential transactions, transactions with contractual protection, certain loss transactions, and transactions of interest. Under prior law, the maximum penalty for failure to comply with the reporting requirements for listed transactions was $100,000 for natural persons and $200,000 for all other taxpayers. For all other reportable transactions, the maximum penalty was $10,000 for natural persons and $50,000 for all other taxpayers. Effective for all such penalties assessed after December 31, 2006, this Act changed the penalty to equal 75 percent of the reduction in tax reported as a result of participation in the transaction, or that would result if the transaction were respected for Federal tax purposes, subject to the prior law maximum penalty amounts and the following minimum penalty amounts: $5,000 for natural persons and $10,000 for all other taxpayers.

Allow self-employed taxpayers to temporarily deduct the cost of health insurance for purposes of calculating net self-employment income subject to Social Security and Medicare payroll taxes.—Self-employed taxpayers are not allowed to deduct the cost of health insurance for themselves and their family for purposes of determining net self-employment income subject to Social Security and Medicare payroll taxes. This Act allowed self-employed taxpayers to deduct these costs for purposes of calculating net self-employment income subject to such taxes, effective for taxable year 2010.

Remove cell phones and similar telecommunications equipment from the definition of listed property.—Taxpayers generally are allowed a deduction for ordinary and necessary expenses paid or incurred in carrying on a trade or business. However, with respect to "listed property," the deduction may be limited or disallowed. Prior to passage of this Act, cellular telephones and similar telecommunications equipment were included in listed property. Deductions are disallowed for listed property unless the taxpayer substantiates: (1) the amount of such expense or other item; (2) the use of the listed property; (3) the business purpose of the expense or other item; and (4) the business relationship to the taxpayer of persons using the listed property. If the listed property is not used predominantly for business purposes (or if not properly substantiated), annual depreciation deductions (and any small business expensing deduction) are limited. Under this Act, cell phones and similar telecommunications equipment are no longer defined as listed property, effective for taxable years ending after December 31, 2009, and the strict substantiation of use and limitation on depreciation deductions applicable to listed property no longer apply to such equipment.

Reduce the Tax Gap

Require information reporting for rental property expense payments.—Under this Act, recipients of rental income making payments of $600 or more to a service provider, such as a plumber, painter or accountant in the course of earning rental income, are required to send an information return to the IRS and to the service provider, effective for payments made after December 31, 2010. Exceptions to the reporting requirement are made for taxpayers (including members of the military or employees of the intelligence community) who rent their principal residence on a temporary basis, for those who receive only small amounts of rental income per year, or for those for whom the requirements would cause hardship, as determined by the Secretary of the Treasury in accordance with regulations.

Increase information return penalties.—Present law imposes information reporting requirements on participants in certain transactions. Any person who is required to file a correct information return but fails to do so on or before the prescribed filing date is subject to a penalty that varies based on when, if at all, the correct information return is filed. Penalties are also imposed on taxpayers for failure to furnish a correct statement to a payee. This Act increased the penalties for failure to file an information return and for failure to provide a correct statement to a payee, effective for such statements required to be filed after December 31, 2010. The increased penalty amounts are adjusted to account for inflation every five years.

Levy payments to Federal contractors with delinquent tax debt.—Under the Federal Payment Levy Program, the IRS is allowed to continuously levy up to 15 percent of government payments to Federal contractors who are delinquent on their Federal tax obligations. The IRS is required to provide the delinquent taxpayer with a notice of intention to levy and a notice of the right to an administrative hearing (referred to as a collections due process notice, or CDP notice), 30 days before the levy is scheduled to begin. Under prior law, if the taxpayer did not respond within 30 days, the IRS could begin the levy process. However, if the taxpayer requested a CDP, the IRS could not proceed with the levy until the CDP hearing and any subsequent judicial review were completed. Under this Act, the IRS is allowed to levy payments to Federal contractors identified under the Federal Payment Levy Program prior to the CDP hearing, effective for levies issued after September 27, 2010.

Promote Retirement Preparation

Allow participants in certain governmental retirement plans to treat elective deferrals as Roth contributions.—A qualified Roth contribution program is a program under which a participant may elect to make designated Roth contributions in lieu of all or a portion of the elective deferrals that the participant otherwise would be eligible to make under the applicable retirement plan. To qualify as a qualified Roth contribution program a plan must: (1) establish a separate designated Roth account for the designated Roth contributions of each participant; (2) maintain separate records for each account; and (3) refrain from allocating to the designated Roth account amounts from non-designated Roth accounts. If an "applicable retirement plan" includes a qualified Roth contribution program, any contribution that a participant makes under the program is treated as an "elective deferral," but is not excludable from gross income. This Act expanded the definition of "applicable retirement plan" to include eligible deferred compensation plans as defined under section 457(b) of the Internal Revenue Code maintained by a State, a political subdivision of a State, an agency or instrumentality of a State, or an agency or instrumentality of a political subdivision of a State. The provision is effective for taxable years beginning after December 31, 2010.

Allow rollovers from elective deferral plans to Roth designated accounts.—Distributions from a designated Roth contribution program (except for qualified distributions) are included in the recipient's gross income to the extent allocable to income; qualified distributions are tax free. Rollover distributions from a designated Roth contribution program to another designated Roth contribution program or to a Roth IRA are also tax free. Rollover distributions from a non-designated Roth account to another non-designated Roth account are tax free. Rollover distributions from a non-designated Roth account to a Roth IRA generally are included in the gross income of the recipient in the taxable year in which the distribution occurs, except to the extent the distribution represents previously taxed contributions. However, for such distributions made in taxable year 2010, the distribution may be included in gross income in equal amounts in taxable year 2011 and 2012. Under prior law, distributions from a non-designated Roth account to a designated Roth account were not allowed. Under this Act, distributions from a non-designated Roth account to a designated Roth account are permitted, effective for distributions made after September 27, 2010, and such distributions are included in the gross income of the recipient in the same manner as if the distribution were rolled over into a Roth IRA. However, a plan that does not otherwise have a designated Roth program is not permitted to establish a designated Roth account solely to accept the rollover contribution.

Permit partial annuitization of a nonqualified annuity contract.—In general, the earnings and gains on a deferred annuity contract are not subject to tax during the deferral period. When payout commences, the tax treatment of amounts distributed depends on whether the amount is received as an annuity (a periodic payment under specified contract terms) or not as an annuity. For amounts received as an annuity, an exclusion ratio (the ratio of the taxpayer's investment in the contract to the

total payments expected to be received under the contract) is provided for determining the taxable portion of each payment. The portion of each payment that is attributable to recovery of the taxpayer's investment in the contract is not taxed; the taxable portion of each payment is taxed as ordinary income. Once the taxpayer has recovered his or her investment in the contract, all further payments are taxed as ordinary income. If the taxpayer dies before the full investment in the contract is recovered, a deduction is allowed on the final return for the remaining investment in the contract. Amounts not received as an annuity generally are included in ordinary income to the extent they exceed the investment in the contract. This Act modified the taxation of payouts from certain annuity, endowment, or life insurance contracts effective for payouts made in taxable years beginning after December 31, 2010. Holders apply an exclusion ratio to amounts received as an annuity under a portion of such a contract for a period of 10 years or more, or during one or more lives. The investment in the contract is allocated on a pro rata basis between each portion of the contract from which amounts are received (the portion of the contract received as an annuity and the portion of the contract not received as an annuity).

Close Unintended Loopholes

Modify cellulosic biofuel producer credit.—An income tax credit is provided for cellulosic biofuel produced by the taxpayer. Under prior law the credit was available (with certain exceptions for nonbusiness use) for all cellulosic biofuel sold or used by the producer. Cellulosic biofuel was defined as any liquid fuel that: (1) is produced from any lignocellulosic or hemicellulosic matter (except for fuels with significant water, sediment, or ash content such as black liquor) that is available on a renewable or recurring basis, and (2) meets the registration requirements for fuels and fuel additives established by the EPA under section 211 of the Clean Air Act (EPA registration requirements). This Act modified the cellulosic biofuel producer credit to exclude fuels with an acid number greater than 25, effective for such fuels sold or used on or after January 1, 2010. As a result, crude tall oil, which is generated by reacting acid with black liquor soap and has a normal acid number of between 100 and 175, is no longer eligible for the credit.

Amend the source rules for income on guarantees.—In a recent court case the U.S. Tax Court held that the source of guarantee fees should be determined by reference to the residence of the foreign parent-guarantor. As a result, the payments were treated as foreign source income. Under this Act, amounts received, either directly or indirectly, from a non-corporate resident of the U.S. or a domestic corporation for the provision of a guarantee of indebtedness of such resident or corporation is income from sources within the United States. The provision is effective for guarantees issued after September 27, 2010, and no inference is intended with respect to the source of income received with respect to guarantees issued before the date of enactment.

Modify the Timing of Estimated Tax Payments by Corporations

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments otherwise due in July through September by corporations with assets of at least $1 billion to 159.25 percent in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART III (Public Law 111-249)

This Act, which was signed into law by President Obama on September 30, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through December 31, 2010. These taxes had been scheduled to expire after September 30, 2010, under prior law.

TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010 (Public Law 111-312)

In order to ensure that taxes did not rise for middle-income households on January 1, 2011, this Act was signed into law by President Obama on December 17, 2010. In addition to temporarily extending the 2001 and 2003 tax cuts through 2012, this Act temporarily extended key tax relief provided to middle-income taxpayers in ARRA, provided a two percentage point reduction in employee Social Security payroll taxes for 2011, and temporarily extended a number of provisions that had expired or were scheduled to expire under prior law. The major provisions of this Act that affect receipts are described below.

Temporary Extension of 2001, 2003 and 2009 Tax Relief

Continue the 2001 and 2003 income tax cuts.—Most of the tax reductions enacted in 2001 and 2003 (as amended by subsequent legislation) [5] were scheduled to expire on December 31, 2010. This includes reductions in marginal individual income tax rates; the repeal of limitations on itemized deductions and personal exemptions;

[5] Among other changes, this includes three amendments made to these tax cuts in ARRA, which expand child tax credit refundability, expand the earned income tax credit for married couples, and expand the earned income tax credit for taxpayers with three or more qualifying children.

provisions for married taxpayers; expansions in the child tax credit, earned income tax credit, adoption credit, child and dependent care credit, and employer-provided child care credit; preferential rates for capital gains and dividends; small business expensing; and certain tax incentives for education. The education tax incentives include certain tax-exempt bond incentives, an exclusion of up to $5,250 in employer-provided education assistance, an increase in the deductibility of student loan interest, and an exclusion of awards received under certain health professional programs. This Act temporarily extended these provisions for two years, through December 31, 2012.

Extend American opportunity tax credit (AOTC).—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) 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. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. In addition, generally 40 percent of the otherwise allowable credit is refundable. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable. In addition, the AOTC has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits than the Hope Credit. This Act extended the AOTC for two years, effective for taxable years 2011 and 2012.

Temporary Extension of AMT Relief

Increase and extend the AMT exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts, effective for taxable years beginning in 2009, to $46,700 for single taxpayers, $70,950 for married taxpayers filing a joint return and surviving spouses, and $35,475 for married taxpayers filing a separate return and for estates and trusts. This Act increased the AMT exemption amounts, effective for taxable years beginning in 2010, to $47,450 for single taxpayers, $72,450 for married taxpayers filing a joint return and surviving spouses, and $36,225 for married taxpayers filing a separate return and for estates and trusts. For taxable years beginning in 2011, the AMT exemption amounts are increased to $48,450 for single taxpayers, $74,450 for married taxpayers filing a joint return and surviving spouses, and $37,225 for married taxpayers filing a separate return and for estates and trusts.

Extend AMT relief for nonrefundable personal credits.—Under a temporary provision of prior law, taxpayers were permitted to offset both the regular tax and the AMT with nonrefundable personal tax credits, effective for taxable years beginning before January 1, 2010. This Act extended minimum tax relief for nonrefundable personal tax credits for two years, to apply to taxable years beginning in 2010 and 2011,

Temporary Estate Tax Relief

Modify and extend estate, gift and generation-skipping transfer taxes.—Under prior law, estate and generation-skipping transfer taxes were repealed for decedents dying after December 31, 2009, and before January 1, 2011, and the maximum gift tax rate on gifts made after December 31, 2009, and before January 1, 2011, was 35 percent on gifts in excess of a lifetime exclusion of $1 million. The basis of property (generally the taxpayer's investment in the property) passing from the estate of a decedent dying after December 31, 2009, and before January 1, 2011, was the lesser of the adjusted basis of the decedent or the fair market value of the property on the date of the decedent's death. However, each decedent's estate generally was permitted to increase the basis of assets transferred by up to a total of $1.3 million for assets passing to any heir (augmented by certain losses), plus an additional $3 million (for a total of $4.3 million) for property transferred to a surviving spouse. Estate and generation-skipping transfer taxes were reinstated, effective for decedents dying after December 31, 2010, and estates, gifts and generation-skipping transfers in excess of a lifetime exclusion of $1 million ($1.3 million for a qualified family-owned business) were taxed under a graduated tax rate schedule with a maximum tax rate of 55 percent (with an additional five-percent surtax to phase out the benefit of the graduated rates for very large estates). The basis of property passing from the estate of a decedent dying after December 31, 2010, generally was the fair market value of the property on the date of the decedent's death.

This Act reinstated and modified estate and generation skipping-transfer taxes, effective for decedents dying after December 31, 2009, and before January 1, 2013. Under this Act, the estates of decedents dying after December 31, 2009, and before January 1, 2013, are taxed at a maximum tax rate of 35 percent and are provided a life-time exclusion of $5 million (indexed for inflation after 2011). For decedents dying after December 31, 2009, and before January 1, 2013, generation-skipping transfers are provided a life-time exclusion of $5 million; such transfers are subject to a tax rate of zero percent for 2010 and 35 percent for 2011 and 2012. For gifts made after December 31, 2010, and before January 1, 2013, the life-time exclusion increases to $5 million and the maximum tax rate remains at 35 percent. The unused applicable exclusion amount of a predeceased spouse generally may be available for use by the surviving spouse, as an addition to such surviving spouse's applicable exclusion amount, subject to certain limitations and requirements. The basis of property passing from the estate of a decedent dying after December 31, 2009, generally is the fair market value of the property on the date of the decedent's death.

This Act generally allows the executor of the estate of a decedent who dies after December 31, 2009, and before January 1, 2011, the election instead to tax the estate under prior law, which means the estate would not be subject to the estate tax, but the basis of assets acquired would be determined under the modified carryover basis rules. The Secretary of the Treasury or his delegate shall determine the time and manner for making the election. In addition, the election can be made only once and is revocable only with the consent of the Secretary of the Treasury or his delegate, and has no effect on the applicability of the generation-skipping transfer tax. In the case of a decedent dying after December 31, 2009, and before December 17, 2010, the due date for filing applicable estate and generation-skipping transfer tax returns is no earlier than nine months after December 17, 2010.

Temporary Extension of Investment Incentives

Increase and extend temporary bonus depreciation for certain property.—Under temporary provisions of prior laws, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired and placed in service in calendar years 2008, 2009, and 2010. The placed-in-service deadline was extended through 2011 for certain longer-lived and transportation property, but only basis attributable to manufacture, construction, or production before January 1, 2011, qualified for the additional allowance. Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property, the adjusted basis of which was attributable to manufacture, construction or production after March 31, 2008, and before January 1, 2010. This Act extended the additional first-year depreciation deduction (at 50 percent of the property's adjusted basis) through 2012 (with an extension of the placed-in-service deadline through 2013 for certain longer-lived and transportation property). It also extended the election to claim additional AMT tax credits for property whose basis was attributable to manufacture, construction, or production after December 31, 2010, and before January 1, 2013. In addition, this Act increased additional first-year depreciation to 100 percent of the adjusted basis of the property, effective for qualifying property acquired and placed in service after September 8, 2010, and before January 1, 2012 (with an extension of the placed-in-service deadline to January 1, 2013, for certain longer-lived and transportation property).

Expand and temporarily increase expensing for small business.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. Under legislation enacted earlier in 2010, the annual expensing and investment limits were increased to $500,000 and $2,000,0000, respectively, effective for taxable years beginning in 2010 and 2011. In addition, the definition of qualifying property was expanded to include certain real property, such as qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property for taxable years beginning in 2010 and 2011. However, the maximum amount of such real property that may be expensed is $250,000. In 2012, the annual expensing and investment limits were scheduled to decline to $25,000 and $200,000, respectively. This Act increased the annual expensing and investment limits to $125,000 and $500,000, respectively, as adjusted for inflation occurring after 2006, effective for qualifying property (including off-the-shelf computer software but excluding leasehold improvement, restaurant and retail property) placed in service in taxable years beginning in 2012.

Temporary Employee Payroll Tax Reduction

Provide a temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals.—This Act reduced the employee Social Security payroll tax rate from 6.2 percent to 4.2 percent of the first $106,800 of taxable wages received after December 31, 2010 and before January 1, 2012. A similar reduction applies to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate was reduced from 12.4 percent to 10.4 percent of the first $106,800 of net taxable self-employment income for taxable years beginning in 2011. The Social Security Trust Fund is held harmless and receives transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to this reduction in the payroll tax rate.

Temporary Extension of Other Provisions—Individual Tax Relief

Extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Taxpayers who itemize deductions (do not use the standard deduction) and incur unreimbursed job-related expenses may deduct those expenses to the extent that when combined with other miscellaneous itemized deductions they exceed two percent of AGI. Under prior law, certain teachers and other elementary and secondary school professionals could deduct up to $250 in annual qualified out-of-pocket classroom expenses, effective for such expenses incurred after December 31, 2004, and before January 1, 2010. This Act extended this above-the-line deduction for two years, to apply to expenses incurred before January 1, 2012.

Extend optional deduction for State and local general sales taxes.—Under prior law, effective for taxable years beginning after December 31, 2003, and before January 1, 2010, a taxpayer was 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 two years, effective for taxable years beginning before January 1, 2012.

Extend increased limits on contributions of partial interests in real property for conservation purposes.—In general, a deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization. Exceptions to these general rules are provided for certain types of contributions, including qualified conservation contributions. The special rules for qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2010. 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 special rules for two years, applicable for qualified conservation contributions made in taxable years beginning before January 1, 2012.

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 if an education tax credit is claimed for the same student. In addition, the deduction may not be claimed 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. A taxpayer may not claim a deduction for the amount of a distribution from a qualified tuition plan that is excludable from income; however, the deduction may be claimed for the amount not attributable to earnings. This Act extended the deduction, which had expired with respect to expenses incurred in taxable years beginning after December 31, 2009, to apply to expenses incurred in taxable years beginning before January 1, 2012.

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 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 70½. This Act extended this exclusion, which had been effective with respect to distributions made in taxable years beginning after December 31, 2005, and before January 1, 2010, to apply to distributions made in taxable years beginning before January 1, 2012. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowable under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount excludable from income under this provision.

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, provided the mortgage insurance contract was issued on or after January 1, 2007. The amount allowable as a deduction is phased out ratably for taxpayers with AGI in excess of specified income levels. This Act extended the deduction, which was scheduled to terminate with respect to any amount paid or accrued after December 31, 2010 (or properly allocable to any period after that date), for one year. The extension applies to amounts paid or accrued in 2011 that are not properly allocable to any period after December 31, 2011.

Provide other temporary individual income tax relief.—Other temporary individual income tax relief provisions: (1) extended for two years, the partial exclusion from U.S. estate and gift taxation for stock in a regulated investment company (RIC) owned by a nonresident who is not a citizen of the United States, to apply to estates of decedents dying before January 1, 2012; (2) extended parity for tax-free transit and parking benefits for an additional year, through December 31, 2011; and (3) allowed tax refunds (or advanced payments with respect to a refundable credit) to be disregarded for purposes of determining eligibility of an individual for benefits or assistance (or the amount or extent of benefits or assistance) under any Federal program or under any State or local program financed in whole or in part with Federal funds, effective for such refunds received after December 31, 2009 and before January 1, 2013.

Temporary Extension of Other Provisions - Business Tax Relief

Extend the 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 of 14 percent is also provided. This Act extended these tax credits, which had expired with respect to expenditures paid or incurred in taxable years beginning after December 31, 2009, for two years, to apply to expendi-

tures incurred in taxable years beginning before January 1, 2012.

Provide temporary increase in exclusion from tax for capital gains realizations on certain small business stock.—Current law provides a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock 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. The exclusion is limited to individual investments and not the investments of a corporation. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. The exclusion was subsequently increased to 100 percent, effective for qualified small business stock issued after September 27, 2010, and before January 1, 2011, under the Small Business Jobs Act of 2010. This Act extended the 100 percent exclusion for one year, to apply to qualified small business stock issued after December 31, 2010, and before January 1, 2012.

Extend the new markets tax credit.—The new markets tax credit is provided for qualified equity investments made to acquire stock in a corporation or a capital interest in a partnership that is a qualified community development entity. A credit of five percent is provided to the investor for the first three years of investment. The credit increases to six percent for the next four years. The maximum amount of annual qualifying equity investment is capped at $2.0 billion for calendar years 2004 and 2005, $3.5 billion for calendar years 2006 and 2007, and $5.0 billion for 2008 and 2009. This Act extended the credit for two years, to apply to 2010 and 2011, permitting up to $3.5 million in qualifying investments for each year.

Extend tax incentives for employment and investment on Indian reservations.—This Act extended, for two years, through December 31, 2011, the employment tax credit for qualified workers employed on an Indian reservation and the accelerated depreciation rules for qualified property used in the active conduct of a trade or business within 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. Similarly, property used to conduct or house certain gaming activities is not eligible for the accelerated depreciation rules.

Extend the work opportunity tax credit (WOTC).—The WOTC provides incentives to employers for hiring individuals from certain targeted groups. This Act extended the credit, which was scheduled to expire with respect to wages paid to qualified individuals who began work for the employer after August 31, 2011, for four months, to apply to workers who begin work for the employer after August 31, 2011, and before January 1, 2012.

Extend railroad track maintenance credit.—Under prior law, a 50-percent business tax credit is provided for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer during taxable years beginning after December 31, 2004, and before January 1, 2010. The credit is limited to the product of $3,500 times the number of miles of railroad track owned or leased by an eligible taxpayer as of the close of the taxable year. This Act extended the credit for two years, to apply to qualified expenses incurred during taxable years beginning before January 1, 2012.

Extend credit for mine rescue training.—An eligible taxpayer may claim a general business 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, which expired with respect to costs incurred in taxable years beginning after December 31, 2009, to apply to costs incurred in taxable years that begin before January 1, 2012.

Extend expensing of advanced mine safety equipment.—Prior law allows taxpayers to immediately expense 50 percent of the cost of underground mine safety equipment that goes above and beyond current safety equipment requirements. This Act extended this provision, which had expired with respect to property placed in service after December 31, 2009, to apply to property placed in service before January 1, 2012.

Extend employer wage credit for activated military reservists.—Some employers voluntarily pay an employee who is called to active military service the difference between the compensation that would have been paid to the employee during the period of military service and the amount of pay received by the employee from the military. Such a payment is referred to as "differential pay." Under prior law, a tax credit is provided to eligible small businesses for differential wage payments made to qualified employees during the taxable year. The credit was available for payments made after June 17, 2008, and before January 1, 2010. The credit is equal to 20 percent of eligible differential wage payments made by the employer to qualified employees. The employer may not deduct that portion of compensation equal to the credit; in addition, the credit is not allowed against the employer's alternative minimum tax liability and is subject to the rules applicable to business credits. This Act extended the credit for two years, to apply to differential wage payments made before January 1, 2012.

Extend modified recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.—A taxpayer generally must capitalize the cost of property used in a trade or business and recover such cost over time through annual deductions for depreciation or amortization. Tangible property generally is depreciated under MACRS. Under this system, deprecia-

tion is determined by applying specified recovery periods, placed-in-service conventions, and depreciation methods to the cost of various types of depreciable property. The cost of nonresidential real property is recovered using the straight line method and a recovery period of 39 years. Depreciation allowances for improvements made on leased property are determined under MACRS, even if the recovery period assigned to the property is longer than the term of the lease. If a leasehold improvement constitutes an addition or improvement to nonresidential real property already placed in service, the improvement generally is depreciated using the straight line method over a 39-year period. Under prior law, the recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property was temporarily reduced to 15 years, effective for such property placed in service before January 1, 2010. This Act extended the 15-year recovery period for two years, effective for such property placed in service before January 1, 2012.

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 before January 1, 2010, is extended for two years, to apply to such facilities placed in service before January 1, 2012.

Extend expensing for certain qualified film and television production.—Taxpayers may elect to deduct up to $15 million ($20 million for productions in certain areas) of the aggregate cost of any qualifying film and television production commencing prior to January 1, 2010, in the year the expenses are incurred, in lieu of capitalizing the cost and recovering it through depreciation allowances. This Act extended the provision for two years, to apply to qualified film and television productions commencing prior to January 1, 2012.

Extend expensing of brownfields remediation costs.—Taxpayers are allowed to elect to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. This Act extended this provision, which expired with respect to expenditures paid or incurred after December 31, 2009, to apply to expenditures paid or incurred before January 1, 2012.

Extend the enhanced charitable deduction for contributions of food and book inventory.—A taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory or, if less, the fair market value of the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the fair market value in excess of basis, or (2) two times basis. To be eligible for the enhanced deduction, the contributed property generally must be inventory of the taxpayer contributed to a charitable organization and the donee must: (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants; (2) not transfer the property in exchange for money, other property, or services; and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with such requirements. To use the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis. Under prior law, the enhanced charitable deduction was expanded to apply to contributions of food inventory by all taxpayers (not just C corporations) engaged in a trade or business and to contributions of book inventory to public schools by C corporations. The donated food must meet certain quality and labeling standards and the donated food inventory may not exceed 10 percent of the taxpayer's net income from the related trade or business. The donated books must be suitable for use and used by the public school in its education programs. This Act extended the enhanced charitable deduction for contributions of food and book inventory, which had expired with respect to donations made after December 31, 2009, for two years, to apply to contributions made before January 1, 2012.

Extend the deduction for corporate donations of computer equipment for educational purposes.—The charitable contribution deduction that may be claimed by corporations for donations of inventory property generally is limited to the lesser of fair market value or the corporation's basis in the property. However, corporations are provided an enhanced deduction, not subject to the general limitation, for contributions of computer technology and equipment for educational purposes. The enhanced deduction is equal to the lesser of: (1) basis plus one-half of the item's fair market value in excess of basis; or (2) two times basis. To qualify for the enhanced deduction, equipment contributed must be donated no later than three years after the date the taxpayer acquired the property or, in the case of property constructed or assembled by the taxpayer, the date construction or assembly is substantially completed. This Act extended this provision, which had expired with respect to donations made in taxable years beginning after December 31, 2009, to apply to donations made in taxable years beginning before January 1, 2012.

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, under a temporary provision of prior law, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2010, 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 two years to apply to charitable contributions made by an S corporation in taxable years beginning before January 1, 2012.

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, under a temporary provision of prior law, a taxpayer with gross receipts from sources within the Commonwealth of Puerto Rico may treat production activities performed in Puerto Rico as performed in the United States for purposes of determining qualified production activities income and may 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 provision, which was effective for the first four taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2010, was extended for two years, to apply to the first six taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2012.

Extend economic development credit for American Samoa.—Certain domestic corporations with business operations in the U.S. possessions are eligible for the possession tax credit, which offsets the U.S. tax imposed on certain income related to operations in the U.S. possessions (including, among other places, American Samoa). The possession tax credit is available only to a corporation that qualifies as an existing credit claimant; the determination of whether a corporation is an existing credit claimant is made separately for each possession. The credit is computed separately for each possession with respect to which the corporation is an existing claimant and the credit is subject to either an economic activity-based limitation or an income-based limit. Under prior law, the possession tax credit was repealed for new claimants for taxable years beginning after December 31, 1995, and was phased out for existing credit claimants for taxable years beginning after December 1, 1995, and before December 31, 2006. However, prior law also extended and modified the credit with respect to American Samoa. Specifically, a domestic corporation that was an existing credit claimant with respect to American Samoa and that elected the application of the possession 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 four taxable years beginning after December 31, 2005, and before January 1, 2010. This Act extended the credit with respect to American Samoa for two years, to apply to the first six taxable years beginning after December 31, 2005, and before January 1, 2012.

Extend the issuance of qualified zone academy bonds.—State and local governments are allowed to issue taxable qualified tax credit bonds, called qualified zone academy bonds, which provide a Federal subsidy through tax credits to investors at a tax credit rate determined by the Department of the Treasury that is estimated to cover 100 percent of the interest on the bonds based on certain assumptions. A total of $400 million of such bonds was authorized to be issued annually in calendar years 1998 through 2008, and a total of $1.4 billion was authorized to be issued annually in calendar years 2009 and 2010. Unused portions of the annual authorizations may be carried forward for use in the next two succeeding years. At least 95 percent of the proceeds of such bonds are required to be used for public school renovations and repairs, equipment purchases, teacher and other personnel training, or curriculum development at a qualified zone academy. For bonds originally issued after March 18, 2010, the issuer may make an irrevocable election to receive a direct subsidy payment from the Federal government in an amount based on the lower of actual interest rates or tax credit rates set by the Department of the Treasury in lieu of providing a tax credit to the holder of the bonds. This Act extended the qualified zone academy bond program for one year and authorized the issuance of a total of $400 million in such bonds in calendar year 2011 (with a two-year carryforward for unused portions). The issuer election to receive a direct subsidy payment from the Federal government for interest on the bonds in lieu of providing a tax credit to the holder of the bond is not available for bonds issued under this $400 million limitation for 2011 or carryforwards of that amount (but remains available for carryforwards of 2009 and 2010 amounts).

Extend tax incentives for empowerment zones.—Prior law authorized the designation of 40 empowerment zones, 30 located in urban areas and 10 located in rural areas. Businesses in these empowerment zones are provided a number of tax incentives, generally available through December 31, 2009. This Act generally extended these tax incentives for two years, through December 31, 2011.

Extend tax incentives for the District of Columbia (DC).—The DC Enterprise Zone includes the DC Enterprise Community and DC census tracts with a poverty rate of at least 20 percent. Businesses in the zone

are eligible for: (1) a wage credit equal to 20 percent of the first $15,000 in annual wages paid to qualified employees who reside within DC; (2) $35,000 in increased expensing for small businesses; and (3) in certain circumstances, tax-exempt bond financing. In addition, a capital gains exclusion is allowed for certain investments held more than five years and made within the DC Enterprise Zone, or within a DC census tract with a poverty rate of at least 10 percent. This Act extended the DC Enterprise Zone incentives for two years, through December 31, 2011.

A one-time nonrefundable $5,000 credit is available to purchasers of a principal residence in DC who have not owned a residence in DC during the year preceding the purchase. The credit phases out for taxpayers with modified AGI between $70,000 and $90,000 ($110,000 and $130,000 for joint returns). This Act extended the credit for two years, to apply to purchases after December 31, 2009, and before January 1, 2012.

Extend special rule regarding tax treatment of certain payments to controlling exempt organizations.—In general, organizations that are exempt from Federal income tax are subject to tax on unrelated business income derived from a trade or business that is not substantially related to the performance of the organization's tax-exempt functions. 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, under a temporary provision of prior law, interest, rents, royalties and annuities received by a tax-exempt parent organization from a controlled subsidiary before January 1, 2010, pursuant to a binding written contract in effect on August 17, 2006, are taxable only to the extent that they exceed 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 temporary provision of prior law to apply to income received before January 1, 2012.

Extend special tax rules applicable to regulated investment companies (RICs). —This Act extended for two years, through December 31, 2011, 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."

Extend Subpart F "active financing" and "look-through" exceptions.—Under 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. The income subject to current inclusion under Subpart F includes, among other things, "foreign personal holding company income" and insurance income. Foreign personal holding company income generally includes dividends; interest; royalties; rents; annuities; net gains from the sale of certain property, including securities, commodities and foreign currency; and income from notional principal contracts and securities lending activities. Under prior law, for taxable years beginning before January 1, 2010, exceptions from Subpart F were 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 before January 1, 2012.

Temporary Extension of Other Provisions - Energy Tax Relief

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 per gallon 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 both the excise tax credit and the income tax credit provided to biodiesel fuels at a rate of $1.00 per gallon. This Act extended for two years, through December 31, 2011, the income tax credit and the excise tax credit and payment provided to biodiesel (including agri-biodiesel) and renewable diesel.

Extend suspension of net income limitation on percentage depletion for marginal oil and gas wells.—Taxpayers are allowed to recover their investment in oil and gas wells through depletion deductions. For certain properties, deductions may be determined using the percentage of depletion method; however, in any year the amount deducted generally may not exceed 100 percent of the net income from the property. Under prior law, for taxable years beginning after December 31, 1997, and before January 1, 2010, domestic oil and gas production from "marginal" properties was exempt from the 100-percent-of-net-income limitation. This Act extended the exemption for two years, to apply to taxable years beginning before January 1, 2012.

Extend election to receive a grant for specified energy property in lieu of tax credits.—A nonrefundable income tax credit is allowed for certain qualifying energy property placed in service by a taxpayer (the energy credit). Qualifying energy property includes solar property, certain fuel cell and microturbine property, geothermal power production property, geothermal heat pump property, small wind energy property, and combined heat and power system property. An income tax credit is also provided for the production of electricity from qualified energy resources at qualified facilities (the renewable energy production credit). Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Qualified facilities are, generally, facilities that generate electricity using qualified energy resources. To be eligible for the credit, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person. Taxpayers are allowed to elect to receive an energy credit in lieu of the renewable electricity production credit or to receive a grant from the Department of the Treasury in lieu of the energy credit or the renewable electricity production credit. Grants are available for renewable power facilities placed in service in 2009 and 2010 and are also available if construction began during 2009 and 2010 for wind facilities placed in service before 2013 and other renewable power facilities placed in service before 2014. Grants are available for qualifying energy property other than renewable power facilities if the property is placed in service during 2009 or 2010, or if construction began during 2009 or 2010 and the property is placed in service before 2017. This Act extended the election to receive a grant in lieu of tax credits for one year, through 2011. Otherwise eligible property must be placed in service in 2009, 2010, or 2011, or its construction must begin during that period and it must be placed in service prior to 2013 in the case of wind facilities, prior to 2014 in the case of other renewable power facilities, and prior to 2017 in the case of qualifying energy property other than renewable power facilities.

Extend the tariff on imported ethyl alcohol.—This Act extended the 14.27-cents-per-liter (approximately 54-cents-per-gallon) tariff on imports of ethyl alcohol, and any mixture containing ethyl alcohol, if used as a fuel or in producing a mixture to be used as a fuel, to apply to such imports entering the United States before January 1, 2012. Under prior law, the tariff had been scheduled to expire with respect to such imports entering the United States after December 31, 2010.

Extend income tax credits for alcohol fuels.—An income tax credit, which is comprised of four components, is provided for the sale, use and production of alcohol fuel and alcohol fuel mixtures. The first component, the alcohol fuel mixture credit, is available for alcohol in an alcohol fuel mixture (a mixture of alcohol and gasoline or alcohol and a special fuel), and may be taken as an income tax credit, an excise tax credit, or a payment. The second component, the alcohol credit, is a nonrefundable income tax credit available for alcohol not in a mixture that is either used as a fuel in the taxpayer's trade or business or sold at retail and placed in the fuel tank of the retail buyer. The third component, the small ethanol producer credit, is a nonrefundable income tax credit available to ethanol producers who have an annual productive capacity of not more than 60 million gallons of any type of alcohol. The fourth component, the cellulosic biofuel producer credit, is a nonrefundable income tax credit available for qualified cellulosic biofuel production. This Act extended these income tax credits for alcohol fuels (other than the cellulosic biofuel producer credit, which expires on December 31, 2012 under prior law) and the excise tax credit and payment for alcohol fuel mixtures for one year, through December 31, 2011.

Extend excise tax credits for alternative fuels.—An excise tax credit is provided for alternative fuels sold for use or used as fuel in a motor vehicle or motorboat or in aviation (the alternative fuel credit) and for alternative fuel mixtures (a mixture of alternative fuel and a taxable fuel such as diesel fuel) sold for use or used as a fuel, whether or not in a motor vehicle or motorboat or in aviation (the alternative fuel mixture credit). A person with insufficient excise tax liability may file a claim for a payment equal to the credit. This Act extended the alternative fuel credit, the alternative fuel mixture credit, and related payment provisions for two years, to apply to alternative fuels (excluding fuel derived from the production of paper or pulp) produced before January 1, 2012.

Extend deferral of gains from sales of electric transmission property.— Generally, the gain on the sale of business assets is subject to current income tax unless a special rule provides for nonrecognition or deferral of the gain. One such special rule applies to qualifying electric transmission transactions. Under this rule, a taxpayer may elect to recognize the gain from a qualifying electric transmission transaction ratably over the eight-year period beginning with the year of the transaction. Deferral is allowed only with respect to proceeds that are used to purchase other gas or electric utility property during the four-year period beginning on the date of the transaction (the reinvestment period). A sale or other disposition of property is a qualifying electric transmission transaction if: (1) the property is used in the trade or business of providing electric transmission services or is an ownership interest in a entity whose principal trade or business is providing electric transmission services, and (2) the sale or other disposition is to an independent transmission company and occurs before January 1, 2010. In general, whether the purchaser qualifies as an independent transmission company depends on determinations by the Federal Energy Regulatory Commission (FERC) or, in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas, by that Commission. The special rule allowing the deferral of tax on the gain from the sale or disposition of electric transmission prop-

erty was extended for two years, allowing taxpayers to elect deferral with respect to sales or dispositions before January 1, 2012.

Extend other temporary energy tax relief provisions—This Act also: (1) modified and extended for one year, to apply to property purchased and placed in service before January 1, 2012, the credit (at pre-2009 rates) for the purchase of qualified energy efficiency improvements (insulation, exterior windows and doors, roofs) and qualified energy property for existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence; (2) extended for two years, through December 31, 2011, the placed-in-service date for new qualified refined coal facilities (other than refined coal facilities that produce steel industry fuel) eligible to claim the refined coal production credit; (3) extended for two years the tax credit provided to eligible contractors for the construction of qualified energy-efficient new homes purchased for use as a residence, to apply to qualified homes purchased prior to January 1, 2012; (4) extended through December 31, 2011, the credit (at pre-2009 rates) for installing qualified alternative fuel vehicle refueling property (other than hydrogen refueling property, the credit for which continues through December 31, 2014, under current law); and (5) modified and extended through December 31, 2011, the credit for the production of energy-efficient appliances.

Temporary Extension of Other Provisions - Disaster Relief

Extend New York Liberty Zone tax-exempt bond financing.—This Act extended for two years, through December 31, 2011, the time for issuing New York Liberty Zone bonds for the financing of certain nonresidential real property, residential rental property and public utility property.

Extend certain tax relief for the Gulf Opportunity Zone (GO Zone).—This Act extended the increased rehabilitation credit for qualified rehabilitation expenditures for structures in the GO Zone for two years, to apply to expenditures paid or incurred before January 1, 2012. This Act also extended the following GO Zone tax relief provisions for one year, through December 31, 2011: (1) the placed-in-service deadline for buildings eligible for the GO Zone low-income housing credit; (2) authority to issue GO Zone Bonds; and (3) the date by which specified GO Zone extension property must be place in service to be eligible for the additional first-year depreciation deduction.

REGULATED INVESTMENT COMPANY MODERNIZATION ACT OF 2010 (Public Law 111-325)

This Act, which was signed into law by President Obama on December 22, 2010, modernized the tax rules for RICs concerning capital loss carryovers, dividends and other distributions, and applicable excise taxes. In general, RICs are domestic corporations that meet certain gross income and asset diversification requirements, elect to be treated as RICs for U.S. Federal income tax purposes, and are regulated under the Investment Company Act of 1940.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART IV (Public Law 111-329)

This Act, which was signed into law by President Obama on December 22, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through March 31, 2011. These taxes had been scheduled to expire after December 31, 2010, under prior law.

OMNIBUS TRADE ACT OF 2010 (Public Law 111-344)

This Act, which was signed into law by President Obama on December 29, 2010, extended the Andean Trade Preference Act for Colombia and Ecuador for six weeks, through February 12, 2011. This Act also extended for six weeks, through February 12, 2011, the 80 percent health care tax credit rate and COBRA continuation coverage for certain workers (and qualified family members) who have been displaced because of trade-related issues. In addition, this Act increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 163.75 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

JAMES ZADROGA 9/11 HEALTH AND COMPENSATION ACT OF 2010 (Public Law111-347)

This Act, which was signed into law by President Obama on January 2, 2011, established the World Trade Center Health Program and extended and expanded eligibility for compensation under the September 11th Victim Compensation Fund of 2001. To offset the costs of the legislation, this Act extended visa fees for visa-dependent employers and imposed an excise tax of two percent on certain foreign companies or manufacturers that receive a Federal procurement payment. The tax applies only to entities from countries that are not parties to the World Trade Organization's Government Procurement Agreement.

Table 15–2. ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
BEA baseline receipts	**2,175.5**	**2,644.4**	**3,137.9**	**3,549.5**	**3,753.1**	**3,968.4**	**4,255.7**	**4,496.9**	**4,750.5**	**4,975.8**	**5,240.9**	**17,053.3**	**40,773.1**
Adjustments to BEA baseline:													
Continue the 2001 and 2003 tax cuts for middle-income taxpayers:													
Dividends tax rate structure	....	....	–4.2	–9.0	–10.5	–11.8	–12.6	–12.9	–13.1	–13.3	–13.6	–35.5	–101.0
Capital gains tax rate structure	....	–0.8	–1.9	–2.8	–3.8	–5.2	–6.1	–6.4	–6.6	–6.8	–7.0	–14.5	–47.4
Expensing for small businesses	....	....	–5.6	–8.1	–6.4	–5.2	–4.4	–3.8	–3.6	–3.5	–3.6	–25.4	–44.3
Marginal individual income tax rate reductions	....	....	–44.6	–63.4	–64.2	–64.7	–65.7	–66.3	–66.9	–67.2	–67.4	–237.0	–570.5
Child tax credit [1]	....	....	–5.1	–20.6	–21.0	–21.3	–21.6	–21.8	–22.1	–22.3	–22.4	–68.1	–178.1
Provisions for married taxpayers [1]	....	....	–5.3	–7.5	–7.4	–7.2	–7.0	–6.8	–6.6	–6.4	–6.4	–27.4	–60.6
Education incentives	....	–*	–0.9	–1.8	–1.9	–2.0	–2.1	–2.1	–2.2	–2.3	–2.4	–6.6	–17.8
Other incentives for families and children	....	*	–0.1	–0.6	–0.6	–0.6	–0.6	–0.6	–0.5	–0.5	–0.5	–2.0	–4.7
Total, continue the 2001 and 2003 tax cuts for middle-income taxpayers	....	–0.8	–67.8	–114.0	–115.9	–118.1	–120.0	–120.7	–121.5	–122.4	–123.2	–416.5	–1,024.4
Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters	–1.3	–1.9	–4.8	–24.0	–26.4	–29.2	–31.7	–34.5	–36.9	–39.2	–41.6	–86.3	–270.2
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 [2]	....	–33.3	–106.4	–106.5	–123.8	–142.4	–162.3	–183.1	–206.2	–230.5	–255.9	–512.3	–1,550.2
Total, adjustments to BEA baseline	**–1.3**	**–35.9**	**–179.1**	**–244.5**	**–266.1**	**–289.6**	**–313.9**	**–338.3**	**–364.6**	**–392.0**	**–420.7**	**–1,015.2**	**–2,844.8**
Adjusted baseline receipts	**2,174.3**	**2,608.5**	**2,958.9**	**3,305.0**	**3,487.0**	**3,678.7**	**3,941.8**	**4,158.5**	**4,386.0**	**4,583.8**	**4,820.1**	**16,038.1**	**37,928.3**

* $50 million or less.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Child tax credit	....	....	1.2	23.8	23.8	23.8	23.9	23.9	24.0	24.1	24.3	72.6	192.8
Provisions for married taxpayers	....	....	0.2	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.2	12.4	32.8
Total, outlay effects of adjustments to BEA baseline	....	....	**1.4**	**27.9**	**27.9**	**27.8**	**27.9**	**27.9**	**28.1**	**28.2**	**28.5**	**84.9**	**225.6**

[2] The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	....	–33.3	–106.4	–106.5	–96.9	26.9	....	....	....	....	....	–316.2	–316.2
Reduce the value of certain tax expenditures	....	6.0	19.0	26.4	29.8	32.7	35.7	38.6	41.5	44.4	47.2	113.9	321.3

ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE

An important step in addressing the nation's fiscal problems is to be upfront about them and to establish a baseline that measures where we are before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the cost of extending certain major tax policies that are quite likely to be extended. The BEA baseline, which is commonly used in budgeting and is defined in statute, reflects, with some exceptions, the projected receipts level under current law.

But current law includes a number of scheduled changes that are unlikely to occur and that prevent it from serving as a realistic benchmark for judging the effect of new legislation. The Statutory Pay-As-You-Go (PAYGO) Act, enacted in February 2010, recognizes that the expiration of a number of tax provisions is unrealistic, and provides exceptions (current policy adjustments) to the general rule that the cost of legislation should be offset and not increase projected deficits. These current policy adjustments include permanent extension of most of the tax reductions enacted in 2001 and 2003 for middle-income taxpayers. They also include temporary extension of estate, gift, and generation-skipping transfer taxes at 2009 parameters, temporary relief from the AMT and, on the spending side of the budget, temporary relief from the reductions in the rates Medicare pays for physician services under the "Sustainable Growth Rate" (SGR) formula.

This Budget uses an adjusted baseline that permanently continues the 2001 and 2003 tax cuts for middle-income taxpayers, consistent with the PAYGO statute. The Administration's adjusted baseline also permanently continues estate, gift, and generation-skipping transfer taxes at 2009 parameters and reflects permanent extension of relief from the AMT. Congress has repeatedly taken action to extend AMT relief, sometimes after it has expired; however, the Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures (see the discussion of this proposal later in this Chapter).

Continue the 2001 and 2003 tax cuts for middle-income taxpayers.—Most of the tax reductions for middle-income taxpayers enacted in 2001 and 2003 were recently extended for two years and are now scheduled to expire on December 31, 2012. This includes reductions in marginal individual income tax rates; the repeal of limitations on itemized deductions and personal exemptions; provisions for married taxpayers; expansions in the child tax credit, earned income tax credit, adoption tax credit, and child and dependent care credit; certain tax incentives for education; increases in small business expensing; and preferential rates for capital gains and dividends. The Administration's adjusted baseline reflects a permanent extension of all of these expiring provisions for middle-income taxpayers (as amended by subsequent legislation).[6]

Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters.—The Administration's adjusted baseline reflects permanent extension of estate, gift, and generation-skipping transfer taxes at parameters in effect for calendar year 2009, effective for decedents dying after December 31, 2012. Under those parameters, the estates and generation-skipping transfers of a decedent dying after December 31, 2012, are taxed at a maximum tax rate of 45 percent and provided a life-time exclusion of $3.5 million. Gifts made after December 31, 2012, are taxed at a maximum rate of 45 percent and provided a life-time exclusion of $1 million.

Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.—The Administration's adjusted baseline reflects annual indexation of: (1) the AMT exemption amounts in effect for taxable year 2011 ($48,450 for single taxpayers, $74,450 for married taxpayers filing a joint return and surviving spouses, and $37,225 for married taxpayers filing a separate return and for estates and trusts); (2) the income thresholds for the 28-percent AMT rate ($87,500 for married taxpayers filing a separate return and $175,000 for all other taxpayers); and (3) the income thresholds for the phaseout of the exemption amounts ($112,500 for single taxpayers, $150,000 for married taxpayers filing a joint return and surviving spouses, and $75,000 for married taxpayers filing a separate return). The Administration's adjusted baseline also extends AMT relief for nonrefundable personal credits. The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures (see the discussion of this proposal later in this Chapter).

[6] Consistent with treatment of the tax cuts in statutory PAYGO, the Budget adjusted baseline assumes continuation of the 2001 and 2003 tax cuts as amended through December 31, 2009, for middle-income taxpayers. Among other changes, this continues two amendments made to these tax cuts in ARRA. These two amendments expand child tax credit refundability and the earned income tax credit for married couples.

PROPOSALS

The Administration proposes to restore balance to the tax code by providing permanent tax cuts to working families, returning to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, closing loopholes, and eliminating subsidies to special interests. Extensions of certain expiring provisions, and initiatives to promote trade and program integrity are also proposed. The Administration's proposals that affect governmental receipts are described below.

Tax Cuts for Families and Individuals

Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits.—The Administration proposes to provide a $250 special payment to social security beneficiaries, disabled veterans, and retired railroad workers in 2011. The Administration also proposes to provide a $250 refundable tax credit to Federal, State and local government retirees who are not eligible for social security benefits and therefore will not receive the $250 special payment.

Extend EITC for larger families.—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 phase-out rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Three separate credit schedules apply, depending on whether the eligible taxpayer has no, one, or more than one qualifying child. Effective for taxable years 2009 through 2012, a fourth credit schedule was added for families with three or more qualifying children. Effective for taxable years beginning after December 31, 2012, the Administration proposes to permanently extend the 45-percent credit percentage for families with three or more qualifying children.

Expand child and dependent care tax credit.—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. Married couples are only eligible if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. 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 credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for 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 AGI over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). There are no further income limits. The income phasedown and the credit are not indexed for inflation. The proposal would increase the beginning of the phasedown to $75,000 (and thus, the end of the phasedown range to $103,000). The proposal would be effective for tax years beginning after December 31, 2011.

Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs.—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 offer their employees automatic enrollment in an IRA, effective for taxable years beginning after December 31, 2012. Small employers (those with ten 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. Employers that offer an automatic IRA (including those that are not required to do so) would be entitled to a temporary business tax credit of $25 per participating employee up to a total of $250 per year for two years. 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).

Under current law, small employers (those with no more than 100 employees) that adopt a new qualified retirement or 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. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan or SIMPLE to do so, the Administration proposes to double this tax credit to a maximum of $1,000 per year for three years, effective for taxable years beginning after December 31, 2012.

Extend American opportunity tax credit (AOTC).—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The credit was extended for two years, to apply to taxable years 2011 and 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) 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. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable. The AOTC also has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits than the Hope Credit.

The Administration proposes to permanently extend the AOTC and index the expense amounts and phase-

out limits, effective for taxable years beginning after December 31, 2012.

Provide exclusion from income for student loan forgiveness.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with two options for making payments that are related to their income levels after college (the income-contingent and the income-based repayment options). Under both of these options borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the plan for 25 years (or for 10 years for borrowers working in qualified public service positions). For those who reach the 25-year (or 10-year) point, any remaining loan balance is forgiven. Under current law, any debt forgiven is considered gross income to the borrower and subject to individual income tax. The potential tax consequence may be making some student loan borrowers reluctant to avail themselves of either of these two loan repayment options. To address that problem, the Administration proposes to exclude from gross income amounts forgiven at the end of the repayment period for Federal student loans using these two methods of repayment. The provision would be effective for discharges of loans after December 31, 2011.

Tax qualified dividends and net long-term capital gains at a 20-percent rate for upper-income taxpayers.—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), the maximum tax rate on net capital gains and qualified dividends received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Under prior law, the maximum tax rate on capital gains was generally 20 percent (18 percent for assets held over five years) and dividends were taxed as ordinary income. The reduced rates provided under JGTRRA were extended for two years, through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration proposes to tax net capital gains and qualified dividends at a 20-percent rate for married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000. The 18-percent capital gain rate on assets held over five years would be repealed, but special rates on gains from the recapture of depreciation on certain real estate, collectibles, and small business stock would be retained. The proposal would be effective for taxable years beginning after December 31, 2012. All other taxpayers would be taxed at the rates in effect in 2012.

Tax Cuts for Businesses

Eliminate capital gains taxation on investments in small business stock.—Current law provides a 100-percent exclusion from tax for capital gains realized on the sale of qualified small business stock issued after December 31, 2010, and before January 1, 2012, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to individual investments and not the investments of a corporation. A 50-percent exclusion applies under the law prior to ARRA. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. Under the Small Business Jobs Act, the exclusion was increased to 100 percent, effective for stock issued after September 27, 2010, and before January 1, 2011. The Administration proposes to permanently extend the 100-percent exclusion, effective for qualified small business stock issued after December 31, 2011. Reporting requirements would be tightened to ensure compliance.

Enhance and make permanent the 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 of 14 percent is also provided. These tax credits, which are scheduled to expire with respect to expenditures paid or incurred in taxable years beginning after December 31, 2011, are proposed to be permanently extended. The Administration also proposes to raise the rate of the alternative simplified credit to 17 percent.

Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.—ARRA provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified 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 qualified 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 total amount of credits certified may not exceed $2.3 billion. The Administration proposes to provide an additional $5 billion in credits, thereby in-

creasing the amount of credits certified by the Department of the Treasury to $7.3 billion.

Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction.—The proposal would replace the existing deduction for energy efficient commercial building property expenditures with a tax credit and also allow taxpayers to take an alternative credit for placing in service specified property that meets certain energy efficiency standards. If a real estate investment trust (REIT) becomes entitled to the credit, the REIT would be able to entitle its shareholders to the credit under regulations prescribed by the Secretary of the Treasury. The tax credit would be available for property placed in service during calendar year 2012.

Incentives to Promote Regional Growth

Extend and modify 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 provisions are scheduled to expire at the end of 2011. The Administration proposes to extend the NMTC through 2012, with an allocation amount of $5 billion for that year. The Administration also proposes that $250 million of this $5 billion be allocated to support financing healthy food options in distressed communities as part of the Healthy Food Financing Initiative. The proposal would also permit the NMTC to permanently offset AMT liability.

Reform and extend Build America bonds.—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 make the successful Build America bond program permanent at a reduced subsidy level designed to be approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration also proposes to expand the Build America bond program beyond new investments in governmental capital projects to include certain additional program uses for which State and local governments may use tax-exempt bonds under existing law. The proposed modifications to the Build America bond program would be effective for bonds issued beginning upon the date of enactment.

Reform and expand the Low-Income Housing tax credit (LIHTC).—To serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with a rule under which the income limits for at least 40 percent of the units in a project could average to not greater than 60 percent of area median income (AMI). None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. The provision would apply to elections under section 42(g)(1) of the Internal Revenue Code that are made after the date of enactment.

The Administration also proposes to allow a 30-percent "basis boost" for LIHTCs for certain projects financed with tax-exempt bonds that are subject to private-activity-bond volume cap (volume cap). The projects receiving the boost would involve preservation, recapitalization, and rehabilitation of existing housing that was originally financed with Federal funds and is subject to a long-term use agreement limiting occupancy to low-income households. In each State, the boost for buildings financed in whole or in part by tax-exempt bonds issued during a calendar year would be limited to buildings whose financing is assisted with tax-exempt bonds whose aggregate issue price is not more than an amount equal to 0.4 percent of the State's volume cap for the calendar year in which the bonds are issued (regardless which year's volume cap is taken into account in issuing the bonds). The State housing finance agency would determine which preservation projects receive a boost. The proposal would be effective for projects that are financed by bonds issued after the date of enactment.

Designate Growth Zones.—The Administration proposes to designate 20 growth zones (14 in urban areas and 6 in rural areas). The zone designation and corresponding incentives would be in effect from January 1, 2012, through December 31, 2016. 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 growth zones. 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.

Restructure assistance to New York City, provide tax incentives for transportation infrastructure.—Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentive provisions.

The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. New York State and New York City each would be eligible for a tax credit for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2012 to 2021, inclusive, subject to an annual limit of $200 million (for a total of $2 billion in tax credits), and would be divided evenly between the State and the City. Any unused credits below the annual limit would be added to the $200 million annual limit for the following year, including years after 2021. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following year. The credit would be allowed against any payments (other than payments of excise taxes and social security and Medicare payroll taxes) made by the City and State under any provision of the Internal Revenue Code, including income tax withholding.

Continue Certain Expiring Provisions Through Calendar Year 2012

A number of temporary tax provisions that have been routinely extended have expired or are scheduled to expire on or before December 31, 2011. The Administration proposes to extend a number of these provisions through December 31, 2012. For example, the optional deduction for State and local general sales taxes; the deduction for qualified out-of-pocket class room expenses; the deduction for qualified tuition and related expenses; Subpart F "active financing" and "look-through" exceptions; the modified recovery period for qualified leasehold, restaurant, and retail improvements; and several trade agreements would be extended through December 31, 2012. Temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.

Other Revenue Changes and Loophole Closers

Reform treatment of financial institutions and products.—The Administration proposes to impose a fee on large financial institutions and close tax loopholes in the taxation of financial institutions and products through a series of legislative reforms in tax laws as described below:

Impose a financial crisis responsibility fee.— The Administration proposes to impose a fee on U.S. based bank holding companies, thrift holding companies, certain broker-dealers, as well as companies that control insured depositories and certain broker-dealers, with assets in excess of $50 billion. U.S. subsidiaries of international firms that fall into these categories with assets in excess of $50 billion would also be covered. The fee would raise approximately $30 billion over ten years.

Require accrual of income on forward sale of corporate stock.—A corporation generally does not recognize gain or loss on the issuance or repurchase of its own stock. Thus, a corporation does not recognize gain or loss when it issues its stock in the future pursuant to a contract that entitles the corporation to receive a specified amount of consideration when the contract settles (typically referred to as a forward contract). A corporation does, however, recognize interest income upon the current sale of any stock (including its own) for a payment to be received in the future. The only difference between a corporate issuer's current sale of its stock for deferred payment and an issuer's forward sale of the same stock is the timing of the stock issuance. In a current sale, the stock is issued at the inception of the transaction, whereas in a forward sale the stock is issued at the time the deferred payment is received. In both cases, a portion of the deferred payment economically compensates the corporation for the time value of deferring the payment. It is inappropriate to treat these two transactions differently. The Administration proposes to require a corporation that enters into a forward contract to sell its own stock to treat a portion of the payment received when the stock is issued as a payment of interest.

Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities.—Under current law, certain dealers in securities, equity options, commodities, and commodities derivatives treat the income from section 1256 contracts entered into in their capacity as a dealer as generating 60 percent long-term capital gain (or loss) and 40 percent short-term capital gain (or loss). Dealers in other types of property uniformly treat the income generated by their dealer activities as ordinary income. There is no reason to treat dealers in different types of property differently. The Administration's proposal would therefore require dealers in securities, equity options, commodities, and commodities derivatives to treat the income (or loss) from their dealer activities as ordinary in character.

Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code.—In general, if a corporation repurchases a debt instrument that is convertible into its stock, or into stock of a corporation in control of, or controlled by, the corporation, section 249 may disallow or limit the issuer's deduction for any premium paid to repurchase the debt instrument. For this purpose, "control" is determined by reference to section 368(c), which encompasses only direct relationships (e.g., a parent corporation and its wholly-owned, first tier subsidiary). The definition of "control" in section 249 is narrow and has allowed the limitation in section 249 to be too easily avoided. Indirect control relationships (e.g., a parent corporation and a second-tier subsidiary) present the same economic identity of interests as direct control relationships and should be treated in a similar manner. The Administration proposes to amend the definition of "control" in section 249(b)(2) by referencing the defi-

nition of a controlled group in section 1563(a)(1), which includes indirect control relationships.

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 tax years (income tax) beginning after 2011, with expiration for periods and tax years after 2021. 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 hazardous chemicals listed in 26 U.S.C. § 4661 at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use listed 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.

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 U.S. 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 the actions of its predecessors, 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 January 1, 2012, and the receipts would be distributed through a competitive grant program to restore the most hazardous hardrock AML sites, on both public and private lands.

Increase Oil Spill Liability Trust Fund financing rate by one cent.—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 (other than on the premises where produced for extracting oil or natural gas) in or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. 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 beginning on January 1, 2012, and to 10 cents per barrel after December 31, 2016.

Make unemployment insurance (UI) surtax permanent.—The net Federal UI tax on employers is scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to extend the 0.8 percent rate permanently.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The economic downturn has severely tested the adequacy of States' UI systems, forcing the majority of States to borrow to continue paying benefits. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation. To provide short-term relief to employers in these States, the Administration proposes a suspension of interest on State UI borrowing in 2011 and 2012 along with a suspension of the FUTA credit reduction, which is an automatic debt repayment mechanism. The Administration also proposes to increase the FUTA taxable wage base to $15,000 starting in 2014, to index it to inflation, and to reduce the FUTA tax rate. States with lower wage bases will need to adjust their UI tax structures. This will put State UI systems on a firmer financial footing for the future.

Expand Short-Time Compensation (STC) unemployment program.—The Budget will encourage States to expand use of the STC unemployment program, also known as work sharing, which promotes job retention and prevents workers from being laid off. Work sharing is a voluntary employer program designed to help employers maintain their staff by reducing the weekly hours of their employees, instead of temporarily laying off workers, when the employer is faced with a temporary slowdown in business. Workers with reduced hours under an approved STC plan receive a partial unemployment check to supplement the reduced paycheck. The Administration's proposal will provide temporary Federal financing of STC benefits for those States that have an STC law that meets certain guidelines. It will also create a temporary Federal program that will be available in other States and provide incentive funds for States to adopt the program and conduct outreach to employers. These incentives will make STC benefits available to more workers and allow States to reduce their unemployment taxes.

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, 2012. 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 report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over ten years.

Repeal gain limitation for dividends received in reorganization exchanges.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1) of the Internal Revenue Code) can result in distributions of property with minimal U.S. tax consequences. The proposal would repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)).

Reform U.S international tax system.—The Administration proposes to reduce incentives for U.S.-based multinational corporations to invest abroad rather than in the United States and also to target tax avoidance and evasion through a series of legislative reforms and enforcement measures, as described below:

Defer deduction of interest expense related to deferred income.—Under current law, a taxpayer that incurs interest expense properly allocable and apportioned to foreign-source income may be able to deduct that expense even if some or all of the foreign-source income is not subject to current U.S. taxation. To provide greater matching of the timing of interest expense deductions and recognition of associated income, the proposal would defer the deduction of interest expense properly allocable and apportioned to foreign-source income to the extent the U.S. taxation of such income is deferred.

Determine the foreign tax credit on a pooling basis.—Under the proposal, a taxpayer would be required to determine foreign tax credits from the receipt of a dividend from a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of a dividend from a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries.

Tax currently excess returns associated with transfers of intangibles offshore.—The IRS has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the proposal, if a U.S parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the U.S., then an amount equal to the excessive return would be treated as subpart F income.

Limit shifting of income through intangible property transfers.—The definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d) of the Internal Revenue Code) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States.

Disallow the deduction for non-taxed reinsurance premiums paid to affiliates.—Under the proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to affiliates, offset by an exclusion for any ceding commissions received, or reinsurance recovered, from affiliates.

Limit earnings stripping by expatriated entities.—Under the proposal, the rules that limit the deductibility of interest paid to related persons subject to low or no U.S. tax on that interest would be amended to prevent inverted companies from using foreign-related-party and certain guaranteed debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations.

Modify tax rules for dual capacity taxpayers.—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) would be tightened.

Reform treatment of insurance companies and products.—The Administration proposes to reform the taxation of insurance companies and products through a series of legislative changes in domestic tax laws as described below:

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 for 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 a "transfer-for-value rule" applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In response to the growth in the number and size of life settlement transactions, the proposal would expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold, and would modify the "transfer-for-value" exceptions to prevent purchasers of policies from avoiding tax on death benefits that are received. The proposal would apply to sales or assignment of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2011.

Modify dividends-received deduction (DRD) for life insurance company separate accounts.—Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and a policyholder's share. The result of this proration is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS, particularly with regard to the dividends-received deduction for such companies' separate accounts. In some cases, the existing regime produces a company's share that exceeds the company's actual economic interest in the underlying income. The proposal would replace this regime with one that is much simpler. Under the proposal, the DRD with regard to general account dividends would be subject to the same flat proration percentage that applies to non-life companies under current law (15 percent); the DRD with regard to separate account dividends would be based on the proportion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2011.

Expand pro rata interest expense disallowance for corporate-owned life insurance (COLI).—The interest deductions of a business other than an insurance company are reduced to the extent the interest 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 inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors and employees. Under the proposal, the exception for officers, directors and employees would be repealed 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, 2011, in taxable years ending after that date.

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, gas and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that we 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 gas activities are proposed to be repealed beginning in 2012: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and 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 gas wells; (7) the ability to claim the domestic manufacturing deduction against income derived from the production of oil and 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 gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2012: (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.

Tax carried (profits) interests as ordinary income.—A partnership does not pay income tax; instead, the income or loss and associated character flows through to the partners who must include such items on their individual income tax returns. Certain partners receive a partnership interest, typically an interest in future profits, in exchange for services (commonly referred to as a "carried interest"). Current law taxes the recipient of a carried interest on the value at the time granted, which may be based on the value the partner would receive if the partnership were liquidated immediately (for example, the value of an interest only in future profits would be zero). 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 15-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 a "services partnership interest" (SPI) and to tax a partner's share of income from an SPI 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 SPI 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 tax years beginning after December 31, 2011.

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, 2012.

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 the first taxable year beginning after December 31, 2012, and any resulting income inclusion would be recognized over a four-year period.

Simplify the tax code—The Administration proposes to simplify the tax system, as described below:

Allow vehicle seller to claim qualified plug-in electric-drive motor vehicle credit.— Current law provides a credit for each qualified plug-in electric-drive motor vehicle placed in service. A qualified plug-in electric-drive motor vehicle is a motor vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards, and is propelled to a significant extent by an electric motor drawing electricity from a battery that has at least four kilowatt-hours of capacity and is capable of being recharged from an external source of electricity. The credit does not apply to low-speed vehicles or vehicles weighing 14,000 pounds or more. The maximum credit for qualified vehicles is $7,500. The credit phases out for a manufacturer's vehicles over four calendar quarters beginning with the second calendar quarter following the quarter in which a total of 200,000 of the manufacturer's credit-eligible vehicles have been sold for use in the United States. In general, the vehicle owner, including the lessor of a vehicle subject to lease, is entitled to the credit. In the case of vehicles sold to a tax-exempt or governmental entity, however, the credit is allowed to the seller of the vehicle. The proposal would allow the seller of the vehicle, rather than the vehicle owner, to claim the credit in all cases. The seller's credit would be subject to the rules and limitations of the general business credit. The proposal would be effective for vehicles sold after December 31, 2011.

Eliminate minimum required distribution (MRD) requirements for IRA/plan balances of $50,000 or less.—The MRD rules generally require that participants in tax-favored retirement plans and owners of IRAs 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 life expectancy. 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 $50,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between $50,000 and $60,000. 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.

Allow all inherited plan and IRA accounts 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. Under the proposal, distributions to all designated beneficiaries of inherited IRA and plan accounts would be permitted to be rolled over, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2012.

Clarify exception to recapture of unrecognized gain on sale of stock to an employee stock ownership plan (ESOP).—Section 1042 of the Internal Revenue Code allows a taxpayer to elect to defer the recognition of long-term capital gain on the sale of qualified securities to an ESOP if the proceeds are reinvested in replacement property within certain timeframes. The deferred gain is subject to recapture on disposition of the replacement property, with an exception for a disposition by gift. Section 1042 is unclear as to whether recapture applies on the nontaxable transfer of replacement property to a spouse, including pursuant to a divorce, under section 1041. Under this proposal the recapture rules of section 1042 would be amended to provide an exception for transfers under section 1041.

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.

Revise and simplify the "fractions rule".— Certain tax-exempt organizations (qualified organizations) may derive income from debt-financed real property without such income being subject to unrelated business income tax. When the real property is held by a partnership, the partnership may have to satisfy the "fractions rule" in order for the unrelated business income tax not to apply. The "fractions rule" generally requires that the share of overall partnership income allocated to a qualified organization partner in a particular year cannot be greater than the share of overall partnership loss allocated to such partner in the year for which such partner's loss share will be the smallest. The specific requirements of the rule are very complex to apply, however, in the context of many investment partnerships. The proposal would replace the fractions rule with a simpler rule that requires each partnership allocation to have substantial economic effect (as required by current law) and no allocation to have a principal purpose of tax avoidance.

Repeal preferential dividend rule for publicly traded 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. This proposal would repeal the preferential dividend rule for publicly traded REITs. 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. 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 December 31, 2010.

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, 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.

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 housing 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 only new mortgages for first-time homebuyers are permitted); 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.

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 5 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 5 percent unrelated or disproportionate private business limit.

Reduce the tax gap and make reforms.—The tax gap generally is the difference between the amount owed under the tax law and the amount actually paid on time. The Administration proposes to help reduce the tax gap through a number of legislative proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. The Administration also proposes to make certain reforms in domestic tax laws to close loopholes in estate and gift taxation. The proposals to reduce the tax gap and make reforms are described below:

Expand information reporting.—The Administration proposes to expand information reporting, as described below:

Repeal and modify information reporting on payments to corporations and payments for property.—Generally a taxpayer making payments to a recipient aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year is required to send an information return to the IRS setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). Under prior law this information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, the Affordable Care Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property. The Administration recognizes the burden that this expanded information reporting provision will put on small businesses and proposes to repeal the provision. Instead, the Administration proposes that a business be required to file an information return for payments for services or for determinable gains aggregating to $600 or more in a calendar year to a corporation (except a tax-exempt corporation); information returns would not be required for payments for property. This proposal would be effective for payments made after December 31, 2011.

Require information reporting for private separate accounts of life insurance companies.—Earnings from direct investments in assets generally result in taxable income to the holder, whereas investment in comparable assets through a separate account of a life insurance company generally gives rise to tax-free or tax-deferred income. This favorable tax treatment is unavailable if the policyholder has so much control over the investments in the account that the policyholder, rather than the company, should be treated as the owner of those investments. The proposal would require information reporting with regard to each life insurance or annuity contract whose investment in a separate account represents at least 10 percent of the value of the account. The proposal would be effective for taxable years beginning after December 31, 2011.

Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.—Currently, withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payment of estimated income taxes and self-employment (SECA) taxes near the end of each calendar quarter. An optional withholding method for contractors would reduce the burdens of having to make quarterly payments, would help contractors automatically set aside funds for tax payments, and would help increase compliance. Under the Administration's proposal, a contractor receiving payments of $600 or more in a calendar year from a particular business would be required to furnish to the business the contractor's certified 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. 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. This proposal would be effective for payments made to contractors after December 31, 2011.

Improve compliance by businesses.—The Administration proposes to improve compliance by businesses, as described below:

Require greater electronic filing of returns.—Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. The Administration proposes that regulatory authority be granted to the Department of the Treasury to require that information returns be filed electronically. Also, corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 would be required to file their tax returns electronically. In the case of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations), the regulatory authority to

require electronic filing would allow reduction of the current threshold of filing 250 or more returns during a calendar year.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports.—The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement activity. (It also serves to satisfy certain requirements for filing with the Pension Benefit Guaranty Corporation.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to tax code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOLs ERISA Title I jurisdiction cannot be requested on the joint form and currently is not collected. Collecting it would require a separate "IRS only" form that could be filed on paper, a process that would be neither simple nor efficient for taxpayers or for the IRS and DOL. Under this proposal, IRS would be provided authority to require the inclusion of information that is relevant only to employee benefit plan tax requirements in the electronically filed annual reports to the same extent that DOL can require such electronic reporting.

Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.—Under present law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and payment of those taxes from denying liability when the taxes are not paid. Under the proposal, standards would be set forth for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes. The proposal would also provide standards for holding employee leasing companies solely liable for such taxes if they meet specified requirements.

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. The proposal would be effective upon enactment, but the prospective reclassification for those covered by the special provision would not be effective until the first calendar year beginning at least one year after the date of enactment.

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, 2011.

Eliminate special rules modifying the amount of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are generally due on or before April 15, June 15, September 15 and December 15 of the particular taxable year. The amount due each quarter is generally one-quarter (25 percent) of the amount due for the year. A number of acts have modified the standard rules as to the amount due by "large corporations" for a particular quarter. This proposal would repeal all legislative changes that affect the amount of corporate estimated payments due for any particular quarter.

Strengthen tax administration.—The Administration proposes to strengthen tax administration, as described below:

Revise offer-in-compromise application rules.—Current law provides that the IRS may compromise any civil or criminal case arising under the internal revenue laws 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 requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer's offer.

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. Under the Administration's proposals, the Social Security Act would be amended 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 law, including civil and criminal sanctions.

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 five consecutive year period, if the aggregated 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 fine of not more than $250,000 ($500,000 in the case of a corporation) or imprisonment for not more than five years, or both.

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.

Extend statute of limitations where State adjustment affects Federal tax liability.—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. 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 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.

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. Under the Administration's proposal, the taxpayer privacy law would be clarified by stating that it does not prohibit Department of the Treasury and IRS officers and employees from identifying themselves, their organi-

zational affiliation, and the nature and subject of an investigation, when contacting third parties in connection with a civil or criminal tax investigation.

Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code.—Taxpayers can prepare their returns electronically (by meeting with a tax return preparer or using tax preparation software) but may file their return on paper by printing it out and mailing it to the IRS. Electronically filed tax returns are processed more efficiently and more accurately than paper tax returns. However, when tax returns are filed on paper—even if that paper return was prepared electronically—the IRS must manually enter the information contained on the return into the IRS's systems. The Administration proposes to require all taxpayers who prepare their tax returns electronically but print their returns and file them on paper to print their returns with a 2-D bar code that can be scanned by the IRS to convert the paper return into an electronic one.

Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims.—Currently, the IRS is unable to cross reference tax returns received with a list of prison inmates, decreasing the IRS's ability to determine whether inmates are claiming tax benefits to which they are not entitled. The IRS has become aware that some inmates are claiming tax benefits to which they may not be entitled (for example, creating false Forms W-2 showing that the inmate earned income from a legitimate business and taxes were withheld on that income). In some cases, inmates may claim the earned income tax credit, which they are not entitled to claim for any income received at any penal institution. The Administration proposes to require all prisons located in the United States to submit a list of names and validated Social Security numbers of all inmates serving sentences of one year or more by December 1 of each year to the IRS in order to allow the IRS to verify tax returns filed by prisoners.

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, only in situations authorized by regulations. The proposal would be effective for payments made after the date of enactment.

Expand penalties.—The Administration proposes to expand penalties, as described below:

Impose a penalty on failure to comply with electronic filing requirements.—Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Although there are additions to tax for the failure to file returns, there is no specific penalty in the Internal Revenue Code for a failure to comply with a requirement to file electronically. Electronic filing increases efficiency of tax administration because the provision of tax return information in an electronic form enables the IRS to focus audit activities where they can have the greatest impact. This also assists taxpayers where the need for audit is reduced. The Administration is proposing an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed. The amount of the penalty would be $25,000 for a corporation or $5,000 for a tax-exempt organization.

Increase penalty imposed on paid preparers who fail to comply with EITC due diligence requirements.—Current law imposes a $100 penalty on tax return preparers who fail to comply with the due diligence requirements imposed by regulations with respect to determining eligibility for, or the amount of, the EITC for each such failure. As many as a quarter of EITC claims contain errors, and approximately 68 percent of EITC claims are prepared by tax return preparers. Tax return preparers can have a substantial impact on reducing errors in EITC claims. The Administration proposes to increase the penalty from $100 to $500 to help ensure that preparers comply with the due diligence requirements.

Modify estate and gift tax valuation discounts and make other reforms.—The Administration proposes to close loopholes in estate and gift taxation, as described below:

Make permanent the portability of unused exemption between spouses.—Current law provides that any applicable exclusion amount for estate and gift tax purposes of a person who dies after December 31, 2010, and before January 1, 2013, that remains unused as of that person's death generally may be made available (by a timely election made by the executor of the deceased person) for use by the surviving spouse of such deceased person, as an addition to the surviving spouse's own applicable exclusion amount. If the surviving spouse is predeceased by more than one spouse, the surviving spouse's exemption may be increased only by the unused exemption of the last such predeceased spouse to survive. In no event, however, may the unused exemption of a predeceased spouse available to the surviving spouse exceed the surviving spouse's own exemption amount. A surviving spouse

may use the predeceased spousal carryover amount in addition to such surviving spouse's own exclusion for taxable transfers made during life or at death. Notwithstanding the statute of limitations for assessing estate or gift tax with respect to a predeceased spouse, the return of a predeceased spouse may be examined (and adjusted) for purposes of determining the deceased spousal unused exclusion amount available for use by the surviving spouse. The Administration proposes to extend the applicability of this provision permanently, thus extending the portability of unused exemption between spouses to all decedents dying and gifts made after December 31, 2012.

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. Although generally the same standards apply to determine the value subject to estate or gift tax, there is no explicit consistency rule that would require the recipient of the property to use 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 recipient's basis 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 donee 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.

Modify rules on valuation discounts.—Current law provides that the fair market value for estate and gift tax purposes of certain interests transferred intrafamily is to be determined without taking into consideration certain "applicable restrictions" that would otherwise justify discounts for lack of marketability and control in the determination of that value. Judicial decisions and the enactment of new statutes in most states, in effect, have made these rules inapplicable in many situations that were intended to be subject to those rules. In addition, additional arrangements have been identified which purport to reduce the value of the taxable transfer for transfer tax purposes, without reducing the economic value to the recipient of the transferred interest. The Administration proposes to create an additional category of "disregarded restrictions" that also would be ignored in valuing certain transferred interests. Those interests would be valued instead by assuming the applicability of certain assumptions to be specified in regulations. Disregarded restrictions would include limitations on a holder's right to liquidate that holder's interest that are more restrictive than a standard to be identified in regulations, and any limitation on a transferee's ability to be admitted as a full partner or holder of an equity interest in the entity. The proposal would include additional rules to support the implementation of the proposal, and would include a grant of appropriate regulatory authority.

Require a minimum term for grantor retained annuity trusts (GRATs).—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 require that, for all trusts created after the date of enactment, the GRAT must have a minimum term of ten years, the value of the remainder at the creation of the trust must be greater than zero, and the annuity must not decrease during the GRAT term.

Limit Duration of generation skipping transfer (GST) tax exemption.—Current law provides that each person has a lifetime GST tax exemption ($5 million in 2010) 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 have either 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 million 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, that, 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. This proposal would apply to trusts crated after enactment, and to the portion of a pre-existing trust attributable to additions (actual or constructive) to such a trust made after that date.

Upper-Income Tax Provision

Reduce the value of certain tax expenditures.— The Administration proposes to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting only married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and single taxpayers with income over $200,000. The proposed limitation would be effective for taxable years beginning after December 31, 2011. As indicated in the discussion of adjustments to the BEA baseline earlier in this Chapter, the Administration proposes to offset the first three years' cost of extending AMT relief with savings from this proposal.

User Fees

Reform inland waterways funding.—The Administration will work with the Congress to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. 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 of the other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 19 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2012.

Trade Initiatives

Promote trade.—The Obama Administration is committed to opening markets for American producers. As a part of this effort, the Administration is working with Members of Congress and stakeholders to address outstanding issues and move forward on pending trade agreements with Panama, Colombia, and South Korea. The Administration also looks forward to working with Congress in an effort to reform U.S. preference programs. Additionally, in 2009 the President announced his intention to establish Reconstruction Opportunity Zones (ROZs) in Afghanistan and the border regions of Pakistan as part of the Administration's broader counterterrorism strategy. The Administration will work closely with Congress and private sector stakeholders to implement these important trade initiatives.

Surface Transportation Reauthorization

Reauthorize surface transportation.—The Budget display assumes sufficient revenues to support the Administration's surface transportation reauthorization proposal, which would provide $554 billion of funding for selected transportation programs (highways, transit, highway safety, passenger rail, and a National Infrastructure Bank) over the next six years, 2012 through 2017, as well as increases in those programs in the outyears (note that the National Infrastructure Bank is not assumed to continue in the outyears; the amount requested in the first six years will be sufficient to cover the Bank's grant and loan activity over a ten-year period). The proposal would also expand the current Highway Trust Fund (HTF) to a Transportation Trust Fund, with accounts for the newly-incorporated activities, passenger rail and National Infrastructure Bank. Specifically, additional receipts of $435 billion would be sufficient to liquidate all outlays from the programs over a ten-year window. This display is intended to illustrate one notional path associated with a "paid for" bill (i.e., where receipts are sufficient to finance planned outlays), not to endorse or imply any specific revenue proposal. Under current law, the HTF faces a structural deficit: revenues are insufficient to cover existing spending, let alone program increases. The current framework for financing and allocating surface transportation investments is not financially sustainable, nor does it adequately or effectively allocate resources to meet our critical national needs. The Budget reflects the Administration's broader commitment to working with Congress to ensure that funding increases for surface transportation do not increase the deficit, and, consistent with the recommendation of the Fiscal Commission, make the Transportation Trust Fund fully solvent.

Other Initiatives

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 proposal would allow federal tax refunds to be offset to collect delinquent State tax obligations regardless of where the debtor resides.

Authorize the limited sharing of business tax return information to improve the accuracy of important measures of our economy.—Synchronization of business lists among 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. This proposal would 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 (CIPSEA), as well as taxpayer privacy law and related safeguards and penalties.

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 proposal would 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) regarding information on joint filers, and annually report on the IRS's compliance with sections 7521(b)(2) and (c) requiring IRS employees to 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.

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. Under the proposal, inflation adjustment provisions would be modified to prevent the size of all indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases would be based on the highest previous level of the price index relevant for adjusting the particular tax parameter. The proposal would be effective as of the date of enactment.

PROGRAM INTEGRITY INITIATIVES

Enhance UI integrity.—The Administration has a multi-part legislative proposal to strengthen the financial integrity of the UI system and to encourage the early reemployment of UI beneficiaries. This proposal builds upon the enactment of two key components of last year's UI integrity proposal that expanded collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds and improved the accuracy of hiring data in the National Directory of New Hires. The Budget proposal will boost States' ability to recover benefit overpayments and deter tax evasion schemes by permitting them to use a portion of recovered funds to expand enforcement efforts in these areas, including identification of misclassified employees. In addition, the proposal would require States to impose a monetary penalty on UI benefit fraud, which would be used to reduce overpayments, and to prohibit the noncharging of benefits to employers' UI accounts if they are found to be at fault when their actions lead to overpayments. The proposal would also improve the utility and accuracy of hiring data in the National Directory of New Hires by requiring employers to report rehires of employees who have been laid off. These efforts to strengthen the financial integrity of the UI system and encourage early reemployment of UI beneficiaries will keep State UI taxes down and improve the solvency of the State trust funds.

Increase levy authority for payments to Federal contractors with delinquent tax debt.—The Budget

proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Federal contractors. Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor has an unpaid tax liability. However, the language contains a technical imperfection that has the unintended effect of limiting the levy to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. The Budget proposal will allow Treasury to levy up to 100 percent of any payment due to a Federal vendor with unpaid tax liabilities.

Increase levy authority for payments to Medicare providers with delinquent tax debt.—The Budget 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. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order 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 Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes.

Implement program integrity allocation adjustments – IRS.—The Administration proposes a program integrity allocation adjustment of $1,257 million in 2012 for IRS tax enforcement and compliance activities. Allocation adjustments have been used by past administrations and Congresses to help protect increases above a base level for certain activities that generate benefits that exceed programmatic costs. The 2012 allocation adjustment will fund an increase of roughly $240 million above current levels of enforcement and compliance activity, which is estimated to yield $1.3 billion in additional revenues annually once new hires reach full productivity in 2014. In addition, the Administration proposes to provide further annual increases of about $300 million in additional new tax enforcement initiatives each year from 2013 through 2016. The Budget proposes to sustain these initiative increases through 2021 at a total cost of roughly $13 billion over 10 years above the funding needed to maintain current levels of enforcement. Over this same time period this $13 billion investment will generate an estimated $56 billion in additional tax revenue.

These resources will help the IRS continue to increase the roughly $50-$60 billion in enforcement revenues generated each year and help close the tax gap, defined as the difference between taxes owed and those paid on time. Enforcement funds provided through the 2012 allocation adjustment will continue to target international tax compliance of high-net worth individuals and corporations, as well as implement information reporting authorities with a high-rate of return intended to make the IRS a more efficient and effective tax administrator.

Table 15–3. EFFECT OF PROPOSALS

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Tax cuts for families and individuals:													
Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits [1]	–216	–159	....	....	....	....	....	....	....	....	....	–159	–159
Extend EITC for larger families [1]	....	....	–81	–1,422	–1,442	–1,469	–1,509	–1,544	–1,579	–1,610	–1,657	–4,414	–12,313
Expand child and dependent care tax credit [1]	....	–283	–1,043	–1,045	–1,042	–1,039	–1,035	–1,036	–1,033	–1,028	–1,021	–4,452	–9,605
Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs [1]	....	....	–638	–1,043	–1,100	–1,240	–1,448	–1,704	–2,015	–2,381	–2,809	–4,021	–14,378
Extend AOTC [1]	....	....	–650	–10,772	–10,832	–11,552	–11,533	–11,364	–12,111	–12,117	–12,665	–33,806	–93,596
Provide exclusion from income for student loan forgiveness	....	....	....	....	....	....	....	....	....	....	....	....	....
Tax qualified dividends and net long-term capital gains at a 20-percent rate for upper-income taxpayers	....	–7,868	–9,582	–5,405	–9,416	–12,964	–14,688	–15,119	–15,586	–16,158	–16,885	–45,235	–123,671
Total, tax cuts for families and individuals	–216	–8,310	–11,994	–19,687	–23,832	–28,264	–30,213	–30,767	–32,324	–33,294	–35,037	–92,087	–253,722
Tax cuts for businesses:													
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	....	–183	–566	–1,055	–1,587	–2,026	....	–5,417
Enhance and make permanent the R&E tax credit	....	–4,610	–8,063	–8,884	–9,708	–10,520	–11,318	–12,103	–12,887	–13,686	–14,499	–41,785	–106,278
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	....	–284	–731	–1,089	–1,138	–578	–120	73	115	64	27	–3,820	–3,661
Provide tax credit for energy-efficient commercial building property expenditures in place of exisiting tax deduction	....	–450	–425	–100	–25	–25	....	....	....	....	....	–1,025	–1,025
Total, tax cuts for businesses	....	–5,344	–9,219	–10,073	–10,871	–11,123	–11,621	–12,596	–13,827	–15,209	–16,498	–46,630	–116,381
Incentives to promote regional growth:													
Extend and modify the NMTC	–41	–62	–116	–183	–234	–263	–272	–264	–243	–170	–63	–858	–1,870
Reform and extend Build America bonds [1]	–1	–2	–2	–2	–4	–3	–3	–3	–3	–3	–3	–13	–28
Reform and expand the LIHTC	–1	–5	–16	–32	–52	–71	–94	–116	–139	–162	–185	–176	–872
Designate Growth Zones [1]	....	–279	–863	–860	–839	–815	–186	383	374	329	273	–3,656	–2,483
Restructure assistance to New York City, provide tax incentives for transportation infrastructure	....	–200	–200	–200	–200	–200	–200	–200	–200	–200	–200	–1,000	–2,000
Total, incentives to promote regional growth	–43	–548	–1,197	–1,277	–1,329	–1,352	–755	–200	–211	–206	–178	–5,703	–7,253
Continue certain expiring provisions through calendar year 2012 [1, 2]	–866	–9,959	–10,459	–734	–372	–158	–61	–95	–122	–169	–192	–21,682	–22,321
Other revenue changes and loophole closers:													
Reform treatment of financial institutions and products:													
Impose a financial crisis responsibility fee	....	....	1,000	3,000	3,000	3,000	4,000	4,000	4,000	4,000	4,000	10,000	30,000
Require accrual of income on forward sale of corporate stock	1	6	12	19	26	33	36	38	40	42	44	96	296
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	35	144	226	240	254	270	286	303	321	341	361	1,134	2,746
Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code	....	9	15	16	17	17	18	19	20	21	22	74	174
Subtotal, reform treatment of financial institutions and products	36	159	1,253	3,275	3,297	3,320	4,340	4,360	4,381	4,404	4,427	11,304	33,216
Reinstate Superfund taxes [2]	....	1,374	1,926	2,038	2,093	2,144	2,185	2,212	2,246	2,272	2,329	9,575	20,819
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
Increase Oil Spill Liability Trust Fund financing rate by one cent [2]	....	35	46	46	46	46	46	46	47	46	47	219	451

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Make UI surtax permanent [2]	....	1,375	1,413	1,449	1,477	1,503	1,526	1,543	1,558	1,577	1,594	7,217	15,015
Provide short-term tax relief to employers and expand FUTA base [2]	....	–1,714	–3,541	7,477	12,863	10,544	11,814	8,555	–34	–263	167	25,629	45,868
Expand STC unemployment program [2]	....	....	14	20	–51	–82	–82	–80	–80	–80	–80	–99	–501
Repeal LIFO method of accounting for inventories	....	....	2,598	5,649	6,484	6,457	6,435	6,387	6,337	6,293	6,240	21,188	52,880
Repeal gain limitation for dividends received in reorganization exchanges	....	47	79	81	84	86	89	92	94	97	100	377	849
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income	....	2,986	5,138	5,396	5,636	5,861	6,080	3,114	1,103	1,149	1,202	25,017	37,665
Determine the foreign tax credit on a pooling basis	....	2,655	4,568	4,798	5,011	5,211	5,406	5,601	5,810	6,051	6,333	22,243	51,444
Tax currently excess returns associated with transfers of intangibles offshore	....	1,204	2,038	2,114	2,212	2,280	2,290	2,231	2,158	2,138	2,166	9,848	20,831
Limit shifting of income through intangible property transfers	....	29	63	90	118	148	178	209	242	276	315	448	1,668
Disallow the deduction for non-taxed reinsurance premiums paid to affiliates	....	129	223	237	250	264	277	289	302	315	328	1,103	2,614
Limit earnings stripping by expatriated entities	....	212	364	382	401	421	442	464	487	512	537	1,780	4,222
Modify tax rules for dual capacity taxpayers	....	532	918	974	1,031	1,085	1,138	1,190	1,242	1,296	1,352	4,540	10,758
Subtotal, reform U.S. international tax system	....	7,747	13,312	13,991	14,659	15,270	15,811	13,098	11,344	11,737	12,233	64,979	129,202
Reform treatment of insurance companies and products:													
Modify rules that apply to sales of life insurance contracts	....	8	42	82	97	115	134	154	177	203	231	344	1,243
Modify DRD for life insurance company separate accounts	....	172	465	547	579	605	607	585	555	528	503	2,368	5,146
Expand pro-rata interest expense disallowance for COLI	....	21	71	181	273	433	652	900	1,280	1,714	2,166	979	7,691
Subtotal, reform treatment of insurance companies and products	....	201	578	810	949	1,153	1,393	1,639	2,012	2,445	2,900	3,691	14,080
Eliminate fossil fuel tax preferences:													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	1,875	2,512	1,762	1,403	1,331	1,124	830	640	523	447	8,883	12,447
Repeal deduction for tertiary injectants	....	6	10	10	10	10	10	9	9	9	9	46	92
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	23	27	24	22	21	19	18	17	16	16	117	203
Repeal percentage depletion for oil and natural gas wells	....	607	1,038	1,079	1,111	1,142	1,177	1,211	1,243	1,273	1,321	4,977	11,202
Repeal domestic manufacturing deduction for oil and natural gas companies	....	902	1,558	1,653	1,749	1,842	1,932	2,020	2,108	2,200	2,296	7,704	18,260
Increase geological and geophysical amortization period for independent producers to seven years	....	59	215	330	306	230	152	75	22	9	10	1,140	1,408
Subtotal, eliminate oil and gas preferences	....	3,472	5,360	4,858	4,601	4,576	4,414	4,163	4,039	4,030	4,099	22,867	43,612
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	27	45	47	49	51	50	48	47	45	38	219	447
Repeal percentage depletion for hard mineral fossil fuels	....	78	129	129	130	135	139	145	149	154	165	601	1,353
Repeal capital gains treatment for royalties	6	11	13	22	31	38	43	47	51	55	58	115	369
Repeal domestic manufacturing deduction for coal and other hard mineral fossil fuels	....	20	35	38	39	41	44	45	48	49	51	173	410

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Subtotal, eliminate coal preferences	6	136	222	236	249	265	276	285	295	303	312	1,108	2,579
Subtotal, eliminate fossil fuel tax preferences	6	3,608	5,582	5,094	4,850	4,841	4,690	4,448	4,334	4,333	4,411	23,975	46,191
Tax carried (profits) interests as ordinary income	318	2,274	2,123	2,154	1,927	1,608	1,322	1,089	908	762	640	10,086	14,807
Deny deduction for punitive damages	....	....	23	34	35	35	36	36	37	37	39	127	312
Repeal lower-of-cost-or-market inventory accounting method	....	....	188	1,435	2,334	1,532	1,358	309	323	337	352	5,489	8,168
Simplify the tax code:													
Allow vehicle seller to claim qualified plug-in electric-drive motor vehicle credit	....	–64	–30	–59	–53	135	166	–232	–103	–11	–18	–71	–269
Eliminate MRD requirements for IRA/plan balances of $50,000 or less	....	–2	–5	–7	–9	–12	–15	–19	–23	–28	–31	–35	–151
Allow all inherited plan and IRA accounts to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Clarify exception to recapture of unrecognized gain on sale of stock to an ESOP	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal non-qualified preferred stock designation	22	101	112	110	105	97	87	77	68	61	54	525	872
Revise and simplify the “fractions rule”	–5	–19	–22	–24	–23	–24	–24	–26	–26	–26	–28	–112	–242
Repeal preferential dividend rule for publicly traded REITs	....	....	....	....	....	....	....	....	....	....	....	....	....
Reform excise tax based on investment income of private foundations	–1	–4	–4	–5	–5	–5	–6	–6	–6	–7	–7	–23	–55
Simplify arbitrage investment restrictions	....	–4	–13	–21	–30	–40	–49	–59	–68	–76	–86	–108	–446
Simplify single-family housing mortgage bond targeting requirements	....	....	....	–1	–1	–1	–1	–3	–3	–3	–3	–3	–16
Streamline private business limits on governmental bonds	....	–1	–3	–5	–7	–9	–11	–13	–15	–17	–19	–25	–100
Subtotal, simplify the tax code	16	7	35	–12	–23	141	147	–281	–176	–107	–138	148	–407
Reduce the tax gap and make reforms:													
Expand information reporting:													
Repeal and modify information reporting on payments to corporations and payments for property	....	–475	–618	–756	–929	–961	–1,000	–1,047	–1,096	–1,147	–1,180	–3,739	–9,209
Require information reporting for private separate accounts of life insurance companies	....	....	1	2	3	3	4	5	6	7	8	9	39
Require a certified TIN from contractors and allow certain withholding	21	48	81	110	115	121	126	132	138	144	150	475	1,165
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients’ Federal employment taxes	....	4	5	6	6	6	7	7	7	8	8	27	64
Increase certainty with respect to worker classification	....	12	230	1,237	956	819	904	994	1,088	1,186	1,284	3,254	8,710
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate special rules modifying the amount of estimated tax payments by corporations	....	....	....	–53,610	4,320	49,290	....	....	–5,630	5,630	....	....	....
Strengthen tax administration:													
Revise the offer-in-compromise application rules	....	2	2	2	2	2	3	3	3	3	3	10	25
Expand IRS access to information in the NDNH for tax administration purposes	....	....	....	....	....	....	....	....	....	....	....	....	....

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
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	1	1	1	1	2	7
Extend statute of limitations where State adjustment affects Federal tax liability	....	....	....	....	2	4	4	4	4	4	5	6	27
Improve investigative disclosure statute	....	....	....	....	1	1	1	1	2	2	2	2	10
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code	....	....	....	....	....	....	....	....	....	....	....	....	....
Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims	....	10	15	16	16	17	18	18	18	19	19	74	166
Allow the IRS to absorb credit and debit card processing fees for certain tax payments	....	1	1	2	2	2	2	2	2	2	2	8	18
Expand penalties:													
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	....	1	1	1	2	2	2	1	9
Increase penalty imposed on paid preparers who fail to comply with EITC due diligence requirements	....	13	27	31	32	34	35	35	36	37	38	137	318
Modify estate and gift tax valuation discounts and make other reforms:													
Make permanent the portability of unused exemption between spouses	....	....	....	–107	–217	–321	–421	–516	–609	–699	–791	–645	–3,681
Require consistency in value for transfer and income tax purposes	....	127	171	182	192	204	216	229	243	258	273	876	2,095
Modify rules on valuation discounts	....	806	860	1,558	1,687	1,823	1,966	2,116	2,277	2,444	2,629	6,734	18,166
Require a minimum term for GRATs	....	15	46	93	160	231	308	389	477	570	670	545	2,959
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, reduce the tax gap and make reforms	21	563	821	–51,234	6,350	51,278	2,176	2,375	–3,029	8,473	3,125	7,778	20,898
Total, other revenue changes and loophole closers	397	15,676	26,650	–7,493	57,574	100,076	53,486	46,028	30,502	42,563	38,586	192,483	403,648
Upper-income tax provision:													
Reduce the value of certain tax expenditures [4]	....	6,008	18,996	26,418	29,766	32,696	35,699	38,644	41,496	44,388	47,180	113,884	321,291
User fees:													
Reform inland waterways funding [2]	....	....	196	163	135	72	72	71	69	70	69	566	917
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	14	14	14	14	14	70	140
Total, user fees	....	14	210	177	149	86	86	85	83	84	83	636	1,057
Trade initiatives:													
Promote trade [2]	....	–167	–371	–514	–636	–755	–837	–910	–982	–1,053	–1,127	–2,443	–7,352
Surface transportation reauthorization:													
Reauthorize surface transportation [2]	....	20,000	28,000	29,000	31,000	32,000	34,000	36,000	38,000	39,000	41,000	140,000	328,000
Other initiatives:													
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 our economy	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate certain reviews conducted by the U.S. TIGTA	....	....	....	....	....	....	....	....	....	....	....	....	....
Modify indexing to prevent deflationary adjustments	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, other initiatives	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, effect of proposals	**–728**	**17,370**	**40,616**	**15,817**	**81,449**	**123,206**	**79,784**	**76,189**	**62,615**	**76,104**	**73,817**	**278,458**	**646,967**

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

[1] This proposal affects both receipts and outlays. Both effects are shown here. The outlays effects included in these estimates are listed below:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits	....	47	....	....	....	....	....	....	....	....	....	47	47
Expand EITC	....	....	69	1,372	1,384	1,404	1,436	1,463	1,490	1,512	1,551	4,229	11,681
Expand child and dependent care tax credit	....	....	337	347	354	363	372	386	398	410	420	1,401	3,387
Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs	....	....	38	66	71	79	90	105	122	142	167	254	880
Extend AOTC	....	....	16	4,465	4,425	4,655	4,608	4,531	4,791	4,775	5,038	13,561	37,304
Reform and extend Build America bonds	105	599	1,580	2,793	4,048	5,314	6,575	7,830	9,080	10,324	11,561	14,334	59,704
Designate Growth Zones	....	14	34	43	43	40	10	–20	–20	–17	–14	174	113
Continue certain expiring provisions through calendar year 2012	32	502	789	437	384	121	....	....	....	....	....	2,233	2,233
Total, outlay effects of receipt proposals	137	1,162	2,863	9,523	10,709	11,976	13,091	14,295	15,861	17,146	18,723	36,233	115,349

[2] Net of income offsets.

[3] This provision is estimated to have zero receipt effect under the Adminstration's current projections for energy prices.

[4] The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	....	–33,292	–106,436	–106,467	–96,904	26,869	....	....	....	....	....	–316,230	–316,230
Reduce the value of certain tax expenditures	....	6,008	18,996	26,418	29,766	32,696	35,699	38,644	41,496	44,388	47,180	113,884	321,291

Table 15–4. EFFECT OF PROGRAM INTEGRITY INITIATIVES [1, 2]

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
Program integrity initiatives:													
Enhance UI integrity [3]	....	....	54	108	70	–588	162	–355	–388	–42	144	–356	–835
Increase levy authority for payments to Federal contractors with delinquent tax debt	5	59	61	64	67	69	73	76	80	83	87	320	719
Increase levy authority for payments to Medicare providers with delinquent tax debt	17	64	68	71	74	76	76	78	80	80	81	353	748
Implement program integrity allocation adjustments—IRS	....	276	804	1,970	3,721	5,646	7,227	8,184	8,773	9,274	9,778	12,417	55,653
Total, program integrity initiatives	22	399	987	2,213	3,932	5,203	7,538	7,983	8,545	9,395	10,090	12,734	56,285

[1] The receipt effect of a spending initiative.

[2] The sum of adjusted baseline receipts (Table 15-2), the receipt effect of the Administration's proposals (Table 15-3), and these program integrity initiatives equals the estimates of total receipts presented in Tables 15-1 and 15-5.

[3] Net of income offsets.

Table 15–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individual income taxes:												
Federal funds	898,549	955,840	1,144,610	1,338,743	1,491,048	1,628,322	1,765,129	1,898,247	2,028,027	2,156,502	2,281,500	2,404,022
Legislative proposal, not subject to PAYGO	....	....	276	802	1,966	3,719	5,681	7,220	8,206	8,797	9,279	9,773
Legislative proposal, subject to PAYGO	....	193	–4,382	4,575	15,368	15,925	15,160	17,090	19,344	21,877	23,740	25,681
Total, Individual income taxes	898,549	956,033	1,140,504	1,344,120	1,508,382	1,647,966	1,785,970	1,922,557	2,055,577	2,187,176	2,314,519	2,439,476
Corporation income taxes:												
Federal funds:												
Federal funds	191,435	198,423	326,838	396,647	477,885	435,398	402,655	462,258	466,919	477,784	479,541	501,847
Legislative proposal, subject to PAYGO	....	8	1,700	7,591	–39,482	18,432	62,722	14,934	10,927	3,242	14,438	9,033
Total, Federal funds	191,435	198,431	328,538	404,238	438,403	453,830	465,377	477,192	477,846	481,026	493,979	510,880
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	786	1,136	1,233	1,274	1,311	1,340	1,359	1,381	1,395	1,442
Total, Corporation income taxes	191,437	198,431	329,324	405,374	439,636	455,104	466,688	478,532	479,205	482,407	495,374	512,322
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	539,996	478,603	564,392	625,533	662,951	700,646	747,464	785,844	827,445	869,411	905,314	950,578
Legislative proposal, not subject to PAYGO	....	....	8	92	123	242	387	299	392	416	386	377
Legislative proposal, subject to PAYGO	....	6	–1,141	–1,593	–3,546	–4,256	–4,209	–4,372	–4,205	–3,072	–3,211	–3,269
Disability insurance (off-budget)	91,691	80,812	95,663	106,223	112,577	118,978	126,927	133,445	140,510	147,636	153,732	161,420
Legislative proposal, not subject to PAYGO	....	....	1	16	21	41	66	51	67	70	65	64
Legislative proposal, subject to PAYGO	....	1	–193	–270	–602	–722	–714	–742	–714	–520	–544	–555
Hospital Insurance	180,068	187,201	201,539	216,968	235,522	250,030	267,432	281,628	296,871	312,197	325,477	342,093
Legislative proposal, not subject to PAYGO	....	....	....	–1	–2	....	17	–3	11	12	2	–3
Legislative proposal, subject to PAYGO	....	2	–308	–5	–396	–22	324	362	477	883	882	955
Railroad retirement:												
Social security equivalent account	1,854	1,725	1,925	2,068	2,118	2,183	2,250	2,318	2,384	2,452	2,517	2,565
Rail pension & supplemental annuity	2,285	2,322	2,380	2,576	2,685	2,895	3,014	3,107	3,199	3,292	3,525	3,786
Total, Employment and general retirement	815,894	750,672	864,266	951,607	1,011,451	1,070,015	1,142,958	1,201,937	1,266,437	1,332,777	1,388,145	1,458,011
On-budget	(184,207)	(191,250)	(205,536)	(221,606)	(239,927)	(255,086)	(273,037)	(287,412)	(302,942)	(318,836)	(332,403)	(349,396)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)
Unemployment insurance:												
Deposits by States [1]	38,281	44,695	49,665	53,682	55,886	56,618	56,653	55,791	55,629	56,390	55,186	56,573
Legislative proposal, not subject to PAYGO	....	....	....	42	84	70	–60	151	–498	–541	–111	119
Legislative proposal, subject to PAYGO	....	....	1	153	14,032	15,614	14,586	14,111	12,009	7,403	6,056	7,519
Federal unemployment receipts [1]	6,444	6,944	7,297	9,836	12,247	14,791	16,758	14,079	15,329	15,341	14,845	16,412
Legislative proposal, not subject to PAYGO	....	....	....	....	....	–33	–725	....	....	....	....	....
Legislative proposal, subject to PAYGO	....	....	–424	–2,773	–2,820	2,305	437	2,531	588	–5,518	–4,431	–5,332
Railroad unemployment receipts [1]	98	171	226	151	64	60	104	149	140	104	100	128

Table 15–5. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2010	Estimate										
	Actual	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total, Unemployment insurance	44,823	51,810	56,765	61,091	79,493	89,425	87,753	86,812	83,197	73,179	71,645	75,419
Other retirement:												
Federal employees retirement-employee share	4,062	4,293	4,027	3,789	3,622	3,421	3,388	3,452	3,471	3,521	3,607	3,728
Non-Federal employees retirement [2]	35	26	23	20	19	19	19	19	19	19	19	19
Total, Other retirement	4,097	4,319	4,050	3,809	3,641	3,440	3,407	3,471	3,490	3,540	3,626	3,747
Total, Social insurance and retirement receipts (trust funds)	864,814	806,801	925,081	1,016,507	1,094,585	1,162,880	1,234,118	1,292,220	1,353,124	1,409,496	1,463,416	1,537,177
On-budget	(233,127)	(247,379)	(266,351)	(286,506)	(323,061)	(347,951)	(364,197)	(377,695)	(389,629)	(395,555)	(407,674)	(428,562)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)
Excise taxes:												
Federal funds:												
Alcohol	9,229	9,237	9,408	9,468	9,523	9,720	9,973	10,242	10,514	10,791	11,073	11,366
Legislative proposal, subject to PAYGO	....	....	–80	–26	....	....	....	....	....	....	....	....
Tobacco	17,160	17,492	17,083	16,819	16,646	16,511	16,422	16,256	16,073	15,909	15,728	15,535
Transportation fuels	–11,030	–9,412	–4,869	–855	–869	–859	–869	–852	–836	–827	–819	–816
Legislative proposal, subject to PAYGO	....	....	–3,772	–4,051	....	....	....	....	....	....	....	....
Telephone and teletype services	993	751	599	522	464	408	350	289	227	164	119	116
High-cost health insurance coverage	....	....	....	....	....	....	....	....	4,057	13,966	16,036	19,383
Health insurance providers	....	....	....	....	7,600	11,135	11,300	13,770	14,280	15,052	15,941	16,868
Indoor tanning servies	....	345	348	352	357	361	364	368	371	375	378	381
Medical devices	....	....	....	2,012	2,807	2,986	3,176	3,348	3,527	3,711	3,901	4,102
Other Federal fund excise taxes	1904	2,655	2,818	2,862	2,940	3,027	3,128	3,228	3,325	3,427	3,530	3,644
Legislative proposal, subject to PAYGO	....	–1	76	22	–5	–4	–4	–5	–5	–5	–6	–6
Total, Federal funds	18,256	21,067	21,611	27,125	39,463	43,285	43,840	46,644	51,533	62,563	65,881	70,573
Trust funds:												
Transportation	34,992	37,499	38,420	39,411	40,500	41,368	41,841	42,059	42,011	42,090	42,380	42,859
Legislative proposal, subject to PAYGO	....	....	26,000	37,000	39,000	41,000	43,000	45,000	48,000	50,000	52,000	54,000
Airport and airway	10,612	10,127	10,250	10,622	11,170	11,654	12,172	12,584	13,005	13,479	13,941	14,297
Sport fish restoration and boating safety	580	588	599	608	619	630	640	650	661	671	682	692
Tobacco assessments	937	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	595	613	636	647	659	656	659	664	673	421	311	316
Inland waterways	74	85	87	88	90	90	91	91	92	94	94	95
Legislative proposal, subject to PAYGO	....	....	....	....	–45	–45	–91	–91	–92	–94	–94	–95
Hazardous substance superfund (Legislative proposal, subject to PAYGO)	....	....	783	1,053	1,073	1,092	1,111	1,127	1,138	1,152	1,169	1,183
Oil spill liability	476	483	488	489	489	490	492	539	552	552	555	555
Legislative proposal, subject to PAYGO	....	....	47	61	61	61	61	61	61	62	61	62
Vaccine injury compensation	218	228	237	247	256	267	276	284	292	301	310	319
Leaking under ground storage tank	169	179	181	183	187	190	191	192	190	190	190	192
Supplementary medical insurance	....	2,250	2,770	2,800	2,980	3,000	3,000	3,900	4,090	2,930	2,800	2,800
Patient-centered outcomes research	....	....	....	191	394	424	458	490	517	547	579	613

Table 15–5. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2010	Estimate										
	Actual	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total, Trust funds	48,653	53,012	81,458	94,360	98,393	101,837	104,861	108,510	112,150	113,355	115,938	118,848
Total, Excise taxes	66,909	74,079	103,069	121,485	137,856	145,122	148,701	155,154	163,683	175,918	181,819	189,421
Estate and gift taxes:												
Federal funds	18,885	12,227	12,654	13,535	23,232	25,827	28,068	30,363	32,640	35,054	37,575	40,347
Legislative proposal, subject to PAYGO	....	....	946	1,072	1,725	1,822	1,937	2,069	2,218	2,388	2,573	2,781
Total, Estate and gift taxes	18,885	12,227	13,600	14,607	24,957	27,649	30,005	32,432	34,858	37,442	40,148	43,128
Customs duties and fees:												
Federal funds:												
Federal funds	24,010	27,004	29,572	32,158	34,573	36,660	38,428	40,447	42,938	45,480	48,004	50,448
Legislative proposal, subject to PAYGO	....	–778	–1,407	–860	–685	–848	–1,007	–1,116	–1,214	–1,312	–1,406	–1,503
Total, Federal funds	24,010	26,226	28,165	31,298	33,888	35,812	37,421	39,331	41,724	44,168	46,598	48,945
Trust funds:												
Trust funds	1,288	1,465	1,589	1,718	1,840	1,947	2,016	2,119	2,247	2,374	2,499	2,622
Total, Customs duties and fees	25,298	27,691	29,754	33,016	35,728	37,759	39,437	41,450	43,971	46,542	49,097	51,567
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	414	423	425	428	438	445	453	456	459	462	466	469
Deposit of earnings, Federal Reserve System	75,845	79,511	65,803	47,431	38,211	37,388	41,023	44,516	47,353	49,460	51,512	53,007
Transfers from the Federal Reserve	18	175	391	432	450	456	462	468	476	483	491	499
Fees for permits and regulatory and judicial services	11,861	12,016	12,865	13,266	29,218	35,096	36,645	35,634	37,096	40,207	43,889	47,531
Legislative proposal, subject to PAYGO	....	....	14	214	214	214	214	214	214	214	214	214
Fines, penalities, and forfeitures	7,328	5,610	5,880	5,475	21,879	31,949	34,394	37,534	39,970	42,175	44,482	46,908
Refunds and recoveries	–26	–106	–80	–51	–33	–32	–32	–32	–32	–32	–32	–32
Total, Federal funds	95,440	97,629	85,298	67,195	90,377	105,516	113,159	118,790	125,536	132,969	141,022	148,596
Trust funds:												
United Mine Workers of America, combined benefit fund	42	36	33	31	28	26	24	22	21	19	18	17
Defense cooperation	568	238	239	239	240	242	243	243	243	244	246	247
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	....	196	196	168	140	140	140	140	140	140
Fines, penalities, and forfeitures	782	535	547	555	563	570	577	586	593	601	608	617
Legislative proposal, subject to PAYGO	....	....	....	20	40	41	41	42	44	46	48	50
Total, Trust funds	1,392	809	819	1,041	1,067	1,047	1,025	1,033	1,041	1,050	1,060	1,071
Total, Miscellaneous receipts	96,832	98,438	86,117	68,236	91,444	106,563	114,184	119,823	126,577	134,019	142,082	149,667
Total, budget receipts	2,162,724	2,173,700	2,627,449	3,003,345	3,332,588	3,583,043	3,819,103	4,042,168	4,256,995	4,473,000	4,686,455	4,922,758
On-budget	(1,531,037)	(1,614,278)	(1,968,719)	(2,273,344)	(2,561,064)	(2,768,114)	(2,949,182)	(3,127,643)	(3,293,500)	(3,459,059)	(3,630,713)	(3,814,143)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)

[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 sevice retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

16. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

I. INTRODUCTION AND BACKGROUND

The Government records money collected in one of two ways. It is either recorded as a governmental receipt and included in the amount reported on the receipts side of the budget or it is recorded as an offsetting collection or offsetting receipt, which reduces (or "offsets") the amount reported on the outlay side of the budget. Regardless of how it is recorded, money collected has the same impact on the deficit or surplus; it reduces the deficit or increases the surplus. Governmental receipts are discussed in the previous chapter, "Governmental Receipts." The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts, and a small share of governmental receipts. The third and final section of this chapter describes the Administration's user charge proposals.

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities, and the spending associated with these activities is included in total or "gross outlays." For 2010, gross outlays to the public were $4,057 billion,[1] or 28.0 percent of gross domestic product (GDP). Offsetting collections and offsetting receipts from the public are subtracted from gross outlays to the public to yield "net outlays," which is the most common measure of outlays cited and generally referred to as simply "outlays." For 2010, net outlays were $3,456 billion or 23.8 percent of GDP. Government-wide net outlays reflect the Government's net disbursements to the public and are subtracted from governmental receipts to derive the Government's surplus or deficit. For 2010, governmental receipts were $2,163 billion or 14.9 percent of GDP and the deficit was $1,293 billion, or 8.9 percent of GDP.

Some offsetting collections and offsetting receipts arise from business-like transactions with the public. Unlike governmental receipts, these offsetting collections and offsetting receipts are not derived from the Government's exercise of its sovereign power. Rather, they arise from voluntary payments from the public for goods or services provided by the Government. For this reason, it is appropriate to classify these offsetting collections and offsetting receipts as offsets to outlays rather than as governmental receipts on the receipts side of the budget.[2] Treating offsetting collections and offsetting receipts as offsets to outlays produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace. Examples of business-like offsetting collections and offsetting receipts include charges for the sale of postage stamps and electricity sold by the Tennessee Valley Authority, proceeds from the sale of goods by defense commissaries, Medicare premiums, life insurance premiums for veterans, and recreation fees for parks. Other examples are proceeds from the sale of assets (e.g., property, plant, and equipment) and natural resources (e.g., timber, oil, and minerals).

A relatively small portion of offsetting collections and offsetting receipts are derived from the Government's exercise of its sovereign power. These collections are classified as offsetting rather than governmental receipts either because this classification has been specified in law or because these collections have traditionally been classified as offsets to outlays.[3] Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

The final two sources of offsetting collections and offsetting receipts are gifts and intragovernmental transfers. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public. Examples of intragovernmental transfers include interest payments to funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement and health benefits funds, and agency payments to funds for employee benefits.

[1] Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2010, gross outlays were $5,133 billion. Intragovernmental outlays are outlays associated with transfers from one Government account to another Government account. For 2010, intragovernmental outlays totaled $1,076 billion.

[2] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President's Commission on Budget Concepts* in 1967 and is discussed in Chapter 11 of this volume: "Budget Concepts." Offsetting governmental receipts, which are a subset of offsetting receipts and were $7.3 billion in 2010, result from the Government's exercise of its sovereign power to tax, but by law are required to be subtracted from outlays rather than added to governmental receipts.

[3] Where a regulatory or licensing fee is closely linked to the provision of a service by a regulating or licensing agency, the fee could be viewed as payment for a particular service or for the right to engage in a particular type of business. Nevertheless, many budget experts believe such fees are more appropriately classified as governmental receipts because the fees are compulsory and not voluntary payments for goods or services. Any reclassification of such fees could require a change in law and would make fees currently classified as offsets to discretionary spending during the Congressional appropriations process no longer available for that purpose.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are credited to expenditure accounts, which are accounts from which funds can be spent; offsetting collections credited to expenditure accounts reduce or offset spending at the account level. By contrast, offsetting receipts are credited to receipt accounts (even though they are not recorded as governmental receipts), and receipts accounts are used to record the collection, but not the expenditure, of funds. In some cases, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are "undistributed," which means they reduce total Government outlays, but not the outlays of any particular agency.

The distinction between offsetting collections and offsetting receipts is generally based on the form of Congressional authorization. Offsetting collections are usually authorized to be spent for the purposes of the expenditure account and are generally available for use when collected, without further action by the Congress. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which is used to finance Government spending that is not financed out of dedicated funds.

Table 16–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table focuses only on payments from the public and does not include intragovernmental transactions. The table shows the amount of the Government's financial transactions with the public that are not evident from the commonly

Table 16–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC

(In billions of dollars)

	Actual 2010	Estimate	
		2011	2012
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	67.9	66.4	65.5
Defense Commissary Agency	5.9	6.4	6.3
Employee contributions for employees and retired employees health benefits funds	11.6	12.5	13.2
Sale of energy:			
Tennessee Valley Authority	29.2	30.4	32.0
Bonneville Power Administration	3.0	3.9	4.1
All other user charges	112.7	88.6	68.3
Subtotal, user charges	230.2	208.2	189.4
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	7.9	7.1	7.9
Supplemental Security Income (collections from the States)	3.6	3.7	3.8
Other collections	17.7	15.3	10.1
Subtotal, other collections	29.1	26.0	21.9
Subtotal, offsetting collections	259.4	234.1	211.3
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	60.8	62.9	68.7
Outer Continental Shelf rents, bonuses, and royalties	4.9	5.2	7.3
All other user charges	22.1	23.2	28.0
Subtotal, user charges deposited in receipt accounts	87.8	91.4	104.0
Other collections deposited in receipt accounts:			
Military assistance program sales	24.0	28.0	27.7
Interest received from credit financing accounts	48.2	80.1	85.4
All other collections deposited in receipt accounts	181.2	123.5	59.4
Subtotal, other collections deposited in receipt accounts	253.4	231.6	172.5
Subtotal, offsetting receipts	341.3	323.0	276.5
Total, offsetting collections and offsetting receipts from the public	**600.6**	**557.1**	**487.8**
Total, offsetting collections and offsetting receipts excluding off-budget	**532.6**	**490.6**	**422.2**
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts [1]	318.1	299.5	293.4
Other offsetting collections and offsetting receipts from the public	282.6	257.6	194.4
Total, offsetting collections and offsetting receipts from the public	**600.6**	**557.1**	**487.8**

[1] Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 16-3.

cited budget measure of (net) outlays. For 2012, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $487.8 billion or 3.1 percent of GDP. Of these, an estimated $211.3 billion are offsetting collections and an estimated $276.5 billion are offsetting receipts. Table 16–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health insurance. As also shown in the table, major offsetting receipts from the public include Medicare Part B premiums, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Tables 16–2 (below) and 16-5 (which can be found at the end of this chapter) provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 16–1) and intragovernmental transactions.[4] In total, offsetting receipts are estimated to be $1,006.1 billion in 2012: $729.6 billion are from intragovernmental transactions and $276.5 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($265.1 billion) and those classified as offsetting receipts by law or long-standing practice ($11.4 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions with the public such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses and, absent a specification in law or a long-standing practice, would otherwise have been classified on the receipts side of the budget.

[4] A comparable table showing total offsetting collections from the public and from intragovernmental transactions is not presented here because the data are not currently reported in a way that would permit such a presentation.

Table 16–2. SUMMARY OF OFFSETTING RECEIPTS BY TYPE
(In millions of dollars)

Receipt Type	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016
Intragovernmental Receipts[1]:							
Interfund	696,741	744,219	678,317	663,870	702,343	745,823	796,959
Intrafund	44,488	45,980	51,269	52,943	57,102	61,135	64,480
Total Intragovernmental	741,229	790,199	729,586	716,813	759,445	806,958	861,439
Receipts from Non-Federal Sources:							
Proprietary	333,942	315,587	265,152	279,426	280,875	288,426	287,522
Offsetting Governmental	7,323	7,406	11,385	14,555	16,163	14,547	10,675
Total Non-Federal Sources	341,265	322,993	276,537	293,981	297,038	302,973	298,197
Total Offsetting Receipts	1,082,494	1,113,192	1,006,123	1,010,794	1,056,483	1,109,931	1,159,636

[1] Interfund offsetting receipts refer to trust fund receipts from Federal funds and Federal fund receipts from trust funds. Intrafund offsetting receipts refer to trust fund receipts from other trust funds and Federal fund receipts from other Federal funds.

II. USER CHARGES

User charges or user fees[5] refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. Laws that authorize user charges, in combination with budget concepts, determine whether a user charge is classified as an offsetting collection, an offsetting receipt or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; less than 1.4 percent of user charges are classified as governmental receipts. As summarized in Table 16-3, total user charges for 2012 are estimated to be $297.5 billion with $293.4 billion being offsetting collections or offsetting receipts, accounting for more than half of all offsetting collections and offsetting receipts from the public.

Definition. In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do not represent a broad segment of the public such as those who pay income taxes or customs duties.

Examples of business-type or market-oriented user charges, and regulatory and licensing user charges include those charges listed above for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest and dividends, and also exclude payments from one part of the Federal Government to another. In addition, user charges do not include dedicated taxes (such as taxes

[5] In this chapter, the term “user charge” is generally used and has the same meaning as the term “user fee.” The term “user charge” is the one used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 11 of this volume, “Budget Concepts.” In common usage, the terms “user charge” and “user fee” are often used interchangeably; and in *A Glossary of Terms Used in the Federal Budget Process*, GAO provides the same definition for both terms.

paid to social insurance programs or excise taxes on gasoline), or customs duties, fines, penalties, or forfeitures.

Alternative definitions. The definition used in this chapter follows the definition used in OMB Circular No. A–25, "User Charges," which provides policy guidance to Executive Branch agencies on setting prices for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternative definitions as well.

The definition of user charges could be narrower than the one used in this chapter by being limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and by being limited to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record,* January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.[6]

What is the purpose of user charges? User charges are intended to improve the efficiency and equity of financing certain Government activities. Charging users for activities that benefit a relatively limited number of people and for regulatory activities reduces the burden on the general taxpayer.

User charges that are set to cover the costs of production of goods and services can result in more efficient resource allocation within the economy. When buyers are charged the cost of providing goods and services, they make better cost-benefit calculations regarding the size of their purchase, which in turn signals to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes. User charges for goods and services that do not have special social or distributional benefits may also improve equity or fairness by requiring those who benefit from an activity to pay for it and by not requiring those who do not benefit from an activity to pay for it.

When should the Government impose a charge? Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity accrue to the public in general or to a limited group of people. In general, if the benefits of spending accrue broadly to the public or have special social or distributional benefits, then the program should be financed by taxes paid by the public. In contrast, if the benefits accrue to a limited number of private individuals or organizations and do not have special social or distributional benefits, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle can be relatively easy. For example, according to this principle, the benefits from national defense accrue to the public in general, and should be and are financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue exclusively to those using the electricity, and should be and are financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and private groups, and it may be difficult to identify how much of the benefits accrue to each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation's natural and historic heritage now and for posterity. For this reason, visitor recreation fees do not generally cover the full cost to the Government of maintaining the recreation property. Where a fee may be appropriate to finance all or part of an activity, the extent to which a fee can be easily administered must be considered. For example, fees for

[6] Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, *The Growth of Federal User Charges,* August 1993, and updated in October 1995. Gasoline taxes are an example of beneficiary-based taxes. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

Table 16–3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS

(In billions of dollars)

	Actual 2010	Estimate	
		2011	2012
Gross outlays	4,056.8	4,375.9	4,216.5
Offsetting collections and offsetting receipts from the public:			
User charges [1]	318.1	299.5	293.4
Other	282.6	257.6	194.4
Subtotal, offsetting collections and offsetting receipts from the public	600.6	557.1	487.8
Net outlays	3,456.2	3,818.8	3,728.7

[1] $3.4 billion of the total user charges for 2010 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. $3.6 billion and $4.1 billion of the total user charges for 2011 and 2012, respectively, are classified as governmental receipts.

entering or using Government-owned land require clear points of entry onto the land and attendants patrolling and monitoring the land's use.

What amount should be charged? When the Government is acting in its capacity as sovereign and where user charges are appropriate, current policies support setting fees equal to the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a purely business-type transaction (such as leasing or selling goods, services, or resources), market price is generally the basis for establishing the fee.[7] If the Government is engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

Classification of user charges in the budget. As shown in the note to Table 16-3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $4.1 billion in 2012 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Federal Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Therefore, conceptually they should be classified as governmental receipts, and, unlike in a number of other cases, there is not a long-standing practice or specification in law to classify them as offsetting receipts. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated $293.4 billion in 2012, are classified as offsetting collections and offsetting receipts on the spending side of the budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

[7] Policies for setting user charges are promulgated in OMB Circular No. A–25: "User Charges" (July 8, 1993).

III. USER CHARGE PROPOSALS

As shown in Table 16–1 above, an estimated $189.4 billion of user charges for 2012 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated $104.0 billion of user charges for 2012 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 16-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $4.5 billion in 2012 and an average of $9.0 billion per year from 2013–21. These amounts are offsetting collections, offsetting receipts and governmental receipts only; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Budget Enforcement Act of 1990 as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees. These and other terms are discussed further in this volume in Chapter 11, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Commerce

U.S. Patent and Trademark Office (PTO): Interim fee increase. The Budget includes a proposal to increase statutory patent fees by 15 percent, which is expected to yield over $250 million in additional collections in 2012. The increase is intended to be an interim measure to provide additional resources to process patent applications while the Administration works with the Congress to enact patent reform legislation giving PTO the authority to set its own fees to better align fee rates to the cost of providing services.

Department of Health and Human Services

Food and Drug Administration (FDA): Generic drug review activities fees. Generic drugs play an important role in reducing the cost of and increasing access to pharmaceuticals. The Budget includes a proposal for a new user charge to generate additional resources in support of FDA's generic drug review activities. Similar to the purpose served by FDA's current prescription drug user charges, the proposed generic drug user charge would be used to improve review times and reduce the current backlog of applications.

Table 16–4. USER CHARGE PROPOSALS IN THE 2012 BUDGET [1]
(Estimated collections in millions of dollars)

	2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–2016	2012–2021
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. Offsetting collections													
Department of Commerce													
U.S. Patent and Trademark Office: Interim fee increase		263	....	....	....	....	....	....	....	....	....	263	263
Department of Health and Human Services													
Food and Drug Administration (FDA): Generic drug review activities fees		40	43	45	48	51	55	58	62	66	71	228	540
FDA: Reinspection fee for medical products		14	15	16	17	18	19	20	22	23	25	80	189
FDA: Food facilities registration and inspection user fees		....	248	264	281	299	318	339	361	385	410	1,091	2,904
FDA: International courier user fees		5	6	7	7	8	8	9	9	10	11	33	80
Health Resources and Services Administration: 340B Pharmacy Affairs user fee		5	5	5	5	5	5	5	5	5	5	25	50
Department of Homeland Security													
Transportation Security Administration: Aviation passenger security fee increase		587	1,595	2,441	2,490	2,540	2,590	2,642	2,695	2,749	2,804	9,653	23,134
Department of the Interior													
Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE):													
Outer continental shelf oil and gas lease inspection fee		65	65	65	65	65	65	65	65	65	65	325	650
Bureau of Land Management (BLM): Public lands oil and gas lease inspection fee		38	38	38	38	38	38	38	38	38	38	190	380
Department of State													
Western Hemisphere Travel Initiative surcharge extension		366	....	....	....	....	....	....	....	....	....	366	366
Border Crossing Card fee increase		17	17	17	17	17	17	17	17	17	17	85	170
Department of Transportation													
Federal Railroad Administration: Railroad safety inspection fee		80	80	80	80	80	80	80	80	80	80	400	800
Commodity Futures Trading Commission (CFTC)													
CFTC fee		117	117	118	118	118	125	131	134	137	140	588	1,255
Environmental Protection Agency													
Energy Star product fees		....	5	5	5	5	5	5	5	5	5	20	45
2. Offsetting receipts													
Department of Energy													
Strategic Petroleum Reserve oil sale		500	....	....	....	....	....	....	....	....	....	500	500
Department of Homeland Security:													
Lift Consolidated Omnibus Budget Reconciliation Act of 1985 country exemptions		110	111	113	114	116	118	119	121	....	....	564	922
Department of Transportation:													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline construction and special permits fees		5	6	6	6	6	6	6	6	6	6	29	59
PHMSA: Hazardous materials special permits and approvals fees		12	12	12	12	12	13	13	13	14	14	60	127
Subtotal, discretionary user charge proposals		2,224	2,362	3,232	3,303	3,378	3,463	3,548	3,634	3,600	3,689	14,499	32,433
MANDATORY:													
1. Offsetting collections													
Department of Agriculture													
Biobased labeling fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of Labor													
Pension Benefit Guaranty Corporation: Premium increases	....	....	....	1,121	2,523	2,286	2,141	2,046	1,987	1,966	2,001	5,930	16,071
2. Offsetting receipts													
Department of Agriculture													
Food Safety and Inspection Service: User charges	....	11	12	12	12	13	13	13	13	13	13	60	125
Grain, Inspection, Packers, and Stockyards Administration: User charges	....	27	29	30	31	31	31	32	32	32	33	148	308

Table 16–4. USER CHARGE PROPOSALS IN THE 2012 BUDGET [1]—Continued

(Estimated collections in millions of dollars)

	2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–2016	2012–2021
Animal and Plant Health Inspection Service: User charges	....	20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service: User charges	....	22	22	22	22	22	22	22	22	22	22	110	220
Department of the Interior													
BOEMRE and BLM: Fee on non-producing Federal oil and gas leases	....	25	39	59	75	90	98	109	116	125	138	288	874
BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds	....	....	20	19	18	....	....	....	....	....	....	57	57
BLM: Reform of Hardrock Mineral Production on Federal Lands	....	....	7	5	6	6	7	10	15	19	25	24	100
Department of Labor													
Employment and Training Administration: Foreign labor certification fee	....	44	44	44	44	44	44	44	44	44	44	220	440
Environmental Protection Agency													
Pesticide user charges	....	45	73	80	87	89	93	96	99	102	106	374	870
Premanufacture notice user charges	....	4	8	8	8	8	8	8	8	8	8	36	76
Hazardous waste electronic manifest system	....	....	....	6	4	3	3	3	3	3	3	13	28
Federal Communications Commission													
Wireless Innovation and Infrastructure Initiative	....	1,900	6,020	8,240	6,430	2,460	400	1,300	1,050	....	....	25,050	27,800
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Subtotal, mandatory user charge proposals	50	2,299	6,602	10,099	9,839	5,632	3,441	4,265	3,972	2,918	2,978	34,471	52,045
Subtotal, user charge proposals that are offsetting collections and offsetting receipts	50	4,523	8,964	13,331	13,142	9,010	6,904	7,813	7,606	6,518	6,667	48,970	84,478
GOVERNMENTAL RECEIPTS													
Department of the Interior													
Migratory bird hunting and conservation stamp fees	....	14	14	14	14	14	14	14	14	14	14	70	140
Corps of Engineers - Civil Works													
Reform inland waterways funding	....	....	196	163	135	72	72	71	69	70	69	566	917
Subtotal, governmental receipts user charge proposals	....	....	196	163	135	72	72	71	69	70	69	566	917
Total, user charge proposals	**50**	**4,523**	**9,160**	**13,494**	**13,277**	**9,082**	**6,976**	**7,884**	**7,675**	**6,588**	**6,736**	**49,536**	**85,395**

[1] A positive sign indicates an increase in collections.

[2] The 2011 column would normally show the enacted fee level for discretionary fees (in order to illustrate the impact of a Budget proposal on existing fees). However, because full year appropriations for 2011 had not been enacted by the time the Budget went to print, the 2011 column has been left blank for discretionary fees. Consequently, the 2011 total reflects only mandatory and governmental receipt fee proposals.

FDA: Reinspection fee for medical products. FDA conducts post-market inspections of manufacturers of human drugs, biologics, animal drugs, and medical devices to assess their compliance with Good Manufacturing Practice and other regulatory requirements. The Budget includes a proposal to enable FDA to assess fees for follow-up reinspections that are required when violations are found during initial inspections.

FDA: Food facilities registration and inspection user fees. The Administration will work with Congress to enact additional food safety fees that will allow FDA to implement fully the FDA Food Safety Modernization Act, P.L. 111-353. The Budget reflects the collection of these fees beginning in 2013.

FDA: International courier user fees. The volume of imports, predominantly medical products, being brought into the United States by international couriers is growing substantially. To ensure the safety of these FDA-regulated products through increased surveillance efforts, the Budget includes a new user charge to international couriers.

Health Resources and Services Administration: 340B Pharmacy Affairs user fee. To improve the administration and oversight of the 340B Drug Discount Program, the Budget includes a new user charge to those entities participating in the program.

Department of Homeland Security

Transportation Security Administration (TSA): Aviation passenger security fee increase. Since its establishment in 2001, under the Aviation and Transportation Security Act, the aviation passenger security fee has been limited to $2.50 per passenger enplanement with a maximum fee of $5.00 per one-way trip. However, the cost of providing security has increased substantially since 2001. The Administration proposes to give TSA the ability to use its regulatory authority to review and adjust the fee as necessary. Under the proposal, TSA would increase the fee by $1.50 in 2012, an additional $0.50 in 2013, and an additional $1.00 in 2014 to a maximum of $5.50 per enplanement and $11.00 per one-way trip in 2014 and thereafter. This adjustment will fulfill the original intent of the Aviation and Transportation Security Act by better align-

ing the cost of aviation security services with the fee paid by those individuals who directly benefit from the service. With the proposed adjustments to the aviation passenger security fee, total aviation security fees (which include an air carrier fee) would generate revenue sufficient to fund 80 percent of the discretionary costs of the TSA's Aviation Security Program in 2014, compared to approximately 41 percent currently.

Department of the Interior

Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE): Outer Continental Shelf (OCS) oil and gas lease inspection fee. The Budget includes appropriations language to increase OCS inspection fees on oil and gas facilities that are subject to inspection by BOEMRE. The fees would be based on the frequency and complexity of certain categories of inspections and new fees would be charged for drilling rigs, which are now subject to enhanced oversight based on lessons learned in the aftermath of the BP Deepwater Horizon oil spill. The overall cost of maintaining and overseeing the OCS inspection program has increased due to the need for greater oversight of industry operations. In addition, inspection costs rise as companies extend oil and gas exploration and production efforts into deeper waters; additional miles must be flown, aircraft requirements increase, and the time for travel and inspection increases as facilities become increasingly complex. The proposed fees will generate approximately $65 million in 2012, up from $10 million in 2010, thereby requiring OCS energy developers, rather than taxpayers, to cover roughly the full cost of compliance inspections.

Bureau of Land Management (BLM): Public lands oil and gas lease inspection fee. The Budget includes appropriations language to charge inspection fees to oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends more than $40 million on managing the compliance inspection program. Inspection costs include, among other things, the salaries and travel expenses of inspectors. The proposed fee will generate approximately $38 million in 2011, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

Department of State

Western Hemisphere Travel Initiative surcharge extension. The Administration proposes to extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge for one year, through September 30, 2012. The surcharge was initially enacted by the Passport Services Enhancement Act of 2005 (P.L. 109–167) to cover the Department's costs of meeting increased demand for passports, which resulted from the implementation of the Western Hemisphere Travel Initiative.

Border Crossing Card fee increase. The Budget includes a proposal to increase certain Border Crossing Card (BCC) fees. The proposal would allow the fee charged for BCC minor applicants to be set administratively rather than statutorily. Administrative fee setting will allow the fee charged BCC applicants to better reflect the associated cost of service, similar to other fees charged for consular services. The proposal would set the BCC fee for minors to be equal to one half the fee for adults by amending current law, which sets the fee at $13. Annual BCC fee collections are projected to increase by $17 million (from $4 million to $21 million) per year beginning in 2012 as a result of this change.

Department of Transportation

Federal Railroad Administration (FRA): Railroad safety inspection fee. The FRA establishes and enforces safety standards for U.S. railroads. FRA's rail safety inspectors work in the field and oversee railroads' operating and management practices. The Administration is proposing that, starting in 2012, the railroads cover the cost of FRA's field inspections because railroads benefit directly from Government efforts to maintain high safety standards. The proposed fee would be similar to existing user charges collected from other industries regulated by Federal safety programs.

Commodity Futures Trading Commission (CFTC)

CFTC fee: The Budget includes a proposal to partially fund the CFTC with fees from the entities it regulates beginning in 2012. This will make CFTC funding more consistent with the funding mechanisms in place for all of the other Federal financial regulators. Under the proposal, fee collections for non-enforcement agency activities are estimated to equal to $117 million in 2012.

Environmental Protection Agency (EPA)

Energy Star product fees. The Administration proposes to start collecting user fees from product manufacturers who seek to label their products under EPA's Energy Star program. Since 1992, the Energy Star label has served as an indicator of energy efficiency, helping consumers and businesses select qualifying products and, increasingly, Energy Star products have qualified for special rebates, tax exemptions or credits, and procurement preferences. Fee collection would start in 2013 after EPA undertakes a rulemaking process to determine products to be covered by fees and the level of fees, and to ensure that a fee system would not discourage manufacturers from participating in the program or result in a loss of environmental benefits.

2. Offsetting receipts

Department of Energy

Environmental cleanup fee. The Budget includes a proposal to reauthorize the special assessment on domestic utilities for deposit into the Uranium Enrichment Decontamination and Decommissioning Fund. This authorizing legislation would direct that receipts resulting

from the reinstatement of the assessment be deposited into the Fund and available for expenditure only to the extent and in such amounts as provided in advance in appropriations acts. The necessary appropriations language to trigger the collection and spending of the receipts is not currently being proposed and will only be transmitted to the Congress upon enactment of the proposed authorizing legislation. The amount collected from industry for a fiscal year would total no more than $200 million in the first year and the $200 million cap would be adjusted annually by the Consumer Price Index for all-urban consumers. 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 cleanup fee, are required due to higher-than-expected cleanup costs.

Strategic Petroleum Reserve oil sale. The Budget includes a proposal to sell $500 million worth of oil from the Strategic Petroleum Reserve (SPR). The 727 million barrel (MB) SPR currently holds 726.6 MB. Sale of a small amount of oil will provide the Department of Energy (DOE) with operational flexibility in managing the Reserve.

Department of Homeland Security

Lift Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) country exemptions. Under COBRA, as amended, each air passenger arriving in the United States is charged a $5.50 fee if his or her flight originated from a place outside of the United States other than Canada, Mexico, or the Caribbean. The Budget includes a proposal to lift the exemption for passengers flying from these countries so that the fee will be applied to all international air passengers. Eliminating COBRA country exemptions will bring collections more into line with the cost of conducting air passenger inspections.

Department of Transportation

Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline construction and special permits fees. The Administration proposes to collect new fees from companies engaged in the design, permitting, and construction of new pipeline projects, and from companies and individuals seeking waivers of pipeline safety regulations. The fees will offset some of the costs incurred by the PHMSA in the review of new construction projects and the processing of applications for special permits. Fee collection would start in 2012 after PHMSA undertakes a rulemaking to determine an appropriate and fair fee amount.

PHMSA: Hazardous materials special permits and approvals fees. The Administration proposes to collect new fees from companies and individuals involved in the transport of hazardous materials who seek waivers from the Hazardous Materials Regulations. The fees will offset some of the PHMSA's costs associated with the special permit and approvals processes.

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Agriculture

Biobased labeling fee. In 2011, USDA will begin authorizing the use of a label for biobased products that producers can use in advertising their products. To ensure the integrity of the label, the Budget provides USDA the flexibility to collect a $500 fee from producers who use the label. This fee, which will begin to be collected once authorizing legislation is enacted, has been given broad support by potential users who commented on the label's proposed rule, which was issued in May 2010.

Department of Labor

Pension Benefit Guaranty Corporation (PBGC): Premium increases. The Deficit Reduction Act of 2005 and the Pension Protection Act of 2006 made significant structural changes to the Nation's pension and pension insurance systems, but did not address fully the long-term financial challenges facing PBGC. Further reforms are needed to address the current $23 billion gap between PBGC's liabilities and assets. The Administration proposes to give PBGC's Board the authority to adjust the premiums companies pay and directs PBGC to account for the risk plans pose to PBGC. Better aligning risk with premium levels will encourage high-risk companies to fully fund their employees' promised pension benefits, while also improving the solvency of PBGC. In order to ensure that these reforms are phased in responsibly during challenging economic times, the Budget calls for giving the PBGC Board premium setting authority beginning in 2014.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and licensing user charges. Through a variety of activities, including slaughter and processing plant inspections, FSIS ensures that meat, poultry and egg products are safe, wholesome, and correctly labeled and packaged. The Budget includes a proposal for two new user charges, a performance fee and a licensing fee. The performance fee would be charged to those facilities that have product recalls, are linked to an outbreak of food-borne illness, or require re-sampling and retesting because of positive samples. This fee would be charged each time one of these incidents occurs. The licensing fee is a flat fee for facility applications and renewal activities. This fee is graduated based on the size of the facility.

Grain Inspection, Packers, and Stockyards Administration (GIPSA): User charges. The Administration proposes to establish a fee to cover the cost associated with GIPSA's standardization activities and a licensing fee to cover the cost associated with administering meat packers and stockyards activities.

Animal and Plant Health Inspection Service (APHIS): Inspection and licensing user charges. The Administration

proposes to establish user charges for: (1) animal welfare inspections for animal research facilities, carriers, and in-transit handlers of animals, (2) licenses for individuals or companies who seek to market a veterinary biologic, and (3) reviews and inspections that may allow APHIS to issue permits that acknowledge that regulated entities are providing sufficient safeguards in the testing of biotechnologically derived products.

Natural Resource Conservation Service (NRCS): User charges. NRCS assists farmers and ranchers in developing and implementing plans to protect, conserve, and enhance natural resources (soil, water, air, plants, and wildlife habitat). The Budget includes a proposal to begin charging for general conservation planning services.

Department of the Interior

BOEMRE and BLM: Fee on non-producing Federal oil and gas leases. The Budget includes a proposal that is part of a broader Administration initiative to encourage energy development on lands already leased for development. A new $4 per acre fee on non-producing Federal leases on Federal lands and waters would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be re-leased to and developed by new parties. The proposed $4 per acre fee would apply to all new leases and would be indexed annually. In October 2008, the Government Accountability Office (GAO) issued a report critical of past efforts by the Department of the Interior to ensure that companies diligently develop their Federal leases. Although the GAO report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other non-producing fee proposals considered by the Congress in the last several years.

BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds. Beginning in 2013, the Administration proposes to repeal a provision of the Energy Policy Act that prohibits BLM from charging fees for its services. The Budget proposal would permit BLM to charge a fee for oil and gas permit processing, consistent with recent appropriations provisions, generating offsetting collections that would permit a corresponding reduction in BLM's discretionary funding. In 2012, the Administration proposes to continue the oil and gas permit processing fees imposed by appropriations language, which overrides the Energy Policy Act fee prohibition.

BLM: Reform of Hardrock Mineral Production on Federal Lands. The Administration proposes to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be retained by the Treasury. Existing mining claims would be exempt from the change to the leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872.

Department of Labor (DOL)

Employment and Training Administration: Foreign labor certification fee. Under the Immigration and Nationality Act, employers seeking to hire foreign workers must certify that qualified U.S. workers are not available for the job being offered to a foreign worker and that such hiring would not affect adversely the wages or working conditions of similarly employed U.S. workers. DOL must approve the certification. The Administration proposes to establish a cost-based user fee to be paid by employers requesting permanent labor certifications and H–2B temporary visas for non-agricultural temporary workers. In addition, the Administration proposes to have the fees currently collected for H–2A temporary agricultural visas credited to a DOL account rather than to the general fund of the Treasury.

Environmental Protection Agency (EPA)

Pesticide user charges. All pesticides marketed in the United States must be registered with EPA. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their registrations. The Administration proposes to better cover the costs of EPA's pesticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs. In addition, although the Federal Food, Drug, and Cosmetic Act requires EPA to collect fees for the establishment and reassessment of pesticide tolerances, the collection of these fees has been blocked through 2012 by statute. The Administration proposes to eliminate this prohibition and collect the tolerance fee beginning in 2012.

Premanufacture notice user charges. EPA presently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Administration proposes to lift the cap so that EPA can recover a greater portion of the program cost.

Hazardous waste electronic manifest system. The Resource Conservation and Recovery Act (RCRA) requires transporters of hazardous waste to document information on the waste's generator, destination, quantity, and route. Currently, the tracking system relies on paper copies that are not frequently digitized for data analysis or quality control. The Budget includes a proposal to collect fees from users of a new electronic manifesting system beginning in 2014. Use of electronic records will allow EPA to more efficiently monitor and analyze future waste shipments. Full implementation of the electronic system may reduce industry reporting costs under RCRA by $200 million to $400 million annually.

Federal Communications Commission (FCC)

Wireless Innovation and Infrastructure Initiative. The President's spectrum initiative proposes to reallocate up to 500 megahertz of Federal agency and commercial spectrum bands over the next 10 years in order to increase Americans' access to wireless broadband. To this end, the Administration proposes extending FCC auction authority and providing authority to hold incentive auctions, where current license holders may participate in an auction and receive a share of proceeds. Also, the Administration would provide enhanced flexibility, through the Spectrum Relocation Fund, to help agencies repurpose and relocate from spectrum. Finally, the initiative would allow spectrum licenses for predominantly domestic satellite services to be assigned via competitive bidding, as they had been prior to a 2005 court decision. In total, the initiative is expected to raise more than $27 billion by 2021.

Spectrum license fee authority. To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set user charges on unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees.

C. User Charge Proposals that are Governmental Receipts

Department of the Interior

Migratory bird hunting and conservation stamp fees. Federal Migratory Bird Hunting and Conservation Stamps, known as "duck stamps," are required for hunting migratory waterfowl. Proceeds from the sale of the stamps are available without further appropriation to acquire important migratory bird breeding areas, migration resting places, and wintering areas.[8] The land and water interests acquired with the duck stamp proceeds establish or supplement existing National Wildlife Refuges. If the price of the duck stamp had been indexed to inflation since 1991, when it was last increased, it would cost $23 today. The Budget includes a proposal to increase the duck stamp price to $25 in 2012.

Corps of Engineers—Civil Works

Reform inland waterways funding. The Administration will work with the Congress to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. 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 of the other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

[8] By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.

Table 16–5. OFFSETTING RECEIPTS BY TYPE

(In millions of dollars)

	Actual 2010	Estimate					
		2011	2012	2013	2014	2015	2016
I. INTRAGOVERNMENTAL RECEIPTS							
A. On Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Contributions to social insurance and employee retirement programs							
Military retirement fund	58,619	61,404	63,708	66,096	68,574	71,146	73,813
Supplementary medical insurance	213,710	221,291	229,948	255,456	274,641	294,648	323,568
Proposed Legislation (Non-PAYGO)	....	....	–417	–472	–576	–693	–747
Hospital insurance	13,946	15,818	16,499	19,197	22,823	26,144	28,833
Railroad social security equivalent benefit fund	153	151	160	190	222	242	260
Civilian supplementary retirement contributions	33,567	34,162	33,878	34,611	35,414	36,020	37,027
Unemployment insurance	76,620	54,911	23,402	1,148	1,087	1,053	1,033
Other contributions	848	859	795	783	773	766	761
Rail industry pension fund	314	537	374	335	355	365	374
Subtotal, Contributions to insurance programs	397,777	389,133	368,347	377,344	403,313	429,691	464,922
Other miscellaneous transactions							
Miscellaneous payments	22,317	1,729	1,643	1,593	1,593	1,605	1,635
Other	90	130	150	150	150	150	150
Subtotal, Other miscellaneous transactions	22,407	1,859	1,793	1,743	1,743	1,755	1,785
Subtotal, Distributed by Agency	420,184	390,992	370,140	379,087	405,056	431,446	466,707
ii. Undistributed by Agency							
Employer share, employee retirement (on-budget)							
Civil service retirement and disablity insurance	18,894	18,739	19,161	19,263	19,555	20,158	20,911
Hospital insurance (contribution as employer)	3,292	3,387	3,361	3,436	3,543	3,692	3,879
Military retirement fund	24,893	25,965	27,503	26,794	27,519	27,879	28,072
Other Federal employee retirement	277	275	278	288	297	307	315
Postal Service contributions to Federal Health Benefits	750	646	626	644	673	706	740
Civil Service Retirement and Disability Insurance from Postal Service	2,899	3,707	3,800	3,867	3,987	4,183	4,369
Subtotal, Employer share, employee retirement (on-budget)	51,005	52,719	54,729	54,292	55,574	56,925	58,286
Other miscellaneous transactions							
Interest received by on-budget trust funds	67,268	64,407	67,266	70,140	73,887	82,184	88,396
Proposed Legislation (Non-PAYGO)	....	–66	–403	–1,176	–2,424	–3,998	–5,879
Subtotal, Other miscellaneous transactions	67,268	64,341	66,863	68,964	71,463	78,186	82,517
Subtotal, Undistributed by Agency	118,273	117,060	121,592	123,256	127,037	135,111	140,803
Subtotal, Federal Fund Payments to Trust Funds	538,457	508,052	491,732	502,343	532,093	566,557	607,510
b. Trust fund Payments to Federal Funds							
i. Distributed by Agency							
Personnel benefits							
Quinquennial adjustment of military service credits	....	116	....	....	....	....	....
Subtotal, Personnel benefits	....	116	....	....	....	....	....
Other miscellaneous transactions							
Other	2,003	2,715	2,993	3,211	3,446	3,616	3,618
Subtotal, Other miscellaneous transactions	2,003	2,715	2,993	3,211	3,446	3,616	3,618
Subtotal, Distributed by Agency	2,003	2,831	2,993	3,211	3,446	3,616	3,618
Subtotal, Trust fund Payments to Federal Funds	2,003	2,831	2,993	3,211	3,446	3,616	3,618
Subtotal, Interfund Receipts	540,460	510,883	494,725	505,554	535,539	570,173	611,128
2. Federal Intrafund Receipts							

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued
(In millions of dollars)

	Actual 2010	Estimate					
		2011	2012	2013	2014	2015	2016
a. Distributed by Agency							
General fund payments to retirement and health benefits funds							
DOD retiree health care fund	15,120	15,563	17,181	17,315	18,327	19,628	20,528
Proposed Legislation (Non-PAYGO)	....	....	....	–562	–583	–605	–628
Proposed Legislation (PAYGO)	....	....	....	–29	–78	–113	–169
Employees health benefits fund	5,500	5,500	5,600	5,600	5,700	5,700	5,800
Proposed Legislation (PAYGO)	....	–4,607	–444	–324	–277	–127	29
Miscellaneous Federal retirement funds	519	495	493	476	476	483	469
Subtotal, General fund payments to retirement and health benefits funds	21,139	16,951	22,830	22,476	23,565	24,966	26,029
Interest							
Interest on Government capital in enterprises	674	527	864	1,073	1,703	1,740	1,874
Interest from the Federal Financing Bank	990	1,237	2,479	3,231	4,094	5,153	5,335
Interest received by retirement and health benefits funds	47	100	110	121	131	142	151
Subtotal, Interest	1,711	1,864	3,453	4,425	5,928	7,035	7,360
Other miscellaneous transactions							
Other	4,161	6,338	4,258	4,872	5,436	6,026	6,907
Proposed Legislation (PAYGO)	....	....	–47	–186	–202	–220	–148
Subtotal, Other miscellaneous transactions	4,161	6,338	4,211	4,686	5,234	5,806	6,759
Subtotal, Distributed by Agency	27,011	25,153	30,494	31,587	34,727	37,807	40,148
b. Undistributed by Agency							
Employing agency contributions							
DOD retiree health care fund	11,095	11,316	11,033	12,188	12,927	13,638	14,272
Proposed Legislation (Non-PAYGO)	....	....	117	–759	–805	–850	–889
Employees health benefits	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	3,042	3,173	3,368	3,560	3,760	3,970
Subtotal, Employing agency contributions	11,095	14,358	14,323	14,797	15,682	16,548	17,353
Subtotal, Undistributed by Agency	11,095	14,358	14,323	14,797	15,682	16,548	17,353
Subtotal, Federal Intrafund Receipts	38,106	39,511	44,817	46,384	50,409	54,355	57,501
3. Trust Intrafund Receipts							
a. Distributed by Agency							
Personnel benefits							
Payment to railroad retirement (from off-budget)	6,381	6,468	6,451	6,506	6,585	6,663	6,851
Subtotal, Personnel benefits	6,381	6,468	6,451	6,506	6,585	6,663	6,851
Other miscellaneous transactions							
Other	1	1	1	53	108	117	128
Subtotal, Other miscellaneous transactions	1	1	1	53	108	117	128
Subtotal, Distributed by Agency	6,382	6,469	6,452	6,559	6,693	6,780	6,979
Subtotal, Trust Intrafund Receipts	6,382	6,469	6,452	6,559	6,693	6,780	6,979
Subtotal, On Budget	584,948	556,863	545,994	558,497	592,641	631,308	675,608
B. Off Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Personnel benefits							
Old-age, survivors and disablitity, insurance	22,843	102,459	55,047	29,315	34,738	38,747	42,585
Subtotal, Personnel benefits	22,843	102,459	55,047	29,315	34,738	38,747	42,585
Subtotal, Distributed by Agency	22,843	102,459	55,047	29,315	34,738	38,747	42,585
ii. Undistributed by Agency							
Personnel benefits							
Employer share, employee retirement (off-budget)	14,936	15,138	15,205	15,821	16,518	17,389	18,447

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate					
		2011	2012	2013	2014	2015	2016
Subtotal, Personnel benefits	14,936	15,138	15,205	15,821	16,518	17,389	18,447
Other miscellaneous transactions							
Interest received by off-budget trust funds	118,502	115,739	113,340	113,180	115,548	119,514	124,799
Subtotal, Other miscellaneous transactions	118,502	115,739	113,340	113,180	115,548	119,514	124,799
Subtotal, Undistributed by Agency	133,438	130,877	128,545	129,001	132,066	136,903	143,246
Subtotal, Federal Fund Payments to Trust Funds	156,281	233,336	183,592	158,316	166,804	175,650	185,831
Subtotal, Interfund Receipts	156,281	233,336	183,592	158,316	166,804	175,650	185,831
Subtotal, Off Budget	156,281	233,336	183,592	158,316	166,804	175,650	185,831
SUBTOTAL, INTRAGOVERNMENTAL RECEIPTS	**741,229**	**790,199**	**729,586**	**716,813**	**759,445**	**806,958**	**861,439**
II. RECEIPTS FROM NON-FEDERAL SOURCES							
A. On Budget							
1. Proprietary Receipts							
a. Federal Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Nuclear waste displosal revenues	754	774	778	781	783	785	790
Other	4,402	4,451	4,690	4,945	4,944	4,932	5,006
Proposed Legislation (Non-PAYGO)	....	....	....	33	33	33	33
Proposed Legislation (PAYGO)	....	....	82	100	107	114	117
Subtotal, Fees and other charges for services and special benefits	5,156	5,225	5,550	5,859	5,867	5,864	5,946
Interest							
Interest on foreign loans and deferred foreign collections	23	23	23	23	23	23	23
Interest on deposits and loan accounts	....	....	163	637	1,048	1,165	1,189
Other interest	33,568	61,709	63,437	65,058	68,531	71,429	73,781
Dividends and other earnings	12,142	17,492	21,040	23,240	16,738	14,365	10,610
Subtotal, Interest	45,733	79,224	84,663	88,958	86,340	86,982	85,603
Realization upon loans and investments							
Negative subsidies and downward reestimates	161,849	101,086	23,284	20,458	15,219	11,085	7,678
Proposed Legislation (PAYGO)	....	....	3,955	4,764	4,194	3,915	3,727
Other	53	62	63	64	65	66	66
Subtotal, Realization upon loans and investments	161,902	101,148	27,302	25,286	19,478	15,066	11,471
Sale of Government property							
Sale of land and other real property	130	171	198	180	185	183	185
Proposed Legislation (PAYGO)	....	....	5	10	20	30	30
Other sales of Government property	71	118	98	49	21	8	1
Subtotal, Sale of Government property	201	289	301	239	226	221	216
Sale of products							
Sale of timber and other natural land products	216	170	169	169	172	173	176
Sale of minerals and mineral products	67	202	527	26	26	27	27
Proposed Legislation (PAYGO)	....	....	....	7	5	6	6
Sale of power and other utilities	764	623	671	763	758	686	649
Other	118	128	131	117	130	134	119
Subtotal, Sale of products	1,165	1,123	1,498	1,082	1,091	1,026	977
Other miscellaneous transactions							
Royalties and rents	3,799	4,059	4,451	4,607	4,768	4,886	4,899
Proposed Legislation (PAYGO)	....	....	–50	–43	–45	6	7
Recoveries and refunds	5,210	5,179	5,137	5,285	5,451	5,617	5,738
Proposed Legislation (PAYGO)	....	....	....	2	–37	–66	–76
Gifts and contributions	6	6	6	6	6	6	6
Miscellaneous receipt accounts	3,226	1,820	2,179	2,320	2,366	2,422	2,482

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate 2011	2012	2013	2014	2015	2016
Proposed Legislation (PAYGO)	....	....	22	22	22	22	22
Subtotal, Other miscellaneous transactions	12,241	11,064	11,745	12,199	12,531	12,893	13,078
Subtotal, Distributed by Agency	226,398	198,073	131,059	133,623	125,533	122,052	117,291
ii. Undistributed by Agency							
Outer Continental Shelf							
Outer Continental Shelf rents and bonuses	1,073	150	1,297	675	496	562	527
Proposed Legislation (PAYGO)	....	....	25	39	59	75	90
Outer Continental Shelf royalties	3,810	5,073	5,971	6,548	7,487	7,982	8,475
Proposed Legislation (PAYGO)	....	....	50	50	50	....	....
Subtotal, Outer Continental Shelf	4,883	5,223	7,343	7,312	8,092	8,619	9,092
Other miscellaneous transactions							
Sale of major assets	....	....	....	58	62	3,011	2,400
Other undistributed offsetting receipts	....	2,017	4,035	4,035	4,035	4,035	2,017
Subtotal, Other miscellaneous transactions	....	2,017	4,035	4,093	4,097	7,046	4,417
Subtotal, Undistributed by Agency	4,883	7,240	11,378	11,405	12,189	15,665	13,509
Subtotal, Federal Fund Reciepts	231,281	205,313	142,437	145,028	137,722	137,717	130,800
b. Trust Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Medicare premiums and other charges	60,814	62,930	68,750	75,023	81,598	88,488	95,793
Proposed Legislation (PAYGO)	....	....	–60	–73	–80	–100	–140
Veterans life insurance (trust funds)	108	95	84	72	62	54	44
Other	5,415	7,703	14,692	18,844	20,678	22,534	23,174
Proposed Legislation (PAYGO)	....	....	–74	–74	–81	–88	–91
Subtotal, Fees and other charges for services and special benefits	66,337	70,728	83,392	93,792	102,177	110,888	118,780
Interest							
Other interest	449	1,695	2,292	2,480	2,620	2,688	2,609
Proposed Legislation (PAYGO)	....	–1,220	–1,830	–510	....	....	....
Dividends and other earnings	1,995	411	259	288	302	305	300
Subtotal, Interest	2,444	886	721	2,258	2,922	2,993	2,909
Realization upon loans and investments							
Negative subsidies and downward reestimates	5	15	....	....	....	....	....
Other	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	6	16	1	1	1	1	1
Sale of Government property							
Military assistance program sales (trust funds)	24,011	28,023	27,743	27,188	26,644	25,312	23,413
Subtotal, Sale of Government property	24,011	28,023	27,743	27,188	26,644	25,312	23,413
Other miscellaneous transactions							
Recoveries and refunds	9,275	10,171	10,412	10,569	10,712	10,811	10,909
Proposed Legislation (Non-PAYGO)	....	....	....	84	171	174	176
Proposed Legislation (PAYGO)	....	....	....	51	78	75	71
Gifts and contributions	380	238	230	234	221	221	221
Miscellaneous receipt accounts	115	118	122	127	133	140	147
Subtotal, Other miscellaneous transactions	9,770	10,527	10,764	11,065	11,315	11,421	11,524
Subtotal, Distributed by Agency	102,568	110,180	122,621	134,304	143,059	150,615	156,627
Subtotal, Trust Fund Receipts	102,568	110,180	122,621	134,304	143,059	150,615	156,627
Subtotal, Proprietary Receipts	333,849	315,493	265,058	279,332	280,781	288,332	287,427
2. Offsetting Governmental Receipts							
a. Federal Fund Receipts							
i. Distributed by Agency							
Other miscellaneous transactions							

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate					
		2011	2012	2013	2014	2015	2016
Regulatory Fees	6,986	7,065	7,193	7,242	7,299	7,370	7,468
Proposed Legislation (PAYGO)	....	....	44	44	50	48	47
Other	137	134	141	142	142	142	143
Subtotal, Other miscellaneous transactions	7,123	7,199	7,378	7,428	7,491	7,560	7,658
Subtotal, Distributed by Agency	7,123	7,199	7,378	7,428	7,491	7,560	7,658
ii. Undistributed by Agency							
Other miscellaneous transactions							
Spectrum auction proceeds	197	150	5,050	800	....	....	....
Proposed Legislation (PAYGO)	....	50	–1,050	6,320	8,665	6,980	3,010
Subtotal, Other miscellaneous transactions	197	200	4,000	7,120	8,665	6,980	3,010
Subtotal, Undistributed by Agency	197	200	4,000	7,120	8,665	6,980	3,010
Subtotal, Federal Fund Receipts	7,320	7,399	11,378	14,548	16,156	14,540	10,668
b. Trust Fund Receipts							
i. Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	3	7	7	7	7	7	7
Subtotal, Other miscellaneous transactions	3	7	7	7	7	7	7
Subtotal, Distributed by Agency	3	7	7	7	7	7	7
Subtotal, Trust Fund Receipts	3	7	7	7	7	7	7
Subtotal, Offsetting Governmental Receipts	7,323	7,406	11,385	14,555	16,163	14,547	10,675
Subtotal, On Budget	341,172	322,899	276,443	293,887	296,944	302,879	298,102
B. Off Budget							
1. Proprietary Receipts							
a. Trust Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Other	30	31	31	31	31	31	32
Subtotal, Fees and other charges for services and special benefits	30	31	31	31	31	31	32
Other miscellaneous transactions							
Recoveries and refunds	63	63	63	63	63	63	63
Subtotal, Other miscellaneous transactions	63	63	63	63	63	63	63
Subtotal, Distributed by Agency	93	94	94	94	94	94	95
Subtotal, Trust Fund Receipts	93	94	94	94	94	94	95
Subtotal, Proprietary Receipts	93	94	94	94	94	94	95
Subtotal, Off Budget	93	94	94	94	94	94	95
SUBTOTAL, RECEIPTS FROM NON-FEDERAL SOURCES	**341,265**	**322,993**	**276,537**	**293,981**	**297,038**	**302,973**	**298,197**
GRAND TOTAL OFFSETTING RECEIPTS	**1,082,494**	**1,113,192**	**1,006,123**	**1,010,794**	**1,056,483**	**1,109,931**	**1,159,636**

17. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires that a list of "tax expenditures" be included in the budget. Tax expenditures are defined in the law as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability." These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends importantly on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2010–2016 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of September 30, 2010. The estimates reflect 2010 Budget Midsession Review economic assumptions. Legislation enacted in 2011 is not reflected in these estimates. On December 17, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 not only extended many tax expenditure provisions, but also changed income tax rates for the years 2011-12 affecting the estimates of many tax expenditures. Given the late passage of this legislation, revised estimates will be released in the spring of 2011 to reflect tax law enacted as of December 31, 2010.

The total revenue effects for tax expenditures for fiscal years 2010–2016 are displayed according to the Budget's functional categories in Table 17–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 17–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 17–3 ranks the major tax expenditures by the size of their 2012–2016 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 17–1 and 17–2, as well as to the descriptions below.

In the 2005 *Analytical Perspectives*, the treatment of capital gains was changed to exclude the portion of capital gains derived from corporate equity from the estimate of the tax expenditure for preferential tax rates on capital gains. In addition, the preferential rates on qualified dividend income that were enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 were not identified as a tax expenditure. In this volume, the estimates reflect the pre-2005 methodology where no in-

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

teraction effects among the various taxes are taken into account. For example, preferences under the personal income tax are evaluated in isolation of additional taxes that may apply under the corporate tax, the payroll tax, the estate tax, and excise taxes. The preferential rate on qualified dividends is identified as a tax expenditure.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 17–1, 17–2, and 17–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 17–1 are the totals of individual and corporate income tax revenue effects reported in Table 17–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 17–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 17–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 17–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments that follow from activities undertaken during calendar year 2010 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2010 would cause a deferral of tax payments on wages in 2010 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2010 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances, and reduce tax liability below the level implied by the baseline tax system.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serve programmatic functions in a way that is analogous to spending programs. Provisions under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Ac-

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
National Defense								
1 Exclusion of benefits and allowances to armed forces personnel	12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
International affairs:								
2 Exclusion of income earned abroad by U.S. citizens	6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3 Exclusion of certain allowances for Federal employees abroad	970	1,020	1,070	1,120	1,180	1,240	1,300	5,910
4 Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770
5 Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840
6 Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0
General science, space, and technology:								
7 Expensing of research and experimentation expenditures (normal tax method)	3,560	4,610	5,770	6,730	6,970	7,760	7,850	35,080
8 Credit for increasing research activities	5,890	3,850	3,080	2,460	1,960	1,570	1,250	10,320
Energy:								
9 Expensing of exploration and development costs, fuels	400	520	700	540	400	340	320	2,300
10 Excess of percentage over cost depletion, fuels	980	1,070	1,120	1,150	1,170	1,180	1,200	5,820
11 Alternative fuel production credit	170	170	120	90	60	20	0	290
12 Exception from passive loss limitation for working interests in oil and gas properties	30	40	30	30	30	30	30	150
13 Capital gains treatment of royalties on coal	50	50	50	60	60	80	90	340
14 Exclusion of interest on energy facility bonds	20	30	30	30	30	40	40	170
15 Energy production credit [1]	1,540	1,620	1,740	1,900	1,950	1,890	1,770	9,250
16 Energy investment credit [1]	130	170	960	1,690	1,030	480	490	4,650
17 Alcohol fuel credits [2]	70	90	130	110	50	30	10	330
18 Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0
19 Tax credit and deduction for clean-fuel burning vehicles	250	260	140	170	230	390	660	1,590
20 Exclusion of utility conservation subsidies	220	220	220	220	210	210	210	1,070
21 Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520
23 Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1,110	–950	–1,700
25 Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430
26 Amortize all geological and geophysical expenditures over 2 years	150	110	90	60	40	30	30	250
27 Allowance of deduction for certain energy efficient commercial building property	60	80	90	100	70	30	10	300
28 Credit for construction of new energy efficient homes	20	20	20	0	0	0	0	20
29 Credit for energy efficiency improvements to existing homes	3,190	5,530	2,270	0	0	0	0	2,270
30 Credit for energy efficient appliances	150	60	0	0	0	0	0	0
31 Credit for residential energy efficient property	220	220	220	230	230	230	240	1,150
32 Qualified energy conservation bonds [5]	0	10	20	30	30	30	30	140
33 Advanced Energy Property Credit	180	600	900	460	–10	–90	–80	1,180
Natural resources and environment:								
34 Expensing of exploration and development costs, nonfuel minerals	110	110	130	140	140	150	150	710
35 Excess of percentage over cost depletion, nonfuel minerals	770	790	770	740	750	770	780	3,810
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	460	460	550	650	710	750	790	3,450
37 Capital gains treatment of certain timber income	50	50	50	60	60	80	90	340
38 Expensing of multiperiod timber growing costs	230	290	290	300	310	330	310	1,540
39 Tax incentives for preservation of historic structures	390	390	400	410	420	430	430	2,090
40 Exclusion of gain or loss on sale or exchange of certain brownfield sites	70	60	40	30	10	0	0	80
41 Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450
42 Deduction for endangered species recovery expenditures	20	30	30	30	50	50	60	220
Agriculture:								
43 Expensing of certain capital outlays	70	80	100	110	130	130	140	610
44 Expensing of certain multiperiod production costs	140	150	150	170	180	180	180	860
45 Treatment of loans forgiven for solvent farmers	20	20	20	20	20	20	20	100
46 Capital gains treatment of certain income	490	500	520	580	630	780	930	3,440

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
47	Income averaging for farmers	90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
49	Expensing of reforestation expenditures	50	70	80	80	80	90	90	420
	Commerce and housing:								
	Financial institutions and insurance:								
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920
51	Exclusion of interest on life insurance savings	19,910	21,210	22,660	24,220	25,830	27,380	28,970	129,060
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070
54	Small life insurance company deduction	30	30	30	30	30	30	30	150
55	Exclusion of interest spread of financial institutions	–170	300	550	630	700	760	810	3,450
	Housing:								
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
57	Exclusion of interest on rental housing bonds	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
58	Deductibility of mortgage interest on owner-occupied homes	79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales	620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales	22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income	41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss	8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,650	5,990	6,290	7,130	7,430	7,580	7,640	36,070
65	Accelerated depreciation on rental housing (normal tax method)	–1,490	–1,670	–1,580	–1,370	–1,100	–890	–700	–5,640
66	Discharge of mortgage indebtedness	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer	13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:								
68	Cancellation of indebtedness	750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Treatment of qualified dividends	31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)	36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock	50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death	39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts	1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–11,130	–13,010	–13,750	–14,380	–14,970	–15,530	–15,840	–74,470
77	Accelerated depreciation of machinery and equipment (normal tax method)	39,790	17,540	24,450	44,290	58,250	68,740	73,950	269,680
78	Expensing of certain small investments (normal tax method)	950	6,710	–710	–2,820	–840	150	930	–3,290
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840
80	Exclusion of interest on small issue bonds	330	340	400	470	510	530	560	2,470
81	Deduction for US production activities	13,140	13,800	14,630	15,510	16,410	17,290	18,160	82,000
82	Special rules for certain film and TV production	50	30	30	10	0	0	0	40
	Transportation:								
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
84	Exclusion of reimbursed employee parking expenses	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	50	30	30	10	0	0	0	40
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	250	240	230	210	200	190	1,070
	Community and regional development:								
88	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100
89	Exclusion of interest for airport, dock, and similar bonds	840	870	1,020	1,210	1,310	1,380	1,450	6,370
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600
91	Empowerment zones and renewal communities	730	500	570	620	630	600	520	2,940
92	New markets tax credit	720	800	810	780	740	660	540	3,530
93	Expensing of environmental remediation costs	10	–130	–140	–140	–130	–120	–110	–640

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
94	Credit to holders of Gulf Tax Credit Bonds.	80	80	70	50	50	50	50	270
95	Recovery Zone Bonds [6]								
96	Tribal Economic Development Bonds	10	30	30	30	20	20	10	110
Education, training, employment, and social services:									
	Education:								
97	Exclusion of scholarship and fellowship income (normal tax method)	2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit	0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit	3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit	15,110	14,400	0	0	0	0	0	0
101	Education Individual Retirement Accounts	60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest	1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses	760	0	0	0	0	0	0	0
104	State prepaid tuition plans	1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds	550	560	660	790	860	890	940	4,140
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
107	Credit for holders of zone academy bonds [7]	190	200	200	180	160	130	120	790
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over	2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	3,930	4,520	4,900	5,290	5,660	6,040	6,410	28,300
111	Exclusion of employer-provided educational assistance	680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses	160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	80	210	400	580	650	650	650	2,930
	Training, employment, and social services:								
115	Work opportunity tax credit	1,110	1,020	680	340	160	70	30	1,280
116	Welfare-to-work tax credit	20	10	0	0	0	0	0	0
117	Employer provided child care exclusion	1,220	1,380	1,450	1,570	1,690	1,800	1,900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0
119	Assistance for adopted foster children	460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]	660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)	1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]	23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses	3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
125	Deductibility of charitable contributions, other than education and health	34,080	39,610	43,110	46,570	49,790	53,120	56,340	248,930
126	Exclusion of certain foster care payments	420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances	660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	70	30	10	0	0	0	0	10
129	Exclusion for benefits provided to volunteer EMS and firefighters	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]	38,850	23,460	0	0	0	0	0	0
Health:									
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]	160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13]	5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts	1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses	9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
136	Refundable Premium Assistance Tax Credit [14]	0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]	2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	3,850	4,470	4,870	5,250	5,630	6,000	6,360	28,110
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630
140	Special Blue Cross/Blue Shield deduction	750	715	680	590	530	610	710	3,120
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]	0	0	0	0	0	0	0	0
142	Distributions from retirement plans for premiums for health and long-term care insurance	260	300	330	360	400	440	490	2,020

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
Income security:								
143 Exclusion of railroad retirement system benefits	350	330	310	280	270	260	260	1,380
144 Exclusion of workers' compensation benefits	6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145 Exclusion of public assistance benefits (normal tax method)	640	670	710	750	770	800	830	3,860
146 Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
147 Exclusion of military disability pensions	110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings:								
148 Employer plans	39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149 401(k) plans	52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150 Individual Retirement Accounts	12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151 Low and moderate income savers credit	1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152 Keogh plans	13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
Exclusion of other employee benefits:								
153 Premiums on group term life insurance	1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154 Premiums on accident and disability insurance	330	340	350	360	360	370	370	1,810
155 Income of trusts to finance supplementary unemployment benefits	20	30	40	50	60	70	80	300
156 Special ESOP rules	1,400	1,500	1,600	1,700	1,700	1,800	1,900	8,700
157 Additional deduction for the blind	30	40	40	50	50	50	50	240
158 Additional deduction for the elderly	1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159 Tax credit for the elderly and disabled	10	10	10	10	10	0	0	30
160 Deductibility of casualty losses	260	300	320	330	360	380	410	1,800
161 Earned income tax credit [17]	4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162 Exclusion of unemployment insurance benefits	5,220	0	0	0	0	0	0	0
Social Security:								
Exclusion of social security benefits:								
163 Social Security benefits for retired workers	21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164 Social Security benefits for disabled workers	7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165 Social Security benefits for spouses, dependents and survivors	3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
Veterans benefits and services:								
166 Exclusion of veterans death benefits and disability compensation	4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167 Exclusion of veterans pensions	210	240	300	330	360	380	400	1,770
168 Exclusion of GI bill benefits	450	810	1,010	1,200	1,330	1,440	1,560	6,540
169 Exclusion of interest on veterans housing bonds	20	10	20	30	30	30	30	140
General purpose fiscal assistance:								
170 Exclusion of interest on public purpose State and local bonds	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
171 Build America Bonds [18]	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Interest:								
173 Deferral of interest on U.S. savings bonds	1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650
Addendum: Aid to State and local governments:								
Deductibility of:								
Property taxes on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
Nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Exclusion of interest on State and local bonds for:								
Public purposes	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
Energy facilities	20	30	30	30	30	40	40	170
Water, sewage, and hazardous waste disposal facilities	460	460	550	650	710	750	790	3,450
Small-issues	330	340	400	470	510	530	560	2,470
Owner-occupied mortgage subsidies	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
Rental housing	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
Airports, docks, and similar facilities	840	870	1,020	1,210	1,310	1,380	1,450	6,370
Student loans	550	560	660	790	860	890	940	4,140

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
Private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
Hospital construction	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
Veterans' housing	20	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage	90	90	100	120	130	140	140	690
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.

The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars):
2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:
2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars):
2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $940 and 2011 $410.

[10] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2010 $21,410 and 2011 $20,490.

[12] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
	National Defense																
1	Exclusion of benefits and allowances to armed forces personnel									12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
	International affairs:																
2	Exclusion of income earned abroad by U.S. citizens									6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3	Exclusion of certain allowances for Federal employees abroad									970	1020	1070	1120	1180	1240	1300	5,910
4	Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770								
5	Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840								
6	Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0								
	General science, space, and technology:																
7	Expensing of research and experimentation expenditures (normal tax method)	3220	4250	5390	6330	6550	7310	7380	32,960	340	360	380	400	420	450	470	2,120
8	Credit for increasing research activities	5770	3850	3080	2460	1960	1570	1250	10,320	120	0	0	0	0	0	0	0
	Energy:																
9	Expensing of exploration and development costs, fuels	350	460	610	470	350	300	280	2,010	50	60	90	70	50	40	40	290
10	Excess of percentage over cost depletion, fuels	830	910	950	970	990	1,000	1,020	4,930	150	160	170	180	180	180	180	890
11	Alternative fuel production credit	160	160	110	80	60	20	0	270	10	10	10	10	0	0	0	20
12	Exception from passive loss limitation for working interests in oil and gas properties									30	40	30	30	30	30	30	150
13	Capital gains treatment of royalties on coal									50	50	50	60	60	80	90	340
14	Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
15	Energy production credit [1]	1,370	1,430	1,510	1,620	1,640	1,580	1,460	7,810	170	190	230	280	310	310	310	1,440
16	Energy investment credit [1]	100	120	720	1260	790	390	400	3,560	30	50	240	430	240	90	90	1,090
17	Alcohol fuel credits [2]	60	70	110	80	40	20	10	260	10	20	20	30	10	10	0	70
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	70	40	20	10	20	50	70	170	180	220	120	160	210	340	590	1,420
20	Exclusion of utility conservation subsidies	10	10	10	10	10	10	10	50	210	210	210	210	200	200	200	1,020
21	Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520								
23	Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770								
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1110	–950	–1,700								
25	Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430								
26	Amortize all geological and geophysical expenditures over 2 years	120	90	70	50	30	20	20	190	30	20	20	10	10	10	10	60
27	Allowance of deduction for certain energy efficient commercial building property	50	60	70	80	50	20	10	230	10	20	20	20	20	10	0	70
28	Credit for construction of new energy efficient homes	10	10	10	0	0	0	0	10	10	10	10	0	0	0	0	10
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	3,190	5,530	2,270	0	0	0	0	2,270
30	Credit for energy efficient appliances	150	60	0	0	0	0	0	0								
31	Credit for residential energy efficient property									220	220	220	230	230	230	240	1,150
32	Qualified energy conservation bonds [5]	0	0	10	10	10	10	10	50	0	10	10	20	20	20	20	90
33	Advanced Energy Property Credit	160	540	810	410	–10	–80	–70	1,060	20	60	90	50	0	–10	–10	120

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
	Natural resources and environment:																
34	Expensing of exploration and development costs, nonfuel minerals	110	110	120	130	130	140	140	660	0	0	10	10	10	10	10	50
35	Excess of percentage over cost depletion, nonfuel minerals	720	740	720	690	700	720	730	3,560	50	50	50	50	50	50	50	250
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
37	Capital gains treatment of certain timber income									50	50	50	60	60	80	90	340
38	Expensing of multiperiod timber growing costs	150	180	180	190	200	210	190	970	80	110	110	110	110	120	120	570
39	Tax incentives for preservation of historic structures	300	300	310	310	320	330	330	1,600	90	90	90	100	100	100	100	490
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	50	40	30	20	10	0	0	60	20	20	10	10	0	0	0	20
41	Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450								
42	Deduction for endangered species recovery expenditures	10	20	20	20	30	30	40	140	10	10	10	10	20	20	20	80
	Agriculture:																
43	Expensing of certain capital outlays	0	10	10	10	10	10	10	50	70	70	90	100	120	120	130	560
44	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	130	140	140	160	170	170	170	810
45	Treatment of loans forgiven for solvent farmers									20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income									490	500	520	580	630	780	930	3,440
47	Income averaging for farmers									90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
49	Expensing of reforestation expenditures	10	10	10	10	10	10	10	50	40	60	70	70	70	80	80	370
	Commerce and housing:																
	Financial institutions and insurance:																
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920								
51	Exclusion of interest on life insurance savings	1,500	1,570	1,650	1,740	1,840	1,940	2,050	9,220	18,410	19,640	21,010	22,480	23,990	25,440	26,920	119,840
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200								
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070								
54	Small life insurance company deduction	30	30	30	30	30	30	30	150								
55	Exclusion of interest spread of financial institutions									–170	300	550	630	700	760	810	3,450
	Housing:																
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
57	Exclusion of interest on rental housing bonds	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
58	Deductibility of mortgage interest on owner-occupied homes									79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales									620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales									22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income									41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss									8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,370	5,690	5,980	6,770	7,060	7,200	7,260	34,270	280	300	310	360	370	380	380	1,800
65	Accelerated depreciation on rental housing (normal tax method)	–30	–30	–30	–30	–20	–20	–10	–110	–1,460	–1,640	–1,550	–1,340	–1,080	–870	–690	–5,530

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
66	Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer									13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:																
68	Cancellation of indebtedness									750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70	Treatment of qualified dividends									31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)									36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock									50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death									39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts									1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–2,440	–2,950	–2,980	–3,150	–3,300	–3,450	–3,310	–16,190	–8,690	–10,060	–10,770	–11,230	–11,670	–12,080	–12,530	–58,280
77	Accelerated depreciation of machinery and equipment (normal tax method)	17,140	5,400	5,300	15,730	24,470	30,950	32,990	109,440	22,650	12,140	19,150	28,560	33,780	37,790	40,960	160,240
78	Expensing of certain small investments (normal tax method)	170	960	–270	–620	–300	–130	10	–1,310	780	5,750	–440	–2,200	–540	280	920	–1,980
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840								
80	Exclusion of interest on small issue bonds	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
81	Deduction for US production activities	10010	10510	11140	11810	12500	13170	13830	62,450	3,130	3,290	3,490	3,700	3,910	4,120	4,330	19,550
82	Special rules for certain film and TV production	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
	Transportation:																
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
84	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	60	60	60	50	50	50	270	180	190	180	170	160	150	140	800
	Community and regional development:																
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
89	Exclusion of interest for airport, dock, and similar bonds	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600								
91	Empowerment zones and renewal communities	150	100	120	130	130	120	100	600	580	400	450	490	500	480	420	2,340
92	New markets tax credit	650	720	730	700	660	590	480	3,160	70	80	80	80	80	70	60	370
93	Expensing of environmental remediation costs	10	–110	–120	–120	–110	–100	–90	–540	0	–20	–20	–20	–20	–20	–20	–100
94	Credit to holders of Gulf Tax Credit Bonds.	20	20	20	10	10	10	10	60	60	60	50	40	40	40	40	210
95	Recovery Zone Bonds [6]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
96	Tribal Economic Development Bonds	0	10	10	10	10	10	0	40	10	20	20	20	10	10	10	70
	Education, training, employment, and social services:																
	Education:																
97	Exclusion of scholarship and fellowship income (normal tax method)									2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit									0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit									3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit									15,110	14,400	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
101	Education Individual Retirement Accounts									60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest									1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses									760	0	0	0	0	0	0	0
104	State prepaid tuition plans									1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
106	Exclusion of interest on bonds for private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1580	1710	1930	2210	2480	2660	2810	12,090
107	Credit for holders of zone academy bonds [7]	190	200	200	180	160	130	120	790								
108	Exclusion of interest on savings bonds redeemed to finance educational expenses									20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over									2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	620	650	690	740	790	840	890	3,950	3,310	3,870	4,210	4,550	4,870	5,200	5,520	24,350
111	Exclusion of employer-provided educational assistance									680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses									160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	30	60	110	150	160	160	160	740	50	150	290	430	490	490	490	2,190
	Training, employment, and social services:																
115	Work opportunity tax credit	860	770	550	290	130	60	20	1,050	250	250	130	50	30	10	10	230
116	Welfare-to-work tax credit	10	10	0	0	0	0	0	0	10	0	0	0	0	0	0	0
117	Employer provided child care exclusion									1220	1380	1450	1570	1690	1800	1900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0								0
119	Assistance for adopted foster children									460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]									660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)									1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]									23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses									3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
125	Deductibility of charitable contributions, other than education and health	1,370	1,430	1,510	1,600	1,690	1,770	1860	8,430	32,710	38,180	41,600	44,970	48,100	51,350	54,480	240,500
126	Exclusion of certain foster care payments									420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances									660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	50	20	10	0	0	0	0	10	20	10	0	0	0	0	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0	0	0	0	0	0	0	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]									38,850	23,460	0	0	0	0	0	0
Health:																	
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]									160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13]									5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts									1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses									9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
136	Refundable Premium Assistance Tax Credit [14]									0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]									2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	180	190	200	210	230	240	250	1,130	3,670	4,280	4,670	5,040	5,400	5,760	6,110	26,980
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630								
140	Special Blue Cross/Blue Shield deduction	750	715	680	590	530	610	710	3,120								
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]									0	0	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
142 Distributions from retirement plans for premiums for health and long-term care insurance									260	300	330	360	400	440	490	2,020
Income security:																
143 Exclusion of railroad retirement system benefits									350	330	310	280	270	260	260	1,380
144 Exclusion of workers' compensation benefits									6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145 Exclusion of public assistance benefits (normal tax method)									640	670	710	750	770	800	830	3,860
146 Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
147 Exclusion of military disability pensions									110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings:																
148 Employer plans									39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149 401(k) plans									52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150 Individual Retirement Accounts									12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151 Low and moderate income savers credit									1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152 Keogh plans									13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
Exclusion of other employee benefits:																
153 Premiums on group term life insurance									1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154 Premiums on accident and disability insurance									330	340	350	360	360	370	370	1,810
155 Income of trusts to finance supplementary unemployment benefits									20	30	40	50	60	70	80	300
156 Special ESOP rules	950	1,030	1,110	1,180	1,150	1,220	1,290	5,950	450	470	490	520	550	580	610	2,750
157 Additional deduction for the blind									30	40	40	50	50	50	50	240
158 Additional deduction for the elderly									1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159 Tax credit for the elderly and disabled									10	10	10	10	10	0	0	30
160 Deductibility of casualty losses									260	300	320	330	360	380	410	1,800
161 Earned income tax credit [17]									4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162 Exclusion of unemployment insurance benefits									5,220	0	0	0	0	0	0	0
Social Security:																
Exclusion of social security benefits:																
163 Social Security benefits for retired workers									21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164 Social Security benefits for disabled workers									7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165 Social Security benefits for spouses, dependents and survivors									3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
Veterans benefits and services:																
166 Exclusion of veterans death benefits and disability compensation									4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167 Exclusion of veterans pensions									210	240	300	330	360	380	400	1,770
168 Exclusion of GI bill benefits									450	810	1,010	1,200	1,330	1,440	1,560	6,540
169 Exclusion of interest on veterans housing bonds	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
General purpose fiscal assistance:																
170 Exclusion of interest on public purpose State and local bonds	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
171 Build America Bonds [18]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Interest:																
173 Deferral of interest on U.S. savings bonds									1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
Nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Exclusion of interest on State and local bonds for:																
Public purposes	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
Water, sewage, and hazardous waste disposal facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
Small-issues	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
Owner-occupied mortgage subsidies	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
Rental housing	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
Airports, docks, and similar facilities	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
Student loans	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
Private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1,580	1,710	1,930	2,210	2,480	2,660	2,810	12,090
Hospital construction	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
Veterans' housing	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	30	30	30	40	40	40	40	250	60	60	70	80	90	100	100	440
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790								

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars): 2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2010 $940 and 2011 $410.

[10] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $21,410 and 2011 $20,490.

[12] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2012	2012-16
131	Exclusion of employer contributions for medical insurance premiums and medical care	184,460	1,071,210
58	Deductibility of mortgage interest on owner-occupied homes	98,550	609,180
73	Step-up basis of capital gains at death	61,480	357,080
149	401(k) plans	67,590	356,260
62	Exclusion of net imputed rental income	50,640	302,800
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	48,640	292,290
77	Accelerated depreciation of machinery and equipment (normal tax method)	24,450	269,680
71	Capital gains (except agriculture, timber, iron ore, and coal)	38,490	256,280
125	Deductibility of charitable contributions, other than education and health	43,110	248,930
148	Employer plans	45,230	245,970
170	Exclusion of interest on public purpose State and local bonds	36,960	230,440
61	Capital gains exclusion on home sales	35,200	216,820
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	212,840
59	Deductibility of State and local property tax on owner-occupied homes	24,910	142,290
51	Exclusion of interest on life insurance savings	22,660	129,060
163	Social Security benefits for retired workers	21,830	129,040
152	Keogh plans	17,070	103,880
63	Exception from passive loss rules for $25,000 of rental loss	13,110	83,750
81	Deduction for US production activities	14,630	82,000
150	Individual Retirement Accounts	15,610	80,490
1	Exclusion of benefits and allowances to armed forces personnel	13,710	65,500
134	Deductibility of medical expenses	10,010	60,020
122	Child credit	10,580	49,200
161	Earned income tax credit	8,500	45,060
164	Social Security benefits for disabled workers	7,510	41,240
144	Exclusion of workers' compensation benefits	7,410	40,940
132	Self-employed medical insurance premiums	6,690	38,840
64	Credit for low-income housing investments	6,290	36,070
7	Expensing of research and experimentation expenditures (normal tax method)	5,770	35,080
166	Exclusion of veterans death benefits and disability compensation	5,010	30,850
2	Exclusion of income earned abroad by U.S. citizens	5,400	30,500
99	Lifetime Learning tax credit	5,530	28,620
110	Deductibility of charitable contributions (education)	4,900	28,300
98	HOPE tax credit	5,410	28,280
138	Deductibility of charitable contributions (health)	4,870	28,110
135	Exclusion of interest on hospital construction bonds	4,290	26,760
137	Credit for employee health insurance expenses of small business.	3,440	20,640
4	Inventory property sales source rules exception	3,160	18,770
79	Graduated corporation income tax rate (normal tax method)	3,220	17,840
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,840	17,710
165	Social Security benefits for spouses, dependents and survivors	3,270	17,390
84	Exclusion of reimbursed employee parking expenses	3,180	17,350
97	Exclusion of scholarship and fellowship income (normal tax method)	3,130	16,820
158	Additional deduction for the elderly	2,980	16,700
109	Parental personal exemption for students age 19 or over	3,400	14,690
74	Carryover basis of capital gains on gifts	1,990	13,860
133	Medical Savings Accounts / Health Savings Accounts	1,980	11,120
153	Premiums on group term life insurance	2,080	10,790
8	Credit for increasing research activities	3,080	10,320
104	State prepaid tuition plans	1,750	9,760
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,490	9,300
15	New technology credit	1,740	9,250
156	Special ESOP rules	1,600	8,700
117	Employer provided child care exclusion	1,450	8,410
50	Exemption of credit union income	1,310	7,920
57	Exclusion of interest on rental housing bonds	1,270	7,920

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2012	2012-16
123	Credit for child and dependent care expenses	1,710	7,900
173	Deferral of interest on U.S. savings bonds	1,300	6,650
168	Exclusion of GI bill benefits	1,010	6,540
121	Exclusion of employee meals and lodging (other than military)	1,170	6,510
151	Low and moderate income savers credit	1,320	6,490
89	Exclusion of interest for airport, dock, and similar bonds	1,020	6,370
60	Deferral of income from installment sales	830	6,100
3	Exclusion of certain allowances for Federal employees abroad	1,070	5,910
10	Excess of percentage over cost depletion, fuels	1,120	5,820
102	Deductibility of student-loan interest	900	5,160
16	Energy investment credit	960	4,650
139	Tax credit for orphan drug research	650	4,630
127	Exclusion of parsonage allowances	750	4,310
105	Exclusion of interest on student-loan bonds	660	4,140
145	Exclusion of public assistance benefits (normal tax method)	710	3,860
35	Excess of percentage over cost depletion, nonfuel minerals	770	3,810
92	New markets tax credit	810	3,530
55	Exclusion of interest spread of financial institutions	550	3,450
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	550	3,450
46	Capital gains treatment of certain income	520	3,440
140	Special Blue Cross/Blue Shield deduction	680	3,120
119	Assistance for adopted foster children	530	3,030
85	Exclusion for employer-provided transit passes	520	2,990
91	Empowerment zones, Enterprise communities, and Renewal communities	570	2,940
114	Qualified school construction bonds	400	2,930
72	Capital gains exclusion of small corporation stock	290	2,730
80	Exclusion of interest on small issue bonds	400	2,470
9	Expensing of exploration and development costs, fuels	700	2,300
29	Credit for energy efficiency improvements to existing homes	2,270	2,270
39	Tax incentives for preservation of historic structures	400	2,090
142	Distributions from retirement plans for premiums for health and long-term care insurance	330	2,020
126	Exclusion of certain foster care payments	410	2,010
154	Premiums on accident and disability insurance	350	1,810
160	Deductibility of casualty losses	320	1,800
23	Credit for investment in clean coal facilities	460	1,770
167	Exclusion of veterans pensions	300	1,770
19	Tax credit and deduction for clean-fuel burning vehicles	140	1,590
38	Expensing of multiperiod timber growing costs	290	1,540
143	Exclusion of railroad retirement system benefits	310	1,380
66	Discharge of mortgage indebtedness	1,100	1,350
115	Work opportunity tax credit	680	1,280
33	Advanced Energy Property Credit	900	1,180
31	30% credit for residential purchases/installations of solar and fuel cells	220	1,150
20	Exclusion of utility conservation subsidies	220	1,070
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	210	1,070
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	240	1,070
44	Expensing of certain multiperiod production costs	150	860
107	Credit for holders of zone academy bonds	200	790
34	Expensing of exploration and development costs, nonfuel minerals	130	710
43	Expensing of certain capital outlays	100	610
90	Exemption of certain mutuals' and cooperatives' income	110	600
120	Adoption credit and exclusion	190	590
147	Exclusion of military disability pensions	110	550
47	Income averaging for farmers	90	470
41	Industrial CO2 capture and sequestration tax credit	30	450
101	Education Individual Retirement Accounts	80	450

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2012	2012-16
25	Natural gas distribution pipelines treated as 15-year property	100	430
49	Expensing of reforestation expenditures	80	420
21	Credit for holding clean renewable energy bonds	70	350
13	Capital gains treatment of royalties on coal	50	340
37	Capital gains treatment of certain timber income	50	340
17	Alcohol fuel credits	130	330
27	Allowance of deduction for certain energy efficient commercial building property	90	300
75	Ordinary income treatment of loss from small business corporation stock sale	60	300
155	Income of trusts to finance supplementary unemployment benefits	40	300
11	Alternative fuel production credit	120	290
94	Credit to holders of Gulf Tax Credit Bonds.	70	270
26	Amortize all geological and geophysical expenditures over 2 years	90	250
69	Exceptions from imputed interest rules	50	250
157	Additional deduction for the blind	40	240
42	Deduction for endangered species recovery expenditures	30	220
146	Exclusion of special benefits for disabled coal miners	40	200
52	Special alternative tax on small property and casualty insurance companies	40	200
14	Exclusion of interest on energy facility bonds	30	170
12	Exception from passive loss limitation for working interests in oil and gas properties	30	150
54	Small life insurance company deduction	30	150
32	Qualified energy conservation bonds	20	140
169	Exclusion of interest on veterans housing bonds	20	140
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	120
96	Tribal Economic Development Bonds	30	110
45	Treatment of loans forgiven for solvent farmers	20	100
48	Deferral of gain on sale of farm refiners	20	100
83	Deferral of tax on shipping companies	20	100
88	Investment credit for rehabilitation of structures (other than historic)	20	100
113	Discharge of student loan indebtedness	20	100
124	Credit for disabled access expenditures	20	100
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	80
82	Special rules for certain film and TV production	30	40
86	Tax credit for certain expenditures for maintaining railroad tracks	30	40
159	Tax credit for the elderly and disabled	10	30
28	Credit for construction of new energy efficient homes	20	20
128	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
30	Credit for energy efficient appliances	0	0
70	Treatment of qualified dividends	0	0
95	Recovery Zone Bonds	0	0
100	Lifetime Learning tax credit	0	0
103	Deduction for higher education expenses	0	0
111	Exclusion of employer-provided educational assistance	0	0
112	Special deduction for teacher expenses	0	0
116	Welfare-to-work tax credit	0	0
118	Employer-provided child care credit	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0
130	Making work pay tax credit	0	0
141	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
162	Exclusion of unemployment insurance benefits	0	0
171	Build America Bonds	0	0
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–150	–520
68	Cancellation of indebtedness	130	–600
93	Expensing of environmental remediation costs	–140	–640
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	520	–1,700

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2012	2012-16
136	Refundable Premium Assistance Tax Credit	0	–2,540
78	Expensing of certain small investments (normal tax method)	–710	–3,290
67	Credit for homebuyer	–2,160	–5,190
65	Accelerated depreciation on rental housing (normal tax method)	–1,580	–5,640
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–13,750	–74,470

crued income would be taxed under a comprehensive income tax.

- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.
- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The

Table 17–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2010
(In millions of dollars)

	Provision	2010 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	23,260
7	Expensing of research and experimentation expenditures (normal tax method)	2,840
21	Credit for holding clean renewable energy bonds	320
9	Expensing of exploration and development costs - fuels	220
34	Expensing of exploration and development costs - nonfuels	40
38	Expensing of multiperiod timber growing costs	120
44	Expensing of certain multiperiod production costs - agriculture	220
43	Expensing of certain capital outlays - agriculture	150
49	Expensing of reforestation expenditures	20
51	Deferral of income on life insurance and annuity contracts	19,180
65	Accelerated depreciation on rental housing	6,570
76	Accelerated depreciation of buildings other than rental	–13,500
77	Accelerated depreciation of machinery and equipment	15,230
78	Expensing of certain small investments (normal tax method)	–40
107	Credit for holders of zone academy bonds	170
64	Credit for low-income housing investments	5,900
104	Deferral for state prepaid tuition plans	8,500
148	Exclusion of pension contributions - employer plans	73,830
149	Exclusion of 401(k) contributions	134,000
150	Exclusion of IRA contributions and earnings	3,800
150	Exclusion of Roth earnings and distributions	11,300
150	Exclusion of non-deductible IRA earnings	510
152	Exclusion of contributions and earnings for Keogh plans	5,710
170	Exclusion of interest on public-purpose bonds	19,600
	Exclusion of interest on non-public purpose bonds	6,690
173	Deferral of interest on U.S. savings bonds	260

normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.[2] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[3]

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of September 30, 2010, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2010, such as the Haiti Charity, Hiring Incentives to Restore Employment Act, Temporary Extension Act of 2010, Continuing Extension Act of 2010, Homebuyer Assistance and Improvement Act of 2010, tax-related provisions of "The Patient Protection and Affordable Care Act" and the "Reconciliation Act of 2010", and the Small Business Jobs Act of 2010, introduced many changes which for the most part expanded the scope of existing provisions in the Tax Code.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act) in addition to ordinary tax rate reductions, introduced many temporary changes that affect tax expenditure estimates not reflected in the tables of this chapter. Businesses incentives include reduced taxes on capital investments by introducing lower capital gains and dividend tax rates, increased section 179 expensing and faster first year depreciation, tax credit for research and experimentation expenses, Indian employment tax credit, New Markets tax credit ($3.5 billion allocation for both 2010 and 2011), 50% tax credit for certain expenditures for maintaining railroad tracks, mine rescue team training credit, employer wage credit for activated military reservists, 15-year straight line cost recovery for qualified leasehold and restaurant improvements, 7-year recovery period for certain motorsports racing track facilities, accelerated depreciation for business property on Indian reservations, election to expense mine safety equipment, special expensing rules for certain film and television productions, expensing of "Brownfields" environmental remediation costs, deduction allowable with respect to income attributable to domestic production activities in Puerto Rico, exception under subpart F for active financing income, empowerment zone tax incentives, tax incentives for investment in the District of Columbia, economic development credit for American Samoa, work opportunity tax credit, alternative fuel vehicle refueling property (non-hydrogen refueling property), premiums for mortgage insurance deductible as interest that is qualified residence interest, extension and modification of section 25C nonbusiness energy property, credit for energy efficient appliances, and special rules applicable to qualified small business stock.

The Act provides tax relief for families and individuals including increased child credit, modified adoption credit, increased dependent care tax credit, and increases in earned income tax credit. Education incentives include extending employer provided educational assistance exclusion for undergraduate courses and graduate level courses, as well as expanding student loan interest deduction, above-the-line deduction of up to $250 for teacher classroom expenses, deduction for qualified tuition and related expenses, extension of American opportunity tax credit, elimination of tax on awards under the National Health Corps Scholarship program and F. Edward Herbert Armed Forces Health Professions Scholarship program, increase arbitrage rebate exception for governmental bonds used to finance qualified school construction from $10 million to $15 million, issuance of tax-exempt private

[2] Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

[3] In the case of individuals who hold "passive" equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

activity bonds for qualified education facilities with annual State volume caps the greater of $10 per resident or $5 million, and qualified zone academy bonds ($400 million allocation).

The Act's incentives for charitable giving include enhanced charitable deduction for contributions of food inventory, enhanced charitable deduction for contributions of book inventories to public schools, enhanced charitable deduction for corporate contributions of computer inventory for educational purposes, contributions of capital gain real property made for qualified conservation purposes, tax-free distributions from IRAs to certain public charities, and basis adjustment to stock of S corporations making charitable contributions of property.

The Act also provides energy incentives, including incentives for biodiesel and renewable diesel, revised placed-in-service date for facilities eligible to claim the refined coal production credit, credit for construction of energy efficient new homes, incentives for alternative fuel and alternative fuel mixtures (modified to exclude black liquor), special rule to implement electric transmission restructuring, extension of suspension of 100 percent-of-net income limitation on percentage depletion for oil and natural gas from marginal properties, grants for specified energy property in lieu of tax credits, incentives for alcohol fuels, extension of income tax credit for alcohol used as fuel, extension of excise tax credit for alcohol used as fuel, and extension of payment for alcohol fuel mixture.

Other provisions of the Act include the temporary extension of disaster provisions related to New York Liberty Zone and GO Zone, deduction of State and local general sales taxes, parity for exclusion for employer-provided mass transit and parking benefits, among others.

National Defense

1. ***Benefits and allowances to Armed Forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of $100 is (approximately) equal in value to $100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may exclude from taxable income that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS–14, step 1 ($84,697 in 2010).

3. ***Exclusion of certain allowances for Federal employees abroad.***—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. ***Sales source rule exceptions.***—The United States generally taxes the worldwide income of U.S. persons, with taxpayers receiving a credit for foreign taxes paid, limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Income of U.S.-controlled foreign corporations.***—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast, certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. ***Exceptions under subpart F for active financing income.***—The United States generally taxes the worldwide income of U.S. persons and business entities. It would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business.

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of ex-

pensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. ***R&E credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. Under current law as of September 30, the research credit expired on December 31, 2009.

Energy

9. ***Exploration and development costs.***—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year.

In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. ***Percentage depletion.***—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset's productive life, as is appropriate for measuring net income.

In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset's net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. Under current law as of September 30, these facilities must be placed in service before January 1, 2010.

12. ***Oil and gas exception to passive loss limitation.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of working interests in oil and gas properties from "passive income" limitations, such that the working interest-holder who manages the development of wells and incurs all operating costs on behalf of himself and all other owners may aggregate negative taxable income (i.e., losses) from such interests with his other income. Thus, these taxpayers are able to fully deduct passive losses against nonpassive income, in contradiction to the general prohibition against such deductions.

13. ***Capital gains treatment of royalties on coal.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

14. ***Energy facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate

schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

15. ***Energy production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal and Indian coal at qualified facilities.

16. ***Energy investment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

17. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production.

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for biodiesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures.

19. ***Credit for alternative motor vehicles and refueling property.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative motor vehicles (including fuel cell, advanced lean burn technology, hybrid, and alternative fuel motor vehicles), alternative fuel vehicle refueling property, and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). Under current law as of September 30, the credit expired on December 31, 2010 for non-hydrogen refueling stations.

20. ***Exclusion of utility conservation subsidies.***—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income, that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

21. ***Credit to holders of clean renewable energy bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $2.4 billion. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company.

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

24. ***Temporary 50 percent expensing for equipment used in the refining of liquid fuels.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code provides for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage.

25. ***Natural gas distribution pipelines treated as 15-year property.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period.

These deductions are accelerated relative to deductions based on economic depreciation.

26. ***Amortize all geological and geophysical expenditures over two years.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies.

27. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction, per square foot, for certain energy efficient commercial buildings.

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals $1,000 in the case of a new manufactured home that meets a 30 percent standard.

29. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property.

30. ***Credit for energy efficient appliances.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance.

31. ***Credit for residential energy efficient property.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

32. ***Credit for qualified energy conservation bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $3.2 billion. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

33. ***Advanced Energy Property Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides a 30 percent investment credit for property used in a qualified advanced energy manufacturing project. The Treasury Department may award up to $2.3 billion in tax credits for qualified investments.

Natural Resources and Environment

34. ***Exploration and development costs.***—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

35. ***Percentage depletion.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of revenue and can exceed total costs) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

36. ***Sewage, water, solid and hazardous waste facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

37. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent.

38. ***Expensing multi-period timber growing costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

39. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities.

40. ***Exclusion of gain or loss on sale or exchange of certain brownfield sites.***—In general, a tax-exempt organization must pay taxes on income from activities unrelated to its nonprofit status. The Tax Code, however, provides a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties.

41. ***Industrial CO_2 capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of $20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of $10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

42. ***Deduction for endangered species recovery expenditures.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

43. ***Expensing certain capital outlays.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

44. ***Expensing multi-period livestock and crop production costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

45. ***Loans forgiven solvent farmers.***—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

46. ***Capital gains treatment of certain income.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

47. ***Income averaging for farmers.***—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

48. ***Deferral of gain on sales of farm refiners.***—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

49. ***Expensing of reforestation expenditures***.—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first $10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

50. ***Credit union income exemption.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

51. ***Deferral of income on life insurance and annuity contracts.***—Under the baseline tax system, individuals and corporations pay taxes on their income when

it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is generally tax-deferred. Investment income earned on annuities benefits from tax deferral.

52. ***Small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consists of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

53. ***Insurance companies owned by exempt organizations.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others, however, are exempt from tax.

54. ***Small life insurance company deduction.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, under current law small life insurance companies (with gross assets of less than $500 million) can deduct 60 percent of the first $3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between $3 million and $15 million.

55. ***Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and nonprofit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

56. ***Mortgage housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

57. ***Rental housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

58. ***Interest on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct mortgage interest paid on his or her primary and secondary residences as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or Local governmental units or agencies may claim a tax credit of up to 20 percent of the interest expense.

59. ***Taxes on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

60. ***Installment sales.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includ-

able in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5 million is, therefore, a tax expenditure.

61. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, under current law, a homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

62. ***Imputed net rental income on owner-occupied housing.***—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

63. ***Passive loss real estate exemption.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.

64. ***Low-income housing credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

65. ***Accelerated depreciation of residential rental property.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

66. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million from a qualified principal residence. The provision sunsets on December 31, 2012.

67. ***Credit for homebuyer.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit for home buyers on purchases before May 1, 2010.

68. ***Cancellation of indebtedness.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

69. ***Imputed interest rules.***—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. In general, any debt associated with the sale of property worth less than $250,000 is excepted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above $250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than $250,000, and (2) sales of farms and small businesses worth between $250,000 and $1 million.

70. ***Treatment of qualified dividends.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows qualified dividends to be taxed at a preferentially low rate that is no higher than 15 percent.

71. ***Capital gains (other than agriculture, timber, and coal).***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule.

It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains on assets held for more than one year to be taxed at a preferentially low rate that is no higher than 15 percent.

72. ***Capital gains exclusion for small business stock.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2011. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

73. ***Step-up in basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death.

74. ***Carryover basis of capital gains on gifts.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

75. ***Ordinary income treatment of losses from sale of small business corporate stock shares.***—The baseline tax system limits to $3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) to be treated as ordinary losses and fully deducted.

76. ***Depreciation of non-rental-housing buildings.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

77. ***Accelerated depreciation of machinery and equipment.***—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

78. ***Expensing of certain small investments.***—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

79. ***Graduated corporation income tax rate schedule.***—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

80. ***Small issue industrial development bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

81. ***Deduction for U.S. production activities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

82. ***Special rules for certain film and TV production.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. Under current law as of September 30, the provision expired on December 31, 2009.

Transportation

83. ***Deferral of tax on U.S. shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, mod-

ernization and major repairs to ships, and repayment of loans to finance these investments.

84. ***Exclusion of employee parking expenses.***— Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2010, the maximum amount of the parking exclusion is $230 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***Exclusion of employee transit pass expenses.***— Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The American Recovery and Reinvestment Act of 2009 ("ARRA," Pub. L. 111-5) included a provision that equalized the maximum exclusion amount for these expenses with the maximum exclusion amount for employee parking expenses. In 2010, the maximum amount of the exclusion is $230 per month. Under current law as of September 30, this provision of the ARRA expired on December 31, 2010.

86. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of $3,500 and the number of miles of track owned or leased. Under current law as of September 30, the credit expired on December 31, 2009.

87. ***Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for $15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

89. ***Airport, dock, and similar facility bonds.***— The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

90. ***Exemption of income of mutuals and cooperatives.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

91. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives.

92. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. The total equity investment available for the credit across all CDEs is $5 billion in 2009. Under current law as of September 30, the credit expired on December 31, 2009.

93. ***Expensing of environmental remediation costs.***—Under the baseline tax system, the costs would be amortized (or depreciated) over an estimate of the economic life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allows taxpayers who clean up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property.

94. ***Credit to holders of Gulf and Midwest Tax Credit Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

95. ***Recovery Zone Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows local governments to issue up $10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, they would be allowed to allocate up to $15 billion in tax exempt Recovery Zone Facility Bonds. These bonds finance certain kinds of business development in areas of economic distress.

96. ***Tribal Economic Development Bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of $2 billion.

Education, Training, Employment, and Social Services

97. ***Scholarship and fellowship income.***—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income (many scholarships are derived directly or indirectly from Government funding).

98. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2010, the credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed.

99. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. The credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed. The credit applies to both undergraduate and graduate students.

100. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code was modified in 2009 to provide a tax credit in 2009 and 2010 of up to $2,500 per eligible student for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return).

101. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2010 is $2,000 per beneficiary. The maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 ($95,000 and $110,000 for singles).

102. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. In 2010, the maximum deduction is phased down ratably for taxpayers with modified AGI between $120,000 and $150,000 ($60,000 and $75,000 for singles), indexed.

103. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2010 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for singles). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for singles) may deduct up to $2,000.

104. ***State prepaid tuition plans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some States have adopted prepaid tuition plans and prepaid room and board plans, which allow persons to pay in advance for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

105. ***Student-loan bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero)

tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

106. ***Bonds for private nonprofit educational institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. Under current law as of September 30, the total amount of zone academy bonds that may be issued is limited to $1.4 billion in 2009 and 2010.

108. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $105,100 and $135,100 ($70,100 and $85,100 for singles) in 2010.

109. ***Dependent students age 19 or older.***—Under the baseline tax system, a personal exemption for the taxpayer is allowed. However, additional exemptions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers to claim personal exemptions for dependent children who are over the age of 18 or under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

110. ***Charitable contributions to educational institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

111. ***Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense.

112. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2009.

113. ***Discharge of student loan indebtedness.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, not to recognize such discharge as income.

114. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22 billion over 2009 and 2010. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

115. ***Work opportunity tax credit (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before August 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

116. ***Welfare-to-work tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law an employer is eligible for a tax credit on the first $20,000 of eligible wages

paid to qualified long-term family assistance recipients during the first two years of employment. The welfare-to-work credit expired on December 31, 2006. After this date, long-term welfare recipients became a WOTC target group.

117. ***Employer-provided child care exclusion.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

118. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

119. ***Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses. These payments are excluded from gross income under current law.

120. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a refundable tax credit for qualified adoption expenses under current law. The maximum credit is $13,170 per child for 2010, and is phased-out ratably for taxpayers with modified AGI between $182,520 and $222,520. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

121. ***Employer-provided meals and lodging.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

122. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. The maximum credit declines to $500 in 2011 and later years. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles).

123. ***Child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides married couples with child and dependent care expenses a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by single parents and by divorced or separated parents who have custody of children. In 2010, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

124. ***Disabled access expenditure credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

125. ***Charitable contributions, other than education and health.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

126. ***Foster care payments.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. However, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

127. ***Parsonage allowances.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

128. ***Provide an employee retention credit to employers affected by hurricanes Katrina, Rita, Wilma, and Ike.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in areas affected by nat-

ural disasters such as hurricanes Katrina, Rita, Wilma, and Ike.

129. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income of certain rebates or reductions of state and local income and property taxes provided by states or localities if the taxpayer is a member of a volunteer emergency response organization. The Tax Code also allows an exclusion from taxable income of certain payments such as reimbursements for expenses or equipment allowances of up to $360 per year provided by states or localities on account of performance of services as a member of a volunteer emergency response organization.

130. ***Making work pay tax credit.***—The baseline tax system would not allow credits for particular activities. In contrast, the Tax Code was modified in 2009 to provide for a tax credit in 2009 and 2010 of the lesser of 6.2 percent of an individual's earned income or $400 ($800 for joint filers). It is phased out at a rate of 2 percent of modified AGI above $75,000 ($150,000 for joint filers).

Health

131. ***Employer-paid medical insurance and expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income.

132. ***Self-employed medical insurance premiums.***—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct their family health insurance premiums. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

133. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2010, $3050 for taxpayers with individual coverage and $6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

134. ***Medical care expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income.

135. ***Hospital construction bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

136. ***Refundable Premium Assistance Tax Credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (i) the actual premiums paid by the taxpayer for such coverage or (ii) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

137. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may

claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

138. ***Charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

139. ***Orphan drugs.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

140. ***Blue Cross and Blue Shield.***—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

141. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act increased the credit to 80 percent in coverage months preceding January 1, 2011.

142. ***Distributions for premiums for health and long-term care insurance.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

143. ***Railroad retirement benefits.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. The threshold is discussed more fully under the Social Security function.

144. ***Workers' compensation benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation, although income to the recipients, are not subject to the income tax under current law.

145. ***Public assistance benefits.***—Under the reference law baseline tax system, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as tax expenditure.

146. ***Special benefits for disabled coal miners.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

147. ***Military disability pensions.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

148. ***Employer-provided pension contributions and earnings.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by pension plans is deferred until the money is withdrawn.

149. ***401(k) plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2010, an employee could exclude up to $16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,000 in contributions (indexed). The tax on contributions and the investment income earned by 401(k)-type plans is deferred until withdrawn.

150. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, includ-

ing deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,000 in 2010 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Individuals who make nondeductible contributions to a traditional IRA can still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation under certain conditions. Income limits also apply to Roth IRA contributions; however, taxpayers at any income level may roll account balances from traditional IRAs into Roth IRAs, after paying income tax on any deduction and accrued income.

151. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $55,500 for joint filers and $27,750 for single filers.

152. ***Keogh plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $49,000 in 2010. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

153. ***Employer-provided life insurance benefits.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense, but only to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance.

154. ***Employer-provided accident and disability benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

155. ***Employer-provided supplementary unemployment benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

156. ***Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

157. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

158. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

159. ***Tax credit for the elderly and disabled.***—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a tax credit equal to 15 percent of the sum of their earned and retirement income. The amount to which the 15 percent rate is applied is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

160. ***Casualty losses.***—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than $100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income.

161. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $8,970 of earned income in 2010. The credit is 40 percent of the first $12,590 of income for a family with two or more qualifying children. The credit is 45 percent of the first $12,590 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $5,980 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

162. ***Exclusion of unemployment benefits.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast the Tax Code was modified in 2009 to allow an exclusion of up to $2,400 of unemployment insurance benefits from gross income for taxable year 2009.

Social Security

163. ***Social Security benefits for retired workers.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure.

164. ***Social Security benefits for the disabled.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 163, Social Security benefits for retired workers.)

165. ***Social Security benefits for dependents and survivors.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for dependents and survivors are fully or partially excluded from a beneficiary's gross income.

Veterans Benefits and Services

166. ***Veterans death benefits and disability compensation.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

167. ***Veterans pension payments.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

168. ***G.I. Bill benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

169. ***Tax-exempt mortgage bonds for veterans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

General Government

170. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially

low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

171. ***Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments may issue taxable bonds and the private lenders receive the 35 percent credit which is included in taxable income.

172. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

Interest

173. ***U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures – spending programs implemented through the tax code by reducing tax obligations for certain activities -- contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[4] Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency

[4] Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as excise tax exemption for certain types of consumption deemed meritorious.

of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program (SNAP) are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers and families.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Across all major budgetary categories – from housing and health to space, technology, agriculture, and national defense – tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and economic effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales). Some of these objectives are well suited to quantitative measurement and evaluation, while others are less well suited

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working towards examining the objectives and effects of the wide range of tax expenditures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms; and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education and research and investment credits.

Education. There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of loans and grants, seeking to answer, for examples, whether the use of credits reduce or increase the likelihood of the students applying for loans. Such an evaluation would allow stakeholders to determine the most effective program – whether it is a tax credit, a subsidized loan, or a grant.

Investment. A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of

non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation. Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

1. Data availability. Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

2. Analytical constraints. Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

3. Resources. Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other more competing areas of work related to the budget.

The Executive Branch is focused on addressing these challenges in order to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform recently submitted a report in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures' —another name for spending through the tax code."

The current Budget and enacted Administration policies include several proposals that would change existing tax expenditures to raise revenue, eliminate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of economic recovery and growth, clean and secure energy, and a world-class education for all Americans.

Limit itemized deductions. The Administration is proposing to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting married taxpayers with incomes over $250,000 and singles over $200,000. This will reduce the value of tax expenditures for such deductions, which include mortgage interest, state and local taxes, and charitable contributions. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

Reduce preferences for oil, gas, and coal. Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. These tax preferences run counter to our policies for reducing greenhouse gas emissions. In accordance with the President's agreement at the G-20 summit in 2009 to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.

Enhance and make permanent the Research and Experimentation (R&E) credit. The extension of this credit every year creates uncertainty reducing firms' incentive to expand their research activities. For this reason, and more generally to achieve the President's R&D goals, the Budget proposes making the R&E credit permanent.

Make the American Opportunity Tax Credit (AOTC) Permanent. This tax credit provides a substantial benefit to students and families in defraying the cost of college, a key Administration priority. For this reason, the Budget proposes a permanent extension of this tax expenditure.

Modify the EITC (Earned Income Tax Credit). As a result of analyses showing both effective and ineffective components of the EITC (a tax credit for certain people who work and have low wages, designed to encourage and maintain employment), the Administration has proposed extending some portions of this tax credit, and eliminating others:

- *Extend the "third tier" component of the EITC.* Under the Recovery Act, the EITC was expanded to reduce the marriage penalty and to create a "third tier" of the EITC for families with three or more children. This means larger families receive more now than they would have under the old system. Evaluations of the distribution of EITC benefits showed that this extension would benefit working mothers, and families headed by single mothers specifically. The bipartisan tax agreement extends this credit.

- *Repeal the Advanced Earned Income Tax Credit (AEITC).* In 2009 and 2010, the Administration proposed repealing the AEITC, and this proposal was enacted in the Education/Jobs/Medicaid Assistance Act of 2010. The AEITC allows individuals to receive a portion of the Earned Income Tax Credit (EITC) in

their paychecks, instead of receiving all of it when filing their year-end tax return. A Government Accountability Office (GAO) Report dated August 2007 found an extremely high error rate in the AEITC program; some 80 percent of AEITC recipients did not comply with at least one program requirement. Only a tiny number of EITC eligible taxpayers claim the AEITC (three percent, or 514,000 according to the GAO.) Further, the dollar amounts involved were consistently small: half of all AEITC recipients received less than $100.

Allow a range of tax expenditures to expire. The aforementioned bipartisan tax agreement extended many provisions of the tax code for up to two years, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures were not extended. For instance, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to $500 for taxpayers who to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.