General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals

Department of the Treasury
February 2007

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GENERAL EXPLANATIONS OF THE ADMINISTRATION'S FISCAL YEAR 2008 REVENUE PROPOSALS

Introduction

This report summarizes the revenue proposals in the Administration's Fiscal Year 2008 Budget. These proposals include making permanent the tax relief enacted in 2001 and 2003, which is essential for promoting economic growth and higher living standards in the future. The other proposals, also intended to strengthen the American economy, affect a wide range of areas, including simplifying and encouraging saving, encouraging entrepreneurship and investment, investing in health care, providing incentives for charitable giving, strengthening education, and protecting the environment. Additionally included are proposals to simplify the tax law for families, improve tax compliance, improve tax administration, improve unemployment insurance, modify energy provisions, and extend expiring tax provisions.

Improve the Tax System to Make the U.S. More Competitive

Americans deserve a tax system that is simple, fair, and pro-growth – in tune with our dynamic, 21st century economy. The tax system should allow taxpayers to make decisions based on economic merit, free of tax-induced distortions. The tax system should promote the competitiveness of American workers and businesses in the global economy. The Report of the President's Advisory Panel on Federal Tax Reform has helped lay groundwork on ways to ensure that our tax system better meets the needs of today's economy.

The President's tax relief enacted in 2001 and 2003 helped move the tax Code in this direction and the Administration has proposed changes that would improve the Code yet further. The FY 2008 Budget includes proposals to make health care more affordable and consumer-driven, to promote savings for all Americans, and to encourage investment by entrepreneurs. The FY 2008 Budget also recognizes that tax policy analysis needs to account fully for the economic benefits of policy changes on our economy. In the coming months, the Treasury Department will engage in a public dialogue on how our tax system can be improved to make the United States more competitive in the global economy.

A Dynamic Analysis Division within the Office of Tax Policy

Dynamic analysis emphasizes the potential economic benefits of tax changes for increasing and promoting economic growth and is particularly important for evaluating broad reforms of the tax system. Dynamic analysis recognizes a more comprehensive range of behavioral responses to tax changes, including how tax changes affect the size of the economy.

The FY 2008 Budget includes funds for a Dynamic Analysis Division within the Treasury Department's Office of Tax Policy, as proposed in the FY 2007 Budget, to conduct dynamic analysis of tax policy proposals.

MAKE PERMANENT CERTAIN TAX RELIEF ENACTED IN 2001 AND 2003

Permanently Extend Certain Provisions of the 2001 Tax Relief and the 2003 Jobs and Growth Tax Relief

Current Law

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created a new 10-percent individual income tax rate bracket, reduced marginal income tax rates for individuals, doubled the child credit and extended its refundability, reduced marriage penalties, eliminated the phase-out of personal exemptions and the limitation on certain itemized deductions for higher-income taxpayers, provided additional incentives for education, increased IRA and pension incentives, provided relief from the alternative minimum tax (AMT), eliminated the estate and generation-skipping transfer taxes, and modified the gift tax. These and several other provisions of EGTRRA sunset on December 31, 2010.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the amount of qualifying property that can be expensed in the year of purchase rather than being depreciated and lowered the tax rates on qualifying dividends and on capital gains. The liberalized expensing provision, as extended by the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), sunsets on December 31, 2009. The dividend and capital gains provisions, as extended by TIPRA, sunset on December 31, 2010.

Reasons for Change

The tax relief and incentives to work, save, and invest provided by EGTRRA and JGTRRA are essential to the long-run performance of the economy. All taxpayers should have the certainty of knowing that the provisions of EGTRRA will extend beyond 2010. Taxpayers plan for periods far beyond the scheduled sunset dates of the EGTRRA and JGTRRA provisions when saving for their children's education, undertaking new business ventures, planning for retirement, and planning future contributions to charity and bequests for their children. Taxpayers require the certainty that can be provided today by permanently extending the provisions of EGTRRA and JGTRRA. Permanent extension of the provisions is essential for promoting growth and higher levels of income in the future.

Proposal

The provisions of JGTRRA that sunset on December 31, 2009 and December 31, 2010 (as extended) would be permanently extended. The provisions of EGTRRA that sunset on December 31, 2010 would be permanently extended.

Revenue Estimate[1]

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
188	-690	-1,595	-13,789	-146,193	-224,918	-387,185	-1,696,789

[1] The estimate includes both receipts and outlay effects. The outlay effect is $79,618 million for 2008-2017.

TAX INCENTIVES

Simplify and Encourage Saving

EXPAND TAX-FREE SAVINGS OPPORTUNITIES

Current Law

Current law provides multiple tax-preferred individual savings accounts to encourage saving for retirement, education, and health expenses. The accounts have overlapping goals but are subject to different sets of rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions. Individual Retirement Accounts (IRAs), including traditional, nondeductible, and Roth IRAs, are primarily intended to encourage retirement saving, but can also be used for certain education, medical, and other non-retirement expenses. Each of the three types of IRAs is subject to a different set of rules regulating eligibility and tax treatment. Coverdell Education Savings Accounts (ESAs) and Section 529 Qualified Tuition Programs (QTPs) are both intended to encourage saving for education, but each is subject to different rules. Archer Medical Savings Accounts (MSAs) and Health Savings Accounts (HSAs) are intended to encourage saving for medical expenses.

Individual Retirement Accounts: Under current law, individuals under age 70½ may make contributions to a traditional IRA, subject to certain limits. The contributions are generally deductible; however, the deduction is phased out for workers with incomes above certain levels who are covered by an employer-sponsored retirement plan. For taxpayers covered by employer plans in 2007, the deduction is phased out for single and head-of-household filers with modified-adjusted gross income[2] (AGI) between $52,000 and $62,000, for married filing jointly filers with modified-AGI between $83,000 and $103,000, and for married filing separately filers with modified-AGI between $0 and $10,000. For a married, filing jointly taxpayer who is not covered, but whose spouse is covered by an employer-sponsored retirement plan, the deduction is phased out with modified-AGI between $156,000 and $166,000. Account earnings are not includible in gross income until distributed. Distributions (including both contributions and account earnings) are includible in gross income for income tax purposes.

To the extent a taxpayer cannot or does not make deductible contributions to a traditional IRA, a taxpayer under age 70½ may make nondeductible contributions. In this case, distributions representing a return of basis are not includible in gross income, while distributions representing account earnings are includible in gross income. There is no income limit for nondeductible contributions to a traditional IRA.

Individuals of any age may make contributions to a Roth IRA. The contributions are not deductible. Allowable contributions are phased out for workers with incomes above certain levels. In 2007, contributions are phased out for single or head-of-household filers with modified-AGI between $99,000 and $114,000, for married filing jointly filers with modified-

[2] AGI plus income from education savings bonds, interest paid on education loans, employer-provided adoption assistance benefits, IRA deductions, deductions for qualified higher education expenses, and certain other adjustments.

AGI between $156,000 and $166,000, and for married filing-separate filers with modified-AGI between $0 and $10,000. Account earnings accumulate tax free, and qualified distributions (including account earnings) are not included in gross income for income tax purposes. Nonqualified distributions from Roth IRAs are included in income (to the extent they exceed basis) and subject to an additional tax. Distributions are deemed to come from basis first.

The annual aggregate limit on contributions to all of a taxpayer's IRAs (traditional, nondeductible, and Roth) is the lesser of earnings or $4,000 for 2007. The contribution limit is scheduled to increase to $5,000 in 2008 and will be indexed for inflation after 2008. Individuals age 50 and over may make an additional "catch-up" contribution of up to $1,000.

Taxpayers with AGI of $100,000 or less and who are not married filing separately can convert a traditional IRA to a Roth IRA. In general, the conversion amount is included in gross income (but not for purposes of the $100,000 limit). The Tax Increase Prevention and Reconciliation Act of 2005 repealed the income limitation for conversions from a traditional IRA to a Roth IRA made after December 31, 2009. Taxpayers who make such conversions in 2010 may include half of the conversion amount in income in each year, 2011 and 2012, and none of the amount in income in 2010. Conversions made on or after January 1, 2011 will be included in gross income in the year of the conversion.

Early distributions from IRAs are generally subject to an additional 10 percent tax. The tax is imposed on the portion of an early distribution that is includible in gross income. It applies in addition to ordinary income taxes on the distribution. The additional tax does not apply to a rollover to an employer plan or IRA, or if the distribution is made in the cases of death or disability, certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments.

Minimum distribution rules require that, beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and a designated beneficiary). Roth IRAs are not subject to minimum distribution rules during the account owner's lifetime.

<u>Coverdell Education Savings Accounts:</u> Taxpayers may elect to contribute up to $2,000 per year to an ESA for beneficiaries under age 18. The contribution limit is phased out for single filers with modified-AGI between $95,000 and $110,000 and for joint filers with modified-AGI between $190,000 and $220,000. Contributions are not deductible, but earnings on contributions accumulate tax-free. Distributions are excludable from gross income to the extent they do not exceed qualified education expenses that are incurred during the year the distributions are made and that are not used to claim another tax benefit (such as an education tax credit or a tax-free distribution from a qualified tuition program). The earnings portion of a distribution not used to cover qualified education expenses is includible in the gross income of the beneficiary and is generally subject to an additional 10 percent tax.

Except in the case of a special needs beneficiary, when a beneficiary reaches age 30, the account balance is deemed to have been distributed for nonqualified purposes. However, prior to the beneficiary reaching age 30, tax-free (and penalty-free) rollovers of account balances may be made to an ESA benefiting another family member.

Section 529 Qualified Tuition Programs: Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, so long as the distribution is not used for the same educational expenses for which another tax benefit (such as an education tax credit or a tax-free distribution from an ESA) is claimed. Nonqualified distributions are subject to an additional tax. A change in the designated beneficiary of an account is not treated as a distribution, and therefore is not subject to income tax, if the new beneficiary is a member of the family of the prior beneficiary. Neither contributors nor beneficiaries may direct the investment of the account.

There is no specific dollar cap on annual contributions to a QTP. In addition, there is no limit on contributions to a QTP account based on the contributor's income, contributions are allowed at any time during the beneficiary's lifetime, and the account can remain open after the beneficiary reaches age 30. However, a QTP must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of amounts necessary to provide for the qualified higher education expenses of the beneficiary.

Some States allow contributions to be excluded from income for State income tax purposes.

Health Savings Accounts: Individuals who are covered by a qualifying high deductible health plan and not covered by any non-high deductible health plan other than certain permitted or disregarded coverage may contribute to a Health Savings Account (HSA) that can be used to reimburse the individuals' and their dependents' health expenses. Employers may also make contributions to employees' HSAs. The high deductible health plan may be provided by an employer or purchased in the individual insurance market. Individuals who are eligible for Medicare or to be claimed as a dependent on someone else's return may not contribute to an HSA. Contributions to HSAs are deductible and qualified distributions are excluded from gross income. Nonqualified distributions are subject to income tax and, if taken prior to age 65, an additional 10 percent tax.

Archer Medical Savings Accounts: Self-employed individuals and individuals employed by small employers maintaining a high deductible health plan (defined more restrictively than under the HSA provisions) are allowed to accumulate funds in an Archer Medical Savings Account (MSA) on a tax-preferred basis to pay for medical expenses. An individual is eligible to establish an MSA only if the employee (or the employee's spouse) is covered by a high-deductible health plan (and not covered by any non-high deductible health plan). Although individuals with MSAs can continue to contribute to them as long as they are with an MSA participating employer, no new MSAs are permitted after the end of 2007 except with respect to individuals being hired after 2007 by an MSA-participating employer. Contributions to MSAs are deductible and qualified distributions are excluded from gross income. Nonqualified distributions are subject to income tax and, if taken prior to age 65, an additional 15 percent tax.

Reasons for Change

The plethora of individual savings accounts, each subject to different rules regarding eligibility, contributions, tax treatment, and withdrawal, creates complexity and redundancy in the Code. Taxpayers must determine their eligibility for each account separately and then must decide which plan or plans are best for them given their circumstances. Furthermore, as their circumstances change over time, taxpayers must continually re-evaluate their eligibility for each plan and which best meets their needs. The current list of non-retirement exceptions within IRAs weakens the focus on retirement saving, and the IRA exceptions and special purpose savings vehicles place a burden on taxpayers to document that withdrawals are used for certain purposes that Congress has deemed qualified. In addition, the restrictions on withdrawals and additional tax on early distributions discourage many taxpayers from making contributions because they are concerned about the inability to access the funds should they need them. Consolidating the three types of IRAs under current law into one account dedicated solely to retirement, and creating a new account that could be used to save for any reason would simplify the taxpayer's decision-making process while further encouraging savings.

Savings will be further simplified and encouraged by administrative changes to the tax filing process that, beginning in the 2007 filing season, will allow taxpayers to direct that their tax refunds be directly deposited into more than one account. Consequently, taxpayers will be able, for example, to direct that a portion of their tax refunds be deposited into a Retirement Savings Account or Lifetime Savings Account described below. Simplifying the rules, making savings opportunities universally available, and making it easier for people to set money aside through direct deposit will complement the Administration's commitment to programs focusing on financial education and, specifically, retirement planning.

Proposal

The proposal would consolidate the three types of current law IRAs into a single account: a Retirement Savings Account (RSA). RSAs would be dedicated solely to retirement savings; other withdrawals would be subject to tax and penalty as described below. Instead of a list of exceptions for penalty-free early withdrawals, a new account, a Lifetime Savings Account (LSA) would be created that could be used to save for any purpose, including retirement savings, health care, emergencies, and education.

Individuals could contribute up to $5,000 per year (or earnings includible in gross income, if less) to their RSA. As under current law IRAs, for an individual who is married filing a joint return, the compensation limitation will only be binding if the combined includible compensation of the spouses is less than $10,000. No income limits would apply to RSA contributions. Contributions would have to be in cash. Contributions would be nondeductible, but earnings would accumulate tax-free, and qualified distributions would be excluded from gross income. The RSA contribution limit would be indexed for inflation.

Qualified distributions from the RSA would be distributions made after age 58 or in the event of death or disability. Any other distribution would be a nonqualified distribution and, as with current non-qualified distributions from Roth IRAs, would be includible in income (to the extent it exceeds basis) and subject to a 10 percent additional tax. Distributions would be deemed to come from basis first. As with current law Roth IRAs, no minimum required distribution rules would apply to RSAs during the account owner's lifetime. Married individuals could roll amounts from their RSA over to their spouses' RSA.

Existing Roth IRAs would be renamed RSAs and be made subject to the new rules for RSAs. Existing traditional and nondeductible IRAs could be converted into an RSA by taking the conversion amount into gross income, similar to a current-law Roth conversion. However, no income limit would apply to the ability to convert. Taxpayers who convert IRAs to RSAs before January 1, 2009, could include the conversion amount in income ratably over 4 years. Conversions made on or after January 1, 2009, would be included in income in the year of the conversion. Existing traditional or nondeductible IRAs that are not converted to RSAs could not accept any new contributions. New traditional IRAs could be created to accommodate rollovers from employer plans, but they could not accept any new individual contributions. Individuals wishing to roll an amount directly from an employer plan to an RSA could do so by taking the rollover amount (excluding basis) into gross income (i.e., "converting" the rollover, similar to a current law Roth conversion).

Amounts converted to an RSA from a traditional IRA or from an Employer Retirement Savings Account (ERSA) would be subject to a 5-year holding period. Distributions attributable to a conversion from a traditional IRA or ERSA (other than amounts attributable to a Roth-type account in an ERSA) prior to the end of the 5-year period starting with the year the conversion was made or, if earlier, the date on which the individual turns 58, becomes disabled, or dies would be subject to an additional 10 percent early distribution tax on the entire amount. The 5-year period is separately determined for each conversion contribution. To determine the amount attributable to a conversion, a distribution is treated as made in the following order: regular contributions; conversion contributions (on a first-in-first-out basis); earnings. To the extent a distribution is treated as made for a conversion contribution, it is treated as made first from the portion, if any, that was required to be included in gross income because of the conversion.

Individuals could contribute up to $2,000 per year to their LSA, regardless of wage income. No income limits would apply to LSA contributions. Contributions would have to be in cash. The time period for which the contribution limit applies is the calendar year. Contributions would be nondeductible, but earnings would accumulate tax-free, and all distributions would be excluded from gross income, regardless of the individual's age or use of the distribution. As with current law Roth IRAs, no minimum required distribution rules would apply to LSAs during the account owner's lifetime.

Contribution limits would apply to all accounts held in an individual's name, rather than to contributors. Thus, contributors could make annual contributions of up to $2,000 each to the accounts of other individuals, but the aggregate of all contributions to all accounts held in a given individual's name could not exceed $2,000. The LSA contribution limit would be indexed for inflation.

Control over an account in a minor's name would be exercised exclusively for the benefit of the minor, until the minor reached the age of majority (determined under applicable State law), by the minor's parent or legal guardian acting in that capacity. Married individuals could roll amounts from their LSAs over to their spouses' LSAs.

Taxpayers would be able to convert balances in ESAs and QTPs to LSA balances. All conversions made before January 1, 2009, would be on a tax-free basis, subject to the following limitations. An amount can be rolled into an individual's LSA from a QTP only if that individual was the beneficiary of the QTP or ESA as of December 31, 2006. The amount that can be rolled over to an LSA from an ESA is limited to the sum of the amount in the accounts as of December 31, 2006, plus any contributions to and earnings on the accounts in 2007. The amount that can be rolled over to any LSA from a QTP is limited to the sum of (i) the lesser of $50,000 or the amount in the QTP as of December 31, 2006, plus (ii) any contributions and earnings to the QTP during 2007. Total rollovers to an individual's LSA attributable to 2007 contributions from the individual's ESAs and QTPs cannot exceed $2,000 (plus any earnings on those contributions).

QTPs would continue to exist as separate types of accounts, but could be offered inside an LSA. For example, State agencies that administer QTPs could offer LSAs with the same investment options available under the QTP. The plan administrator would be freed from the additional reporting requirements of a QTP for investments in an LSA, but investors would be subject to the annual LSA contribution limit. Distributions for purposes other than education would not be subject to Federal income tax or penalties. However, States would be free to provide State tax incentives, and administrators would be free to provide investment incentives, for savings used for educational purposes.

The Saver's Credit would apply to contributions to an RSA but would not apply to contributions to an LSA.

Both LSAs and RSAs would become effective beginning on January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	1,527	3,545	3,023	1,075	-1,314	7,856	-592

CONSOLIDATE EMPLOYER-BASED SAVINGS ACCOUNTS

Current Law

Qualified Retirement Plans: Under Code section 401, employers may establish for the benefit of employees a retirement plan that may qualify for tax benefits, including a tax deduction to the employer for contributions, a tax deferral to the employee for elective contributions and their earnings, and a tax exemption for the fund established to pay benefits. To qualify for tax benefits, the plan must satisfy multiple requirements. Among the requirements, the plan may not discriminate in favor of highly-compensated employees (HCEs) with regard either to coverage or to amount or availability of contributions or benefits. The following cover some, but not all, of the defined-contribution plan rules.

Contribution Limits. For 2007, the total annual contribution to a participant's account may not exceed the lesser of $45,000 (adjusted annually for inflation) or 100 percent of compensation.

General Nondiscrimination Requirement. Qualified plans, both defined-benefit and defined-contribution, must comply with the section 401(a)(4) prohibition on contributions or benefits that discriminate in favor of HCEs. Detailed regulations spell out the calculations required for satisfying this provision, including optional safe harbors and a general test for nondiscrimination.

Contribution Tests. In addition to the general nondiscrimination requirement, defined-contribution plans that have after-tax contributions or matching contributions are subject to the actual contribution percentage (ACP) test. This test measures the contribution rate to HCEs' accounts relative to the contribution rate to non-highly-compensated employees' (NHCEs') accounts. To satisfy the test, the ACP of HCEs generally cannot exceed the following limits: 200 percent of the NHCEs' ACP if the NHCEs' ACP is 2 percent or less; 2 percentage points over the NHCEs' ACP if the NHCEs' ACP is between 2 percent and 8 percent; or 125 percent of the NHCEs' ACP if the NHCEs' ACP is 8 percent or more.

Three "safe-harbor" designs are deemed to satisfy the ACP test automatically for employer matching contributions (up to 6 percent of compensation) that do not increase with an employee's rate of contributions or elective deferrals. In the first, vested employer matching contributions on behalf of NHCEs are equal to 100 percent of elective deferrals up to 3 percent of compensation, and 50 percent of elective deferrals between 3 and 5 percent of compensation. In the second, vested employer matching contributions follow an alternative matching formula such that the aggregate amount of matching contributions is no less than it would be under the first design. In the third, vested employer non-elective contributions are at least 3 percent of compensation made on behalf of all eligible NHCEs.

Vesting. In general, employer contributions must vest at least as quickly as under one of the following schedules. Under graded vesting, 20 percent of the benefit is vested after three years of service and an additional 20 percent vests with each additional year of service, so that the employee is fully vested after seven years of service. Under cliff vesting, the employee has no vested interest until five years of service has been completed, but is then fully vested. However, matching contributions must vest more quickly: under graded vesting, the first 20 percent must vest after two years of service, so that the employee is fully vested after six years of service, and under cliff vesting, the employee becomes fully vested after three years of service.

401(k) plans. Private employers may establish 401(k) plans, which allow participants to choose to take compensation in the form of cash or a contribution to a defined-contribution plan ("elective deferral"). In addition to the rules applying to qualified defined-contribution plans, 401(k) plans are subject to additional requirements.

Annual deferrals under a 401(k) plan may not exceed $15,500 in 2007. Participants aged 50 or over may make additional "catch-up" deferrals of up to $5,000. These contribution limits are indexed annually for inflation. Elective deferrals are immediately fully vested.

401(k) plans are subject to an actual deferral percentage (ADP) test, which generally measures employees' elective-deferral rates. In applying the ADP test, the same numerical limits are used as under the ACP test. Three 401(k)-plan "safe-harbor" designs (similar to the safe-harbor designs for the ACP test described above) are deemed to satisfy the ADP test automatically.

SIMPLE 401(k) plans. Employers with 100 or fewer employees and no other retirement plan may establish SIMPLE 401(k) plans. Deferrals of SIMPLE participants may not exceed $10,500. SIMPLE participants aged 50 or over may make additional "catch-up" deferrals of up to $2,500. All contributions are immediately fully vested. In lieu of the ADP test, SIMPLE plans are subject to special contribution requirements, including a lower annual elective deferral limit and either a matching contribution not exceeding 3 percent of compensation or non-elective contribution of 2 percent of compensation.[3]

Thrift plans. Employers may establish thrift plans under which participants may choose to make after-tax cash contributions. Such after-tax contributions, along with any matching contributions that an employer elects to make, are subject to the ACP test (without the availability of an ACP safe harbor). Employee contributions under a thrift plan are not subject to the $15,500 limit that applies to employee pre-tax deferrals.

Roth-treatment of contributions. Effective after December 31, 2005, participants in 401(k) and 403(b) plans can elect Roth treatment for their contributions. That is, contributions would not be excluded from income and distributions would not be included in income. Roth contributions must be accounted for in a separate account. There are no required minimum distributions during an employee's lifetime, but heirs, other than a spouse, are subject to required minimum distributions.

Salary reduction simplified employee pensions (SARSEPs). Employees can elect to have contributions made to a SARSEP or to receive the amount in cash. The amount the employee elects to have contributed to the SARSEP is not currently includible in income and is limited to the dollar limit applicable to employee deferrals in a 401(k) plan. SARSEPs are available only for employers who had 25 or fewer eligible employees at all times during the prior taxable year and are subject to a special nondiscrimination test. The rules permitting SARSEPs were repealed

[3] Employer contributions and employee deferrals may be made to SIMPLE IRAs under rules very similar to those applicable to SIMPLE 401(k) plans.

in 1996, but employee deferral contributions can still be made to SARSEPs that were established prior to January 1, 1997.

403(b) plans: Section 501(c)(3) organizations and public schools may establish tax-sheltered annuity plans, also called 403(b) plans. The rules applicable to these plans are different in certain respects than rules applicable to qualified plans under section 401. Benefits may generally only be provided through the purchase of annuities or contributions to a custodial account invested in mutual funds. Contribution limits (including catch-ups), deferral limits, and minimum distribution rules are generally the same as for 401(k) plans. However, certain employees with 15 years of service may defer additional amounts according to a complicated three-part formula. Some 403(b) plans are subject to some nondiscrimination rules.

Governmental 457(b) plans: State and local governments may establish eligible plans under section 457(b).[4] In general, these plans are subject to different rules than qualified plans that are defined under section 401. Contributions and plan earnings are tax-deferred until withdrawal. Contributions may not exceed the lesser of 100 percent of compensation or $15,500 in 2007. However, participants may make additional contributions of up to twice the standard amount are permitted in the last three years before normal retirement age. Additional "catch-up" contributions of up to $5,000 may be made for participants age 50 or over.

Reasons for Change

The rules covering employer retirement plans are among the lengthiest and most complicated sections of the Code and associated regulations. The extreme complexity imposes substantial compliance, administrative, and enforcement costs on employers, participants, and the government (and hence, taxpayers in general). Moreover, because employer sponsorship of a retirement plan is voluntary, the complexity discourages many employers from offering a plan at all. This is especially true of the small employers who together employ about two-fifths of American workers. Complexity is often cited as a reason the coverage rate under an employer retirement plan has not grown above about 50 percent overall, and has remained under 25 percent among employees of small firms. Reducing unnecessary complexity in the employer plan area would save significant compliance costs and would encourage additional coverage and retirement saving.

Proposal

The proposal would consolidate those types of defined-contribution accounts that permit employee deferrals or employee after-tax contributions, including 401(k), SIMPLE 401(k), Thrift, 403(b), and Governmental 457(b) plans, as well as SIMPLE IRAs and SARSEPs, into Employer Retirement Savings Accounts (ERSAs), which would be available to all employers and have simplified qualification requirements.

The proposal would become effective for years beginning after December 31, 2007.

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[4] Tax-exempt organizations are also permitted to establish eligible section 457(b) plans, but such plans are not funded arrangements and are generally limited to management or highly compensated employees.

ERSAs would follow the existing rules for 401(k) plans, subject to the plan qualification simplifications described below. Thus, employees could defer wages of up to $15,500 annually, with employees aged 50 and older able to defer an additional $5,000 in 2007. The maximum deferral amounts, as under current law, would be adjusted annually for inflation. The maximum total contribution (including employer contributions) to ERSAs would be the lesser of 100 percent of compensation or $45,000 in 2007 (adjusted annually for inflation). The taxability of contributions and distributions from an ERSA would be the same as contributions and distributions from the plans that the ERSA would be replacing. Thus, contributions could be pre-tax deferrals or after-tax employee contributions or Roth contributions, depending on the design of the plan. Distributions of Roth and non-Roth after-tax employee contributions and qualified distributions of earnings on Roth contributions would not be included in income. All other distributions would be included in the participants' income.

Existing 401(k) and Thrift plans would be renamed ERSAs and could continue to operate as before, subject to the simplification described below. Existing SIMPLE 401(k) plans, SIMPLE IRAs, SARSEPs, 403(b) plans, and governmental 457(b) plans could be renamed ERSAs and be subject to ERSA rules, or could continue to be held separately, but if held separately could not accept any new contributions after December 31, 2008, with a special transition for collectively bargained plans and plans sponsored by State and local governments.

Special Rule for Small Employers. Employers that had 10 or fewer employees making at least $5,000 during the prior year would be able to fund an ERSA by contributing to a custodial account, similar to a current-law IRA, provided the employer's contributions satisfy the design-based ERSA safe harbor described below. This custodial account would provide annual reporting relief for small employers as well as relief from most of the ERISA fiduciary rules under circumstances similar to the fiduciary relief currently provided to sponsors of SIMPLE IRAs.

ERSA Nondiscrimination Testing. The following single test would apply for satisfying the nondiscrimination requirements with respect to contributions for ERSAs: the average contribution percentage of HCEs could not exceed 200 percent of NHCEs' percentage if the NHCEs' average contribution percentage is 6 percent or less. In cases in which the NHCEs' average contribution percentage exceeds 6 percent, the goal of increasing contributions among NHCEs would be deemed satisfied, and no nondiscrimination testing would apply. For this purpose, "contribution percentage" would be calculated for each employee as the sum of all employee and employer contributions divided by the employee's compensation. The ACP and ADP tests would be repealed. Plans sponsored by State and local governments or churches would not be subject to this test. A plan sponsored by a section 501(c)(3) organization would not be subject to this nondiscrimination test (unless the plan permits after-tax or matching contributions) but would be required to permit all employees of the organization to participate.

ERSA Safe Harbor. The design-based safe harbor described below would be sufficient to satisfy the nondiscrimination test for ERSAs described above. The design of the plan must be such that all eligible NHCEs are eligible to receive fully vested employer contributions (including matching or non-elective contributions, but not including employee elective deferrals or after-tax contributions) of at least 3 percent of compensation. To the extent that the employer contributions of 3 percent of compensation for NHCEs are matching contributions rather than non-elective contributions, the match formula must be one of two qualifying formulas. The first formula would be a 50 percent employer match for the elective contributions of the employee up to 6 percent of the employee's compensation. The second would be any alternative formula such that the rate of an employer's matching contribution does not increase as the rate of an employee's elective contributions increases, and the aggregate amount of matching contributions at such rate of elective contribution is at least equal to the aggregate amount of matching contributions which would be made if matching contributions were made on the basis of the percentages described in the first formula. In addition, the rate of matching contribution with respect to an HCE at any rate of elective contribution cannot be greater than that with respect to an NHCE.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-80	-120	-132	-141	-150	-623	-1,484

Encourage Entrepreneurship and Investment

INCREASE EXPENSING FOR SMALL BUSINESS

Current Law

Section 179 provides that, in place of capitalization and subsequent depreciation, certain taxpayers may elect to deduct up to $100,000 of the cost of qualifying property placed in service each taxable year. The $100,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property exceeds $400,000. Both limitations are indexed annually for inflation for taxable years beginning after 2003 and before 2010. (For taxable years beginning after December 31, 2009, the maximum deduction amount reverts back to $25,000, and the phase-out of the deductible amount begins at $200,000). Higher expensing amounts are allowed for investments in an empowerment zone or renewal community, or in the Gulf Opportunity (GO) Zone.

In general, qualifying property is defined as depreciable tangible personal property and certain depreciable real property that is purchased for use in the active conduct of a trade or business. For taxable years beginning after 2002 and before 2010, off-the-shelf computer software is considered qualifying property even though it is intangible property. An election for the section 179 deduction can be revoked on an amended return for taxable years beginning after 2002 and before 2010. In other years, elections can only be revoked with the consent of the Commissioner.

Reasons for Change

The temporary expansion of section 179 provides a number of benefits to small business taxpayers and the economy. Expensing encourages investment by lowering the after-tax cost of capital purchases, relative to claiming regular depreciation deductions. Expensing is also simpler than claiming regular depreciation deductions, which is particularly helpful for small businesses. Including off-the-shelf computer software in section 179 means that purchased software is not disadvantaged relative to developed software (for which development costs can generally be expensed). Allowing revocations of section 179 elections to be made on amended returns helps less sophisticated taxpayers, who may not always be aware of the implications of section 179 expensing when they file their initial tax return. Inflation-adjusting the specified dollar amounts ensures that the benefits of section 179 do not apply to an ever-shrinking share of business taxpayers.

A further expansion of section 179 would extend the benefits of expensing to more taxpayers and would also simplify tax accounting for them. Making the expansion permanent would allow these businesses to improve their planning of future investments.

Proposal

The proposal would expand the expensing provisions of section 179. Specifically, the proposal would increase the maximum amount of qualified property that a taxpayer may deduct under section 179 to $200,000, raise the amount of total qualifying investment at which the phase-out begins to $800,000 per year, and permanently include off-the-shelf computer software as qualifying property. Both the deduction limit and phase-out threshold would be indexed annually for inflation. In addition, the proposal would allow expensing elections to be made or revoked on amended returns. Furthermore, the Administration also proposes to make the higher amounts under section 179 permanent.

The proposal would be effective for property placed in service in taxable years beginning on or after January 1, 2008. The $200,000 and $800,000 amounts would be indexed for inflation for any taxable year beginning in a calendar year after 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-1,597	-2,180	-1,541	-1,135	-847	-7,300	-10,095

Invest in Health Care

PROVIDE A NEW STANDARD DEDUCTION FOR HEALTH INSURANCE (SDHI) ($15,000 FOR FAMILY COVERAGE AND $7,500 FOR SINGLE COVERAGE)

Current Law

The cost of health coverage paid by an employer on behalf of employees is excludible for income and employment tax purposes. The employee's portion of the cost of employer-sponsored coverage is also excludible for income and employment tax purposes if it is paid through a cafeteria plan. Out-of-pocket expenses can also be excluded from income and employment taxes if they are paid through a health flexible spending arrangement (FSA) under a cafeteria plan.

Taxpayers' health insurance premiums paid outside of the employment context (or paid outside of a cafeteria plan) as well as other medical expenses generally are not deductible except by taxpayers who itemize their deductions and only to the extent they exceed 7.5 percent of adjusted gross income. Medical expenses and insurance premiums paid outside of the employment context are never excludible for employment tax purposes.

Medical costs paid through a health savings account (HSA) or medical savings account (MSA) are generally excludible for income tax purposes, although the ability to pay health insurance premiums through an HSA is limited.

Premiums for health insurance paid by self-employed individuals who are not eligible for subsidized employer coverage are deductible in computing adjusted gross income.

Reason for Change

There are a number of ways the current exclusion for employer-based health coverage encourages employers to provide more coverage than necessary and has resulted in higher and less efficient health spending. The value of the current exclusion rises with the amount of insurance an employee purchases. This creates a tax bias in favor of more expensive insurance. Such insurance often has low deductibles or first dollar coverage, which reduces consumers' sensitivity to the cost of health insurance because they are not exposed to the true cost of health care. The tax bias also creates an incentive for workers to channel more of their routine health expenses through their employer-based insurance. Coverage tends to be broader and include more incidental expenses.

Workers who do not receive insurance through their employer but who purchase health insurance directly typically receive no tax benefit for buying health insurance. They pay for insurance after paying income and payroll taxes on their wages. In contrast, the health insurance premiums for workers who receive insurance through their jobs are subject to neither income nor payroll taxes. This disparate tax treatment can increase the after-tax cost of insurance purchased directly by individuals by as much as 50 percent. The after-tax cost of purchasing insurance is also higher for the self-employed who receive an income tax deduction, but no deduction for payroll tax purposes.

Proposal

A standard deduction for health insurance (SDHI) of $15,000 for family coverage ($7,500 for single coverage) would be provided to all families who purchase health insurance that meets minimum requirements, whether directly or through an employer.

One-twelfth of the full SDHI would apply for each month that an individual has qualifying coverage (determined on the first of the month), regardless of how much a family or individual spends on health insurance. A family or individual that spends less on health insurance than the full SDHI would still receive the full SDHI. The SDHI would apply for purposes of both the income and payroll taxes.

The new SDHI would replace the existing exclusion for employer-based health insurance, the self-employed premium deduction, and the medical itemized deduction for those not enrolled in Medicare (typically those under 65 years of age). The current exclusion or deduction from income of health care spending, whether for insurance premiums or out-of-pocket expenses, except under a Health Savings Account, also would be repealed. Itemized medical deductions would still be available for taxpayers enrolled in Medicare.

Employers would be required to report the value of health insurance coverage to their employees on their annual Form W-2 and such amounts would be subject to withholding and employment taxes. Employers would exclude a pro-rated portion of the SDHI for employment tax purposes for their employees who have qualifying coverage. Withholding and estimated taxes could be adjusted to reflect the SDHI. Businesses would continue to deduct employer-based health insurance as a business expense. In addition, the phase-out rate for the EITC for taxpayers with qualifying children would be reduced to 15 percent.

Insurance coverage that qualifies a taxpayer for the SDHI, must meet certain minimum coverage requirements, including:

- A limit on out-of-pocket exposure for covered expenses that is not higher than that currently allowable for HSAs (e.g., for 2007, those limits would be $5,500 for single coverage and $11,000 for family coverage).
- A reasonable annual and/or lifetime benefit maximum.
- Coverage for inpatient and outpatient care, emergency benefits, and physician care.
- Guaranteed renewability by the provider.

This minimum level of coverage is not intended to pre-empt State laws mandating certain coverage. Thus, eligible coverage would be subject to applicable State minimum coverage rules. Under regulations promulgated by the Treasury Department, the SDHI would be denied for coverage under policies that do not meaningfully limit individual economic exposure to extraordinary medical expenses. Long-term care insurance and Medicare would not qualify for the SDHI.

Generally, individuals (including dependents) enrolled in Medicare, Medicaid or SCHIP would not qualify for the SDHI. As with the current exclusion for employer-based insurance, individuals would not be eligible to claim the SDHI if they claim the HCTC or use tax-preferred distributions from HSAs or MSAs to pay for premiums. An individual who can be claimed as a dependent on another filer's return would not be eligible to claim the SDHI.

The new SDHI would address the rising cost of health insurance by removing the tax bias for more expensive insurance, while also providing a potent incentive for the uninsured to purchase insurance. The proposal would break the link between the value of the tax subsidy and the amount of insurance a worker purchases. The proposal also would level the playing field between less expensive and more expensive health insurance, and between wages and employer-provided health insurance.

Individuals and families would have a strong incentive to purchase insurance under the proposal. However, the insurance they choose to purchase would be based on their needs and circumstances rather than the tax bias in favor of health insurance and against wages. The tax bias for overly generous insurance would be eliminated. This change would translate into greater price sensitivity for health care consumers. Many of those with employer-based insurance would take advantage of the level playing field between wages and health insurance by receiving higher wages in exchange for less expensive health insurance.

Treasury estimates that about 3 to 5 million more people would have health insurance under the proposal.

The provision would be effective for tax years after December 31, 2008.

Revenue Estimate[5]

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
				($ in millions)			
0	0	-31,664	-43,521	-35,548	-24,748	-135,480	-32,735

[5] The estimate includes both receipt and outlay effects. The outlay effect is $37,886 million for 2008-2017.

EXPAND AND MAKE HEALTH SAVINGS ACCOUNTS (HSAs) MORE FLEXIBLE

Current Law

Eligible individuals are allowed to accumulate funds in a Health Savings Account (HSA) on a tax-preferred basis to pay for medical expenses and retiree health coverage.

Eligibility: In order to contribute to an HSA, an individual must be covered by a high-deductible health plan (HDHP) and generally no other health plan except for certain permitted or disregarded coverage. Individuals who can be claimed as a dependent on someone else's return or who are enrolled in Medicare may not contribute to an HSA. An HSA may only be established on or after the first day of the first month that an individual is an eligible individual with HDHP coverage on the first day.

Tax Treatment of Contributions and Earnings: Employer contributions to HSAs are excluded from employee income for income and employment tax purposes. Individual contributions to HSAs are deductible in computing the individual's adjusted gross income (AGI), but are not deductible from payroll taxes. Earnings in an HSA accumulate tax-free.

Tax Treatment of Distributions: Withdrawals for qualified medical expenses of the HSA owner, the owner's spouse or dependent are not taxable. Qualified medical expenses are generally medical expenses as defined for the itemized medical expense deduction, with the addition of nonprescription drugs. However, qualified medical expenses do not include payments for insurance except in certain limited situations – a health plan during any period of continuation coverage under COBRA or other Federal law; qualified long-term care insurance, a health plan while an individual is receiving unemployment compensation under Federal or State law, or individuals who have reached age 65 (other than Medicare supplemental policies). Thus, most purchases of insurance with HSA funds are included in income and subject to the 10 percent tax on non-medical withdrawals to the extent applicable. There is no limit on the time for reimbursing qualified medical expenses that are incurred after the HSA is established. Nonmedical withdrawals are subject to an additional 10 percent tax if made before age 65 and are includable in income regardless of age. Reimbursements of qualified medical expenses that are excluded from income only include medical expenses incurred after the HSA is established. Consequently, where HDHP coverage begins after the first day of the month, any expenses incurred prior to the first day of the next month may not be reimbursed by the HSA on a tax-favored basis.

HDHPs: In order to be an HDHP, a plan in 2007 must have a deductible of at least $1,100 for self-only coverage or $2,200 for family coverage. An HDHP in 2006 may not have a total out-of-pocket exposure of more than $5,500 for self-only coverage or $11,000 for family coverage. The deductible minimums and out-of-pocket maximums are indexed for inflation. The out-of-pocket amount includes the deductible as well as copays and other amounts a covered individual must pay for covered benefits. For network plans, the out-of-pocket requirement only includes the out-of-pocket amounts for benefits provided in network. Out-of-pocket expenses do not include amounts paid by covered individuals for benefits excluded by reasonable benefit restrictions or exclusions.

Contribution Limits: Annual contributions to HSAs are limited to $2,850 (for self-only coverage in 2007) or $5,650 (for family coverage in 2007). For network plans, only the deductible for benefits provided in-network is taken into account for purposes of determining the HSA maximum contribution. Maximum contributions are based on the sum of monthly limits, with contributions pro rated for individuals who are not eligible individuals for the entire year. For the initial year of HDHP coverage, however, an individual will be entitled to an entire year's contribution limit, subject to a recapture of some that contribution (plus an additional 10 percent tax on that amount) if the individual does not remain in an HDHP for the 12-month period following the end of that first year.

A special rule applies for determining HSA contributions by married individuals with family HDHP coverage. If one spouse has family coverage, both spouses are generally treated as having family coverage. The maximum annual family HSA contribution is divided between the spouses equally unless they agree on a different division, which can include allocating the entire contribution to one spouse. For this purpose, family coverage is defined as anything that is not self-only coverage; thus, family HDHP coverage (supporting a family-level contribution) is health coverage that covers one eligible individual and at least one other individual, regardless of the other individual's coverage. A married individual with individual HDHP coverage may not make contributions to his or her spouse's HSA based on the married individual's self-only HDHP coverage.

In addition to the annual contribution, individuals who attain age 55 during the year are allowed to make an additional catch up contribution. The catch up amount increases in $100 increments from $800 in year 2007 to $1000 for years after 2008. Catch up contributions are pro rated for the number of months that the HSA owner is an eligible individual. If both spouses qualify for the catch up contribution, both spouses are allowed the additional HSA contribution amount. However, one spouse is not permitted to have his or her catch up contribution made to the HSA owned by the other spouse.

Employer Contributions: Employer contributions to HSAs are subject to comparability rules that generally require that if the employer contributes to one employee's HSA, the employer must contribute the same amount or percentage of the HDHP deductible to all employees who are eligible individuals with comparable (i.e., self-only or family) coverage. The comparability rules do not apply to contributions made through a cafeteria plan.

HRAs: Health Reimbursement Arrangements (HRAs) are employer-sponsored plans which allow employers to reimburse substantiated employee medical expenses up to a maximum amount. Unlike a flexible spending arrangement (FSA) under section 125, unused HRA amounts may be used in later years. HRAs may not be funded by salary reduction. Employers may also provide health coverage through an FSA. HRAs are employer-provided health coverage that disqualify individuals from contributing to HSAs unless the HRA is designed to be compatible with HSA, such as being limited to reimbursing certain permitted or disregarded coverage and preventive care (limited purpose HRAs), reimbursing expenses after the deductible of the HDHP is satisfied (post-deductible HRAs), or combinations. The disqualification from HSA contributions applies regardless of whether the HRA coverage is provided by the employer of the individual or spouse of the individual.

Reasons for Change

Health care costs continue to rise rapidly in the United States. Empowering health care consumers to play a more direct role in their health care decisions, rather than third party payers, would help to stem this trend. A health care system that is more market-oriented and consumer driven will help control costs and result in health care that is more affordable and accessible. This goal can be facilitated by making HSAs more flexible and increasing the incentive for individuals to change to HSA-eligible coverage.

Proposal

1. *Plans with 50 percent coinsurance would qualify as HDHPs*. Health plans would be considered HSA-eligible if they meet all the existing requirements of an HDHP except that, in lieu of satisfying the minimum deductible requirement, they have at least a 50 percent or higher coinsurance requirement and a minimum out-of-pocket exposure that, under guidelines established by the Secretary, would result in the same (or lower) premium as coverage under a high deductible health plan under the current requirements for the same family or individual.

2. *For HSA purposes, include as qualified medical expenses any medical expense incurred on or after the first day of HSA eligibility in a year*. The existing rule that denies tax-free treatment for HSA funds used to pay medical expenses incurred prior to the establishment of the HSA would be changed so that HSA funds could be used to pay medical expenses incurred on or after the first day of eligibility in a particular year, as long as the HSA is established no later than the date for filing the return for that taxable year. This will provide more time for newly eligible taxpayers to set up their HSAs.

3. *Allow larger employer contributions for the chronically ill*. Contributions to HSAs on behalf of employees who are chronically ill or employees who have spouses or dependents who are chronically ill would be excluded from the comparability rules to the extent the contributions exceed the comparable contributions for other employees.

4. *Allow family coverage to include coverage where each individual in the family can receive benefits once they have reached the minimum deductible for an individual HDHP*. Many types of family coverage provide for an overall deductible that meets the requirements for family HDHP coverage, but include embedded deductibles for each family member below the family deductible. Under current law this does not constitute an HDHP. Under the proposal, such coverage would constitute a family HDHP if each individual embedded deductible is at least the minimum deductible for individual HDHP coverage and the overall deductible is at least the minimum deductible for family HDHP coverage.

5. *If both spouses are eligible individuals, allow both spouses to contribute the catch-up contribution to a single HSA owned by one spouse*.

6. *Allow contributions to HSAs to be made by individuals covered by an FSA or HRA, but offset the maximum allowable HSA contribution by the level of FSA or HRA coverage*. Currently, FSA or HRA participation generally disqualifies individuals from contribution to HSAs because of the first dollar nature of FSAs and HRAs. This proposal would make it much easier for individuals who change from a non-HDHP to an HDHP when they have HRA or FSA coverage.

All of the changes described above would apply for tax years beginning after December 31, 2007.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
				($ in millions)			
High coinsurance policies eligible for HSAs							
0	-253	-488	-663	-804	-895	-3,103	-8,898
Other HSA enhancements							
0	-65	-105	-121	-133	-142	-566	-1,468
Total							
0	-318	-593	-784	-937	-1,037	-3,669	-10,366

IMPROVE THE HEALTH COVERAGE TAX CREDIT

Current Law

The Health Coverage Tax Credit (HCTC) was created under the Trade Adjustment Assistance Reform Act of 2002 (TAA) for the purchase of qualified health insurance for eligible individuals and for their family members. The HCTC is refundable and equal to 65 percent of the cost of qualified health insurance paid by eligible individuals, including certain recipients of the TAA or Alternative TAA (ATAA) benefits and certain individuals between the ages of 55 and 64 who are receiving pension benefits from the Pension Benefit Guaranty Corporation (PBGC). Individuals can claim the HCTC as part of the tax-filing process or through an advance payment program at the time qualified insurance is purchased. The HCTC is not available (either for the eligible individual or the eligible individual's family) once the eligible individual becomes entitled to Medicare coverage.

Since 1997, the Health Insurance Portability and Accountability Act (HIPAA) has provided protections for individuals who have 12 months of creditable coverage (generally continuous health coverage without a gap of more than 63 days). To be a qualified State-based HCTC plan, however, a plan must provide protections similar to the HIPAA protections for individuals who have only 3 months of creditable coverage.

Reasons for Change

Making the requirements for qualified State-based coverage under the HCTC more consistent with the HIPAA rules encourages plans to participate in the HCTC program. Also, there are many cases in which the eligible individual is (or becomes) entitled to Medicare coverage but has a spouse who is younger. In these cases, the younger spouse is not entitled to the credit, even though the younger spouse would be entitled to the credit if he or she were receiving benefit checks from the PBGC (as a survivor or divorcee). Finally, a number of issues should be clarified in order to facilitate the administration of the HCTC.

Proposal

First, the proposal would subject State-based HCTC coverage to rules more like the HIPAA rules by allowing State-based coverage to impose a pre-existing condition restriction for a period of up to 12 months, provided the plan reduces the restriction period by the length of the eligible individual's creditable coverage (as of the date they apply for the State-based coverage). This provision would be effective for eligible individuals applying for coverage after December 31, 2007. Second, effective for taxable years beginning after December 31, 2007, the proposal would permit spouses of HCTC-eligible individuals to claim the HCTC when the HCTC-eligible individual becomes entitled to Medicare coverage. The spouse, however, would have to be at least 55 years old and meet the other HCTC eligibility requirements. Third, the proposal would provide the following clarifications:

1. Clarify that individuals who elect to receive one-time lump sum payments from the PBGC and certain alternative PBGC payees would be eligible for the HCTC.

2. For purposes of the State-based coverage rules, deem the Commonwealths of Puerto Rico and the Northern Mariana Islands as well as American Samoa, Guam, and the U.S. Virgin Islands to be States.

3. Clarify that State continuation coverage provided under a State law would automatically qualify as "qualified health insurance," as Federally mandated COBRA continuation coverage, without meeting the requirements relating to State-based qualified coverage.

4. Apply the same list of "other specified coverage" to all eligible individuals by changing the definition of "other specified coverage" for "eligible ATAA recipients" to conform to the definition applied to other eligible individuals.

Revenue Estimate[6]

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-5	-13	-16	-19	-20	-73	-190

[6] The estimate includes both receipt and outlay effects. The outlay effect is $139 million for 2008-2017.

ALLOW THE ORPHAN DRUG TAX CREDIT FOR CERTAIN PRE-DESIGNATION EXPENSES

Current Law

Taxpayers may claim a 50-percent credit for expenses related to human clinical testing of drugs for the treatment of certain rare diseases and conditions, generally those that afflict less than 200,000 persons in the United States (orphan drug credit). Qualifying expenses are those paid or incurred by the taxpayer after the date on which the drug is designated as a potential treatment for a rare disease or disorder by the Food and Drug Administration (FDA) in accordance with the section 526 of the Federal Food, Drug, and Cosmetic Act. Research expenses claimed for the orphan drug credit are not eligible for the credit for increasing research under section 41 of the Code.

Reasons for Change

Currently, expenditures for human clinical trials are eligible for the credit only after the FDA designates the drug as a potential treatment for a rare disease or condition. Expenses for clinical trials that the taxpayer undertakes while the FDA reviews the taxpayer's application for designation are ineligible. This creates an incentive to defer clinical testing for orphan drugs until the taxpayer receives the FDA's approval and complexity for taxpayers by treating pre-designation and post-designation clinical expenses differently. The proposal would reduce the incentive to defer clinical testing while the FDA reviews the taxpayer's application for designation of a drug as an orphan drug and simplify the credit by treating pre-designation expenses and post-designation expenses equally.

Proposal

Taxpayers that incur expenses prior to FDA designation would be permitted to claim the orphan drug credit for these expenses if the drug receives FDA designation as a potential treatment for a rare disease or condition before the due date (including extensions) for filing the tax return for the year in which the FDA application was filed.

The proposal would be effective for qualified expenses incurred after December 31, 2006.

Revenue Estimate

[No revenue effect]

Provide Incentives for Charitable Giving

PERMANENTLY EXTEND TAX-FREE WITHDRAWALS FROM IRAs FOR CHARITABLE CONTRIBUTIONS

Current Law

Eligible individuals may make deductible contributions to a traditional individual retirement arrangement (traditional IRA). Other individuals with taxable income may make nondeductible contributions to a traditional IRA. Earnings and pre-tax contributions in a traditional IRA are includible in income when withdrawn. Withdrawals made before age 59½ are subject to an additional 10-percent excise tax, unless an exception applies.

Individuals with adjusted gross incomes (AGI) below certain levels may make nondeductible contributions to a Roth IRA. Amounts withdrawn from a Roth IRA as a qualified distribution are not includible in income. A qualified distribution is a distribution made (1) after 5 years and (2) after the holder has attained age 59½, died, or become disabled or is made for first-time homebuyer expenses of up to $10,000. Distributions from a Roth IRA that are not qualified distributions are includible in income to the extent the distributions are attributable to earnings, and are also subject to the additional 10-percent excise tax, unless an exception applies.

Individual taxpayers who itemize their deductions may claim a deduction for contributions made to qualified charitable organizations. Total deductible contributions may not exceed 50 percent of the taxpayer's AGI, and lower deductibility limits apply in the case of contributions of appreciated property and contributions to certain private foundations. Excess amounts may be carried forward and deducted in future years. In addition, the total of most categories of itemized deductions, including charitable contributions, is reduced by 2 percent of AGI in excess of a certain threshold ($156,400 for joint filers in 2007). Taxpayers who elect the standard deduction ("non-itemizers") may not claim a deduction for charitable contributions.

Through December 31, 2007, individuals may exclude from gross income (and thus from AGI for all purposes under the Code) distributions made after age 70½ from a traditional or Roth IRA (but not a SIMPLE IRA or SEP IRA) directly to a qualified charitable organization. The exclusion may not exceed $100,000 per taxpayer per taxable year and is available without regard to the percentage of AGI limits that apply to deductible contributions.

The exclusion does not apply to distributions to certain private foundations, supporting organizations, or donor advised funds. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowed under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount that is excludable from income under this provision. If an amount transferred from the IRA would otherwise be nontaxable, such as a qualified distribution from a Roth IRA or the return of nondeductible contributions from a traditional IRA, the normal charitable contribution deduction rules apply.

Reasons for Change

Allowing taxpayers who are at the stage in their life when they are already required to take distributions from their IRAs to exclude from income direct transfers to qualified charities will stimulate additional charitable giving by simplifying the required tax calculations and eliminating the current-law tax disincentives. Permanency will maintain this incentive.

Proposal

The exclusion from income of qualified distributions made after age 70½ from a traditional or Roth IRA directly to a qualified charitable organization would be made permanent.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
---	-120	-255	-235	-171	-147	-928	-1,867

PERMANENTLY EXTEND THE ENHANCED CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY

Current Law

A taxpayer's deduction for charitable contributions of inventory property generally is limited to the taxpayer's basis (typically, cost) in the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of (1) the taxpayer's basis in the contributed property, plus one-half of the gain that would have been realized had the property been sold or (2) two times basis. To be eligible for the enhanced deduction, the inventory must be contributed to a charitable organization (other than a private nonoperating foundation), 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 these requirements. To claim the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis.

Through December 31, 2007, for donations of food inventory, all businesses, and not just C corporations, are eligible for the enhanced deduction. For all businesses, the enhanced deduction is available only for donations of "apparently wholesome food" (food intended for human consumption that meets all quality and labeling standards imposed by Federal, State, and local laws and regulations, even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions).

In the case of a taxpayer other than a C corporation, the total deduction for donated food inventory for any taxable year may not exceed 10 percent of the taxpayer's net income from the related trade or business.

Reasons for Change

The enhanced deduction for contributions of food inventory increases donations of food by all types of businesses. Permanent extension of this provision supports charities working to combat hunger.

Proposal

The proposal would make permanent the expansion of the enhanced deduction for donations of food inventory to all types of businesses and the clarification of the definition of eligible food.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-44	-96	-106	-116	-127	-489	-1,345

PERMANENTLY EXTEND THE ENHANCED DEDUCTION FOR CORPORATE CONTRIBUTIONS OF COMPUTER EQUIPMENT FOR EDUCATIONAL PURPOSES

Current Law

A taxpayer's deduction for charitable contributions of inventory property generally is limited to the taxpayer's basis (typically, cost) in the inventory property. The Taxpayer Relief Act of 1997 provided an enhanced deduction for a three-year period for charitable contributions by certain corporations of computer technology or equipment to elementary and secondary schools and charities formed for the purpose of supporting elementary and secondary education. In 2000, this provision was extended for an additional three-year period and expanded to apply to charitable contributions of computer technology or equipment to post-secondary educational institutions and public libraries. It was extended again in 2004. In 2006, this provision was extended for an additional two-year period. In addition, the definition of property eligible for the enhanced deduction was expanded to include property assembled by the taxpayer.

For contributions made in taxable years beginning before January 1, 2008, the amount of the deduction is equal to the lesser of (1) the taxpayer's basis in the contributed property, plus one-half of the gain that would have been realized had the property been sold, or (2) two times basis. To qualify for the enhanced deduction, the contribution must satisfy various requirements. This provision does not apply to contributions made in taxable years beginning after December 31, 2007.

Reasons for Change

This provision provides an incentive for businesses to contribute computer equipment and software for the benefit of local communities and students at the elementary, secondary, and post-secondary school levels, by providing public libraries and educational institutions with needed technology resources. Because the need for technology resources is ongoing, this provision should be made permanent.

Proposal

The enhanced deduction for corporate donations of computer equipment would be made permanent.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-50	-118	-147	-154	-162	-631	-1,570

PERMANENTLY EXTEND INCREASED LIMITS ON CONTRIBUTIONS OF PARTIAL INTERESTS IN REAL PROPERTY FOR CONSERVATION PURPOSES

Current Law

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. The amount of the deduction generally equals the fair market value of the contributed property on the date of the contribution.

Corporations generally are allowed to deduct charitable contributions up to a limit of 10 percent of taxable income (computed without regard to net operating or capital loss carrybacks). Individual taxpayers who itemize their deductions may claim a deduction for charitable contributions up to a percentage of the taxpayer's adjusted gross income (AGI) (computed without regard to any net operating loss carryback). The percentage limit for individuals varies depending on the type of donee organization and the type of property contributed. In general, the deduction for charitable contributions may not exceed 50 percent of AGI. However, lower percentage limits apply to contributions of capital gain property and contributions to certain private foundations. For example, the deduction for contributions of capital gain property to public charities, private operating foundations, and certain non-operating foundations generally may not exceed 30 percent of AGI. In general, in the case of both individuals and corporations, charitable contributions in excess of the percentage limits may be carried forward for up to five years.

Gifts of partial interests in property generally are not deductible as charitable contributions. However, to encourage donations for conservation purposes, the tax law provides an exception to the "partial interest" rule for qualified conservation contributions. A qualified conservation contribution is a contribution of a qualified real property interest (such as a remainder interest or a restriction (granted in perpetuity) on the use that may be made of the real property) to a qualified organization exclusively for conservation purposes. Qualified conservation contributions generally are subject to the same limitations and carryover rules as apply to other charitable contributions of capital gain property.

For 2006 and 2007, special percentage limits and carryover rules apply to contributions of partial interests in real property for conservation purposes. In 2006 and 2007, an individual taxpayer may deduct the fair market value of any qualified conservation contributions up to a limit equal to the excess of (i) 50 percent of AGI over (ii) the amount of all other allowable charitable contributions (determined under the general rules described above, but not taking into account the qualified conservation contributions). In the case of a qualified farmer or rancher, the limit is 100 percent of the excess of the individual taxpayer's AGI (or 100 percent of the corporation's taxable income) over the amount of all other allowable charitable contributions. In addition, for both individuals and corporations, the number of years that qualified conservation contributions in excess of these limits may be carried forward is increased to 15 years from five years.

Reasons for Change

Increasing the limits on the allowable deduction for qualified conservation contributions will stimulate charitable giving for conservation purposes by increasing the incentives to donors. Permanency will maintain the incentives.

Proposal

The increased limits on the deduction for qualified conservation contributions would be made permanent.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-48	-35	-22	-18	-21	-144	-265

PERMANENTLY EXTEND THE BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS CONTRIBUTING APPRECIATED PROPERTY

Current Law

If an S corporation contributes money or other property to a charity, each shareholder takes into account the shareholder's pro rata share of the contribution in determining the shareholder's income tax liability. Prior to the enactment of the Pension Protection Act of 2006 (PPA), a shareholder of an S corporation reduced the basis in the stock or indebtedness of the S corporation by the amount of the charitable contribution that flowed through to the shareholder. In many cases, a shareholder's basis in S corporation stock reflects the basis of the contributed property, whereas the charitable contribution deduction reflects the fair market value of the contributed property. As a result, pre-PPA law deprived some S corporation shareholders of the full benefit of the charitable contribution deduction.

Reasons for Change

PPA modified the rules for adjusting the basis of S corporation stock to preserve the benefit of providing a charitable contribution deduction for contributions of appreciated property by an S corporation. S corporation shareholders are allowed to adjust their basis in the stock by their pro rata share of the adjusted basis (not fair market value) of the contributed property. The provision only applies to charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2008.

Proposal

The proposal would permanently extend the rule allowing S corporation shareholders to adjust their stock basis by their pro rate share of the adjusted basis of contributed property.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
				($ in millions)			
0	-3	-15	-21	-25	-28	-92	-301

REFORM EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE FOUNDATIONS

Current Law

Private foundations that are exempt from Federal income tax generally are subject to a two-percent excise tax on their net investment income. The excise tax rate is reduced to one percent in any year in which the foundation's distributions for charitable purposes exceed the average level of the foundation's charitable distributions over the five preceding taxable years (with certain adjustments). Private foundations that are not exempt from Federal income tax, including certain charitable trusts, must pay an excise tax equal to the excess (if any) of the sum of the excise tax on net investment income 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. Under current law, private nonoperating foundations generally are required to make annual distributions for charitable purposes equal to at least five percent of the fair market value of the foundation's noncharitable use assets (with certain adjustments). The amount that a foundation is required to distribute annually for charitable purposes is reduced by the amount of the excise tax paid by the foundation.

Reasons for Change

The current "two-tier" structure of the excise tax on private foundation net investment income may discourage foundations from significantly increasing their distributions for charitable purposes in any particular year. Under the current formula, any increase in the foundation's percentage payout in a given year (by increasing the average percentage payout) makes it more difficult for the foundation to qualify for the reduced one percent excise tax rate in subsequent years. Eliminating the "two-tier" structure of this excise tax would ensure that private foundations do not suffer adverse excise tax consequences if they increase their grant-making in a particular year to respond to charitable needs. Such a change would also simplify tax planning and the calculation of the excise tax for private foundations. In addition, lowering the excise tax rate for all foundations would make additional funds available for charitable purposes.

Proposal

This proposal would replace the two rates of tax on private foundations that are exempt from Federal income tax with a single tax rate of one percent. The tax on private foundations not exempt from Federal income tax would be equal to the excess (if any) of the sum of the one-percent excise tax on net investment income 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 special reduced excise tax rate available to tax-exempt private foundations that maintain their historic level of charitable distributions would be repealed.

The proposal would be effective for taxable years beginning after December 31, 2007.

Revenue Estimate

			Fiscal Years				
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
0	-61	-91	-97	-103	-110	-462	-1,163

REPEAL THE $150 MILLION LIMITATION ON QUALIFIED 501(C)(3) BONDS

Current Law

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

Reasons for Change

The $150 million limitation results in complexity and provides disparate treatment depending on the nature and timing of bond-financed expenditures. Issuers must determine whether an issue consists of non-hospital bonds, and must calculate the amount of non-hospital bonds that are allocable to a particular tax-exempt organization. In addition, issuers must determine whether more than five percent of the net proceeds of each issue of non-hospital bonds finances working capital expenditures, or capital expenditures incurred on or before August 5, 1997, in order to determine whether the issue is subject to the limitation. Complete repeal of the limitation would enable private universities to utilize tax-exempt financing on a basis comparable to public universities.

Proposal

The $150 million limit on the volume of outstanding, non-hospital, tax-exempt bonds for the benefit of any one 501(c)(3) organization would be repealed in its entirety, effective for bonds issued after the date of enactment.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-2	-3	-9	-13	-14	-41	-104

REPEAL CERTAIN RESTRICTIONS ON THE USE OF QUALIFIED 501(C)(3) BONDS FOR RESIDENTIAL RENTAL PROPERTY

Current Law

Interest on State or local bonds is generally excluded from gross income. However, this exclusion does not apply to private activity bonds unless a specific exemption is provided in the Code.

One type of tax-exempt private activity bond is a qualified 501(c)(3) bond. In general, an issue consists of qualified 501(c)(3) bonds if, among other things, at least 95 percent of its net proceeds are used by no person other than a 501(c)(3) organization or a State or local governmental unit. For this purpose, any activity of a 501(c)(3) organization that constitutes an unrelated trade or business is a non-qualifying use.

Current law contains a special limitation (the residential rental property limitation) under which, in general, an issue does not consist of qualified 501(c)(3) bonds if any of its net proceeds are used to provide residential rental property for family units. However, this limitation does not apply if: (1) the first use of the financed property is pursuant to the issue; (2) the property meets the low-income set-aside requirements described below for qualified residential rental projects under the exempt facility bond rules; or (3) the property is substantially rehabilitated (i.e., in general, rehabilitation expenditures must equal or exceed the owner's adjusted basis in the property) during the two-year period ending one year after the acquisition.

In addition to qualified 501(c)(3) bonds, current law authorizes the issuance of tax-exempt private activity bonds for certain exempt facilities that are owned or operated by private, for-profit entities. One type of exempt facility is a qualified residential rental project. A qualified residential rental project is a project for residential rental property if, at all times during a specified project period, the project meets one of the following requirements elected by the issuer: (1) at least 20 percent of the residential units are occupied by individuals whose income is 50 percent or less of area median gross income; or (2) at least 40 percent of the residential units are occupied by individuals whose income is 60 percent or less of area median gross income.

Reasons for Change

The residential rental property limitation results in complexity, and provides disparate treatment for new and existing property used by 501(c)(3) organizations. In applying the residential rental property limitation, issuers must first determine whether existing property is residential rental property. For example, an assisted living facility may or may not constitute residential rental property, depending in part on the amount of nursing services provided. Issuers must also determine whether existing property satisfies the low-income set-aside or rehabilitation requirements. Failure to meet the requirements could result in a loss of tax-exemption on the bonds, retroactive to the date of issue. Simplification would be achieved if the residential rental property limitation were repealed.

Proposal

The residential rental property limitation would be repealed, effective for bonds issued after the date of enactment. As under current law, the use of residential rental property by a 501(c)(3) organization would be a qualifying use only to the extent it did not constitute an unrelated trade or business.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-2	-5	-10	-17	-24	-58	-286

Strengthen Education

PERMANENTLY EXTEND THE ABOVE-THE-LINE DEDUCTION FOR QUALIFIED OUT-OF-POCKET CLASSROOM EXPENSES

Current Law

Individual taxpayers who itemize their deductions may claim a deduction for unreimbursed, job-related expenses to the extent those expenses and other miscellaneous deductions exceed 2 percent of adjusted gross income. Such deductions may not be allowed for purposes of the alternative minimum tax.

For taxable years 2002 through 2007, taxpayers who are K-12 teachers and certain other school personnel in a school for at least 900 hours during a school year may deduct, whether or not they itemize, up to $250 paid or incurred in connection with books, supplies, computer equipment and other equipment and supplemental materials used in the classroom.

Reasons for Change

Teachers and other school personnel often incur expenses related to classroom activities that are not reimbursed. These expenditures enhance the quality of education received by students but diminish a teacher's properly measured ability to pay taxes. Allowing school personnel to deduct such expenditures on their Federal income tax return encourages dedicated personnel who supplement available school resources at their own expense.

Proposal

The proposal would extend this provision to apply to expenses incurred in taxable years beginning after December 31, 2007.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
0	-18	-180	-183	-185	-188	-754	-1,739

ALLOW THE SAVER'S CREDIT FOR CONTRIBUTIONS TO QUALIFIED TUITION PROGRAMS (SECTION 529 PLANS)

Current Law

Under current law, taxpayers may receive a nonrefundable credit – the Saver's Credit – on up to $2,000 contributed to elective deferral plans or individual retirement accounts (IRAs). An eligible taxpayer must be at least 18 years old, must not be eligible to be claimed as a dependent by another taxpayer, and must not be a full-time student. Taxpayers must have compensation to be eligible to contribute to an elective deferral plan or IRA.

The credit is nonrefundable and is equal to a percentage of the amount contributed to elective deferral plans or IRAs. The applicable percentage is based on AGI (adjusted for inflation) and filing status and is determined according to the following table for 2007:

Adjusted Gross Income						
Joint Return		Head of a Household		All other cases		
Over	Not Over	Over	Not Over	Over	Not Over	Applicable percentage
	$31,000		$23,250		$15,500	50
$31,000	$34,000	$23,250	$25,500	$15,500	$17,000	20
$34,000	$52,000	$25,500	$39,000	$17,000	$26,000	10
$52,000		$39,000		$26,000		0

Qualified contributions in determining the credit are reduced by any distributions from an elective deferral plan or IRA during the current tax year, the two preceding tax years, and the following year up to the due date of the return including extensions.

Taxpayers may contribute to a Section 529 Qualified Tuition Program (QTP) to save for higher education expenses of a designated beneficiary. Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, so long as the distribution is not used for the same educational expenses for which another tax benefit (such as an education tax credit or a tax-free distribution from a Coverdell Education Savings Account) is claimed. Nonqualified distributions are subject to an additional tax. Some States allow contributions to be excluded from income for State income tax purposes.

There is no specific dollar cap on annual contributions to a QTP and no limit on contributions to a QTP account based on the contributor's income. However, a QTP must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of amounts necessary to provide for the qualified higher education expenses of the beneficiary.

Reasons for Change

Almost one-third of American households have no financial assets and another fifth have only negligible assets available for investment. Many Americans are kept from entering the economic mainstream because they lack the financial resources to invest for long-term goals. Recent evidence suggests that low-income households respond to financial incentives in making savings decisions. Allowing the Saver's Credit for contributions to a QTP provides an incentive for low-income taxpayers to save for higher education.

Proposal

The proposal would allow the Saver's Credit for contributions to QTPs. As under current law, a taxpayer must be at least 18 years old, must not be eligible to be claimed as a dependent by another taxpayer, and must not be a full-time student in order to be eligible to receive the matching credit.

Adjusted gross income in determining the applicable rate for the Saver's Credit would be modified to include the excludable portion of the taxpayer's Social Security benefits. The credit would apply to an annual aggregate contribution of up to $2,000 (or earnings includible in gross income, if less) to the taxpayer's elective deferral plans, IRAs, and QTPs. For a married couple filing a joint return, the maximum allowable credit would be constrained by earnings only if the combined includible compensation of the spouses was less than $4,000. For purposes of the credit, qualified contributions to a QTP must be made to an account over which the taxpayer is the person with the power to authorize distributions and to otherwise administer the account. Qualified contributions would be reduced by any distributions from an elective deferral plan, IRA, or QTP during the current tax year, the two preceding tax years, and the following tax year up to the due date of the return including extensions.

The credit would be available for contributions to QTPs beginning on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
---	-63	-163	-176	-189	-200	-791	-1,966

Protect the Environment

PERMANENTLY EXTEND EXPENSING OF BROWNFIELDS REMEDIATION COSTS

Current Law

Taxpayers can elect to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement of hazardous substances at a qualified contaminated site (so-called "brownfields"). This provision applies only to expenditures paid or incurred before January 1, 2008.

Hazardous substances are defined generally for purposes of the brownfields provision by reference to sections 101(14) and 102 of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). A qualified contaminated site generally is any property that (1) is held for use in a trade or business, for the production of income, or as inventory; (2) contains (or potentially contains) a hazardous substance; and (3) is certified by the appropriate State environmental agency as to the presence (or potential presence) of a hazardous substance. However, sites that are identified on the national priorities list under CERCLA do not qualify as qualified contaminated sites.

The Tax Relief and Health Care Act of 2006 expanded the definition of hazardous substance to include petroleum products (including crude oil) for remediation expenditures paid or incurred after December 31, 2005, and before January 1, 2008.

Reasons for Change

Encouraging environmental remediation is an important national goal. The brownfields provision encourages the cleanup of contaminated brownfields, thereby enabling them to be brought back into productive use in the economy and mitigating potential harms to public health. Extending the special treatment accorded to brownfields on a permanent basis would remove doubt among taxpayers as to the deductibility of future remediation expenditures and would promote the goal of encouraging environmental remediation.

Proposal

The expensing of brownfield remediation expenditures would be made permanent.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
61	-244	-400	-352	-342	-331	-1,669	-2,851

ELIMINATE THE VOLUME CAP FOR PRIVATE ACTIVITY BONDS FOR WATER INFRASTRUCTURE

Current Law

In general, the interest on bonds issued by State or local governments is excludable from gross income if the bonds meet certain eligibility requirements. State or local governments issue tax-exempt bonds to finance a wide range of public infrastructure projects. There are two basic kinds of tax-exempt bonds: governmental bonds and qualified private activity bonds. Bonds generally are treated as governmental bonds if the proceeds are used to carry out governmental purposes and the bonds are repaid with governmental funds. Bonds are classified as governmental bonds under a definition that limits private business use and private business sources of payment and also limits private loans. Governmental bonds are subject to various general restrictions, including arbitrage investment restrictions, registration and reporting requirements, Federal guarantee restrictions, advance refunding limitations, spending period limitations, and pooled bond limitations. Governmental bonds, however, are not subject to specific volume limitations.

Bonds that have excessive private business involvement or private loans are classified as "private activity bonds." In particular, bonds are classified as "private activity bonds" if more than 10 percent (reduced to 5 percent in the case of certain unrelated or disproportionate private business use) of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from private sources. Bonds also are treated as private activity bonds if more than the lesser of $5 million or 5 percent of the bond proceeds are used to finance private loans, including business and consumer loans.

Private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements necessary for "qualified private activity bonds." Qualified private activity bonds include exempt facility bonds, qualified mortgage bonds for single-family housing, qualified veterans' mortgage bonds, qualified small issue bonds, qualified student loan bonds, qualified redevelopment bonds, and qualified 501(c)(3) bonds. Eligible facilities for which exempt facility bonds may be issued include facilities for the furnishing of water and sewage facilities. Most qualified private activity bonds are subject to an annual unified State volume cap.

Reasons for Change

The nation's water and wastewater infrastructure facilities serve important national public policy interests in ensuring clean and safe drinking water and sanitation. There is a significant need for capital funding to upgrade the nation's water and wastewater infrastructure facilities. Removing the volume cap on tax-exempt qualified private activity bonds for water and wastewater infrastructure facilities would encourage additional needed private investment and public-private partnerships in these needed water infrastructure facilities.

Proposal

The proposal would provide an exception to the unified annual State volume cap on tax-exempt qualified private activity bonds for exempt facilities for the "furnishing of water" or "sewage facilities." The proposal would be effective for bonds issued after December 31, 2007 to finance water or sewer facilities.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-1	-3	-5	-9	-13	-31	-184

PROVIDE TAX INCENTIVES FOR TRANSPORTATION INFRASTRUCTURE

Current Law

The Job Creation and Worker Assistance Act of 2002 (the Act) provided tax incentives for the area of New York City damaged or affected by the terrorist attacks on September 11, 2001. The Act created the "New York Liberty Zone," defined as the area located on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the Borough of Manhattan in the City of New York, New York. New York Liberty Zone tax incentives included: (1) an expansion of the work opportunity tax credit (WOTC) for New York Liberty Zone business employees; (2) a special depreciation allowance for qualified New York Liberty Zone property; (3) a five-year recovery period for depreciation of qualified New York Liberty Zone leasehold improvement property; (4) $8 billion of tax-exempt private activity bond financing for certain nonresidential real property, residential rental property and public utility property; (5) $9 billion of additional tax-exempt, advance refunding bonds; (6) increased section 179 expensing; and (7) an extension of the replacement period for nonrecognition of gain for certain involuntary conversions.[7]

The expanded WOTC credit provided a 40 percent subsidy on the first $6,000 of annual wages paid to New York Liberty Zone business employees for work performed during 2002 or 2003.

The special depreciation allowance for qualified New York Liberty Zone property equals 30 percent of the adjusted basis of the property for the taxable year in which the property is placed in service. Qualified nonresidential real property and residential rental property must be purchased by the taxpayer after September 10, 2001, and placed in service before January 1, 2010. Such property is qualified property only to the extent it rehabilitates real property damaged, or replaces real property destroyed or condemned, as a result of the September 11, 2001, terrorist attack. The provision is no longer applicable for other property.

The five-year recovery period for qualified leasehold improvement property applied, in general, to buildings located in the New York Liberty Zone if the improvement was placed in service after September 10, 2001, and before January 1, 2007, and no written binding contract for the improvement was in effect before September 11, 2001.

The $8 billion of tax-exempt private activity bond financing is authorized to be issued by the State of New York or any political subdivision thereof after March 9, 2002, and before January 1, 2010.

The $9 billion of additional tax-exempt, advance refunding bonds was available after March 9, 2002, and before January 1, 2006, with respect to certain State or local bonds outstanding on September 11, 2001.

[7] The Working Families Tax Relief Act of 2004 amended certain of the New York Liberty Zone provisions relating to tax-exempt bonds.

Businesses were allowed to expense the cost of certain qualified New York Liberty Zone property placed in service prior to 2007, up to an additional $35,000 above the amounts generally available under section 179.[8] In addition, only 50 percent of the cost of such qualified New York Liberty Zone property counted toward the limitation under which section 179 deductions are reduced to the extent the cost of section 179 property exceeds a specified amount.

A taxpayer may elect not to recognize gain with respect to property that is involuntarily converted if the taxpayer acquires within an applicable period (the replacement period) property similar or related in service or use. In general, the replacement period begins with the date of the disposition of the converted property and ends two years (three years if the converted property is real property held for the productive use in a trade or business or for investment) after the close of the first taxable year in which any part of the gain upon conversion is realized. The Act extended the replacement period to five years for property in the New York Liberty Zone that was involuntarily converted as a result of the terrorist attacks on September 11, 2001, if substantially all of the use of the replacement property is in New York City.

Reasons for Change

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.

Proposal

The proposal would sunset certain existing New York Liberty Zone tax benefits and to provide in their place 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 2008 to 2017, 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 2017. Similarly, expenditures that exceed the annual 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 Code, including income tax withholding. The Treasury Department would prescribe such rules as are necessary to ensure that the expenditures are made for the intended purposes. The amount of the credit received would be considered State and local funds for the purpose of any Federal program.

[8] Section 179 provides that, in place of depreciation, certain taxpayers, typically small businesses, may elect to deduct up to $100,000 of the cost of section 179 property placed in service each year. In general, section 179 property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business.

Repeal Certain New York City Liberty Zone Incentives

The special depreciation allowance for qualified New York Liberty Zone property that is either nonresidential real property or residential rental property would be terminated as of the date of enactment. Property placed in service after the date of enactment would be ineligible for this incentive unless a binding written contract is in effect on the date of enactment and the property is placed in service before the original sunset dates set forth in the Act.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-200	-200	-200	-200	-200	-1,000	-2,000

SIMPLIFY THE TAX LAWS FOR FAMILIES

CLARIFY UNIFORM DEFINITION OF A CHILD

Current Law

A taxpayer may be eligible to claim a qualifying child for various tax benefits, including the dependent exemption, head of household filing status, the child tax credit, the child and dependent care tax credit, and the earned income tax credit (EITC). A qualifying child must meet the following three tests:

- Relationship – The child generally must be the taxpayer's son, daughter, grandchild, sibling, niece or nephew, or foster child.

- Residence – The child must live with the taxpayer in the same principal place of abode for over half the year.

- Age – The child must be under the age of 19, a full-time student if over age 18 and under age 24, or totally and permanently disabled. However, the child must be under age 13 for the child and dependent care tax credit and under age 17 for purposes of the child tax credit.

Additional requirements may apply to specific child-related tax benefits. For example, a taxpayer may claim a married child for the child tax credit, assuming the child meets the criteria listed above. However, for purposes of the dependent exemption and EITC, an individual generally cannot be a qualifying child if he or she is married and filing a joint return (unless that return is filed only as a claim for a refund).

A taxpayer may not claim a qualifying child if the taxpayer is a qualifying child of another taxpayer. Further, a taxpayer who is a dependent of another taxpayer may not claim a qualifying child for purposes of the personal exemption, head of household filing status, or the child and dependent care tax credit.

Under some circumstances (e.g., a three-generation household), two or more taxpayers may be eligible to claim the same child for tax benefits. Current law allows the eligible taxpayers to decide among themselves who will claim the child-related tax benefits. If more than one eligible taxpayer actually claims the same qualifying child, then the following tiebreaker tests determine which taxpayer is entitled to the child-related tax benefits.

- An eligible parent's claim supersedes all other claims.

- If the child's parents do not file a joint return and both claim the child on separate returns, then the tax benefits accrue to the parent with whom the child resides the longest. If both parents reside with the child for the same length of time, then the benefits accrue to the parent with the highest adjusted gross income (AGI).

- If the child's parents do not claim the child, then the tax benefits accrue to the claimant with the highest AGI.

Reasons for Change

The Working Families Tax Relief Act of 2004 (WFTRA) created a uniform definition of qualifying child, allowing, in many circumstances, a taxpayer to claim the same child for five different child-related tax benefits. WFTRA also simplified eligibility rules, making it easier for both taxpayers and the IRS to determine if an individual is a qualifying child. By eliminating a burdensome support test, WFTRA also reduced recording-keeping requirements.

However, WFTRA may have some unintended consequences. Under prior law, a taxpayer could not claim a sibling for certain child-related tax benefits unless the taxpayer could demonstrate that he or she cared for the sibling as if the sibling were the taxpayer's own child. Congress repealed this factual test, responding to concern that it was difficult to administer. However, this change also effectively denied assistance to some low-income taxpayers who are the sole guardians of their siblings while giving higher-income families an opportunity to avoid income limitations on child tax benefits.

For example, a 20-year-old taxpayer works 30 hours a week while going to school full-time. The taxpayer's parents are dead, and she is the legal guardian of her 15-year-old brother, with whom she resides for over half the year. She provides over half of her own and her brother's support.

Under pre-WFTRA law, the young woman could not be claimed as a dependent by another taxpayer, since she provided more than half of her own support. Further, the young woman could claim her brother as a dependent and receive the tax benefits associated with the dependent exemption, head of household filing status, and the child tax credit. She could also claim her brother for the EITC because, in addition to meeting other requirements, she cared for him as if he were her own child.

WFTRA recognizes that this taxpayer is self-supporting, and thus she is still able to claim exemptions both for herself and her brother, file as a head of household, and claim the child tax credit. Her brother is also still considered her qualifying child for purposes of the EITC. However, eliminating the "care for" test means that the 20-year-old is now the qualifying child of her 15-year-old brother: she meets the relationship, residency, and age tests. Unlike the other child-related tax benefits, there is no rule prohibiting self-supporting individuals from being considered the qualifying children of other taxpayers. Because a qualifying child cannot claim another qualifying child, the older sister is no longer eligible for the EITC under WFTRA. (Similarly, the younger brother could not claim his older sister for the EITC, if he worked and had earnings.)

In other cases, the elimination of the "care for" test makes it possible for some taxpayers to avoid income limitations on certain child-related tax benefits by allowing other family members, who have lower incomes, to claim the taxpayers' sons and daughters as qualifying children. For example, a couple lives with their 26-year-old son and 16-year-old daughter. The son is not a qualifying child because of his age (assuming that he does not have a permanent and total disability). In addition, the son earns less than $30,000 a year, placing him in the EITC income range. If the parents have moderate income, they may find that the family could receive larger child tax benefits if their son claims his sister as a qualifying child and receives the EITC. If the parents have very high income, the gains to the family of allowing the son to claim the sister as a dependent may be even greater, because the parent's income is too high to benefit from the dependent exemption and child tax credits, as well as the EITC.

Current law thus allows some families to obtain certain child tax benefits, even when the parents' income is too high to qualify, while denying the EITC to some low-income working taxpayers who are the sole guardians of their siblings. Current law also creates complexity by encouraging families to engage in multiple computations in order to determine how to maximize tax benefits.

WFTRA had other unintended consequences, which made some of the eligibility rules less uniform. For example, WFTRA allowed dependent filers to claim the child tax credit, even though they are generally ineligible for most other child-related tax benefits. WFTRA also allowed taxpayers to claim the child tax credit on behalf of a married child who files a joint return with his or her spouse, even though the taxpayer cannot generally claim other tax benefits for this child. These exceptions not only create confusion, but have led to the creation of a new tax form – Form 8901 – solely to deal with these issues.

Proposal

The proposal clarifies the definition of a qualifying child and who is eligible to claim these children.

Definition of Qualifying Child. The proposal would stipulate that a taxpayer is not a qualifying child of another individual if the taxpayer is older than that individual unless the other individual is a sibling and the taxpayer is permanently and totally disabled. In addition, an individual who is married and files a joint return (unless that return is filed only as a claim for a refund) would not be a qualifying child for any child-related tax benefits, including the child tax credit.

Eligibility of Taxpayer for Child-Related Tax Benefits. If a parent resides with his or her child for over half the year, only the parent would be eligible to claim the child as a qualifying child. However, the parent could waive the child-related tax benefits to another member of the household who has higher AGI and is otherwise eligible for the child tax benefits. In addition, dependent filers would not be eligible to claim any child-related tax benefits.

The proposal would be effective for tax years beginning after December 31, 2007.

Revenue Estimate[9]

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
17	246	244	280	276	256	1,302	2,959

[9] The estimate includes both receipt and outlay effects. The outlay effect is -$2,609 million for 2008-2017.

SIMPLIFY EITC ELIGIBILITY REQUIREMENT REGARDING FILING STATUS, PRESENCE OF CHILDREN, AND WORK AND IMMIGRANT STATUS

Current Law

Low and moderate-income workers may be eligible for the refundable earned income tax credit (EITC). Eligibility for the EITC is based on income, filing status, and immigration and work status in the United States. The amount of the EITC is based on the presence and number of qualifying children in the worker's family, as well as on income. The rules regarding filing status, presence of children, and work and immigration status are particularly complicated and are described below.

Filing Status: An unmarried individual can claim the EITC if he or she files as a single filer or as a head of household. Married individuals generally cannot claim the EITC unless they file jointly. However, there is an exception for estranged spouses who meet three requirements. First, an estranged spouse must live apart from his or her spouse for the last six months of the year. Second, the estranged spouse must maintain a household that constitutes the principal place of abode for a dependent child for over half the year. Third, the estranged spouse must pay over half the cost of maintaining the home in which he or she resides with the child during the year. If the estranged spouse meets these conditions, he or she may file a tax return as a head of household and claim the EITC.

Presence of Qualifying Children: A taxpayer who resides with a qualifying child may be eligible for an EITC of up to $2,853 ($4,716 for two or more children). A taxpayer who does not reside with a qualifying child may be eligible for a smaller credit of up to $428. A taxpayer may claim the EITC for workers without qualifying children only if the taxpayer does not reside with a qualifying child.

To be considered an EITC qualifying child, a child must meet residency, relationship, and age tests. Even if the child meets the three qualifying child tests, the taxpayer may not be able to claim the child or the EITC. For example, if more than one taxpayer lives with a qualifying child, only one of those taxpayers can claim the child for purposes of the EITC.[10] If a taxpayer lives with a qualifying child, but is not allowed to claim the child because the child is properly claimed by someone else, the taxpayer is not eligible for the EITC. Because the taxpayer resides with a qualifying child, he or she is ineligible for the EITC for workers without qualifying children.

A similar situation arises when a taxpayer resides with a qualifying child who does not have a valid social security number. The taxpayer is not eligible for the EITC for workers with

[10] If more than one taxpayer claims the same qualifying child for purposes of the EITC, then only the claimant with the highest adjusted gross income (AGI) is deemed eligible. However, a parent's claim supersedes the claims of other taxpayers, regardless of the outcome of the AGI tiebreaker test. If both parents file separate returns claiming the child, then the parent who resides with the child the longest is deemed entitled to the EITC. In the event that both parents reside with the child for the same amount of time, then the parent with the highest AGI is entitled to the EITC.

qualifying children because the child lacks a valid social security number. The taxpayer also is ineligible for the EITC for workers without qualifying children because he or she lives with a qualifying child.

Work and Immigration Status: To claim the EITC, the taxpayer (including his or her spouse, if married) and qualifying child must have valid social security numbers. A social security number is considered invalid for EITC purposes if it was issued by the Social Security Administration solely to allow an individual to obtain Federal benefits. Thus, an individual who is not authorized to work in the United States but who obtained a social security number in order to receive Medicaid or another Federal benefit is not eligible for the EITC. However, an individual who is not authorized to work in the United States but who obtained a social security number for a reason other than to obtain Federal benefits (e.g., to obtain a driver's license under State law or for tax purposes prior to the creation of the ITIN) is eligible for the EITC.

The IRS may deny EITC claims if the taxpayer does not provide valid social security numbers under statutory authority to asses amounts claimed due to mathematical or clerical errors.

Reasons for Change

According to the IRS, between $8.5 and $9.9 billion of EITC claims (27 percent to 31.7 percent of total claims) were erroneously paid with respect to tax year 1999 returns. Many of these errors related to taxpayers who failed to meet eligibility criteria concerning family and income status. Since 1999, a number of steps have been taken to improve compliance. Most notably, the Economic Growth and Tax Relief Reconciliation Act of 2001 contained several provisions that simplified the EITC eligibility rules and reduced non-compliance.[11] As a result of these efforts, the EITC error rate is estimated to fall to between 23 and 28 percent in 2006. Further simplification is needed to reduce these erroneous claims.

Some of the EITC errors may have been caused by taxpayer confusion over unusual family situations and the complicated tax rules that were created to address these situations. For example, an individual who has separated from his or her spouse is required to understand a complicated three-part test to determine his or her filing status under current law. Separated spouses may have to consult two IRS publications (Publication 596 on the EITC and Publication 501 on filing status) in order to determine if they are eligible for the EITC. They must compile and retain documentation showing that they provided over half the cost of maintaining the home in which they and their children reside. In tax year 1999, nearly $1 billion of EITC overclaims were due solely to married taxpayers claiming single or head of household filing status when they should have claimed married-filing-separately status. Many of these claims would not be erroneous if separated spouses were not required to document that they provide over half the cost of maintaining the household in which they reside with their children.

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[11] These provisions include a simplified tiebreaker test to resolve duplicate claims and to apply the same definitions of earned income and adjusted gross income used elsewhere in the Code to the EITC. The recent adoption of a uniform definition of qualifying child will further reduce the complexity of the EITC eligibility criteria. In addition to these simplification efforts, the IRS has been implementing a new five-point initiative, which seeks to better detect erroneous claims before refunds are paid.

Other types of complicated family situations result in complicated tax rules. For example, if a child lives with her mother in her grandmother's home for over half the year, the child is a qualifying child of both her mother and grandmother. If the mother claims the child for the EITC, the grandmother is not eligible for the EITC for workers without qualifying children because she is still considered to have a qualifying child (her granddaughter). However, the grandmother may erroneously claim the EITC for workers who do not reside with qualifying children, not realizing that she is ineligible to claim the credit because she lives with her daughter and granddaughter. Taxpayers may be confused by the subtle difference between having a qualifying child one cannot claim for the EITC and having no qualifying child at all.

Efforts to target the EITC to specific populations also give rise to complexity. In some cases, targeting provisions may be more complicated than they were intended to be. A provision of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the "1996 Act") was intended to deny the EITC to any person (including his or her spouse) who is not authorized to work in the United States. Individuals may obtain a social security number if they are citizens or permanent residents or other persons authorized to work in the United States. Individuals not authorized to work in the United States may also obtain a social security number in order to receive certain Federal benefits. In addition, until recently, it was possible for some individuals to receive social security numbers for other reasons – e.g., to obtain a driver's license in some States or, before the adoption of ITINs, to file a tax return or claim certain tax benefits. As drafted, the 1996 Act denied the EITC to taxpayers who receive a social security number solely to receive Federal benefits. The 1996 Act did not deny the EITC to individuals who are not authorized to work in the United States and who received social security numbers for reasons other than to obtain Federal benefits. Thus, the statutory language in the 1996 Act did not have its intended effect. The disparate treatment of individuals with non-work-related social security numbers is confusing, inequitable, and difficult to administer.

<u>Proposal</u>

Allow separated spouses to claim the EITC. Married taxpayers who file separate returns would be allowed to claim the EITC if they live with a qualifying child for over half the year. They must also live apart from their spouse for the last six months of the tax year. However, they would not be required to provide over half the cost of maintaining the household in which they reside. The proposal would be effective for tax years beginning after December 31, 2007.

Simplify rules regarding presence of qualifying child. A taxpayer with a qualifying child who lives in an extended family would be eligible to claim the EITC for workers without qualifying children even if another member of the family claims the taxpayer's qualifying child. However, if unmarried parents reside together with their child, then one parent could claim the EITC for qualifying children, but neither could claim the EITC for workers without qualifying children.

Taxpayers would be eligible to receive the EITC for workers without qualifying children if their child does not have a valid social security number. As under current law, the taxpayer (and spouse, if married) must have a valid social security number. The proposal would be effective for tax years beginning after December 31, 2007.

Clarify when a social security number is valid for EITC purposes. To qualify for the EITC, a taxpayer (including his or her spouse, if married) must have a social security number that is valid for employment in the United States (that is, they are U.S. citizens, permanent residents, or have certain types of temporary visas that allow them to work in the United States).[12] The Treasury Department and the IRS will develop an outreach strategy to ensure that taxpayers, including those whose immigration and work status has changed since they received social security numbers, are aware of the new requirements. The proposal would be effective January 1, 2008.

Revenue Estimate[13]

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	241	-58	-39	-39	-35	70	-60

[12] Taxpayers who initially received a social security number for non-work reasons, but who subsequently became authorized to work in the United States (i.e., they became permanent residents or U.S. citizens), would be eligible to receive the EITC.

[13] The estimate includes both receipt and outlay effects. The outlay effect is -$104 million for 2008-2017.

REDUCE COMPUTATIONAL COMPLEXITY OF REFUNDABLE CHILD TAX CREDIT

Current Law

An individual may claim a $1,000 tax credit for each qualifying child. A qualifying child must meet the following three tests:

- Relationship – The child generally must be the taxpayer's son, daughter, grandchild, sibling, niece or nephew, or foster child.

- Residence – The child must live with the taxpayer in the same principal place of abode for over half the year.

- Age – The child must be under the age of 17.

For purposes of the child tax credit, a qualifying child must be a citizen, national, or resident of the United States. The child tax credit is phased out for individuals with income over certain thresholds,[14] and is partially refundable.

Taxpayers may be eligible for a refundable amount (the additional child tax credit) equal to 15 percent of earned income in excess of $11,750.[15] Earned income is defined as the sum of wages, salaries, tips, and other taxable employee compensation plus net self-employment earnings. Unlike the earned income tax credit (EITC), which also includes the preceding items in its definition of earned income, the additional child tax credit is based only on earned income to the extent it is included in computing taxable income.[16]

Families with three or more children may determine the additional child tax credit using an alternative formula. A taxpayer can claim an additional child tax credit equal to the amount by which the taxpayer's social security taxes exceed the taxpayer's EITC, if that amount is greater than the additional child tax credit based on the taxpayer's earned income in excess of $11,750.

Reasons for Change

The additional child tax credit is difficult to compute and unduly complicated. To compute the credit amount, low and moderate-income taxpayers must attach a separate form to their tax return. Many taxpayers with three or more children must compute the additional child tax credit twice to determine which formula yields the larger credit.

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[14] Specifically, the otherwise allowable child tax credit is reduced by $50 for each $1,000 (or fraction thereof) of modified adjusted gross income over $75,000 for single individuals or heads of households, $110,000 for married individuals filing joint returns, and $55,000 for married individuals filing separate returns.

[15] The earned income threshold amount is indexed for inflation.

[16] For example, some ministers add parsonage allowances to self-employment income when computing the EITC, but such allowances are excluded from taxable income for purposes of the additional child tax credit.

In addition, the eligibility criteria for the additional child tax credit differ from those used for the EITC. (Over 70 percent of taxpayers who are eligible for the additional child tax credit also can claim the EITC.) Although both credits are based on earned income and the number of children in the family, they use different definitions of earned income and qualifying children. For example, when computing the additional child tax credit, taxpayers may count earned income only to the extent that it is included in taxable income; however, when computing the EITC, other types of income that are not included in computing taxable income are counted. Another example is that the additional child tax credit may be claimed by taxpayers who reside with children outside the United States, while the child-based EITC may be claimed only by taxpayers who reside with children in the United States.

Proposal

Eliminate Multiple Computations. Taxpayers with three or more children would no longer have the option to compute the additional child tax credit using an alternative formula that compares social security taxes paid to the amount of the EITC received. The additional child tax credit would be based solely on the formula that uses earned income, regardless of the number of children in a taxpayer's family.

Conform the Definition of Earned Income. The definition of earned income for purposes of the additional child tax credit would be conformed to that currently used for the EITC. Thus, earned income for both credits would equal the sum of wages, salaries, tips, and other taxable employee compensation plus net self-employment earnings. The proposal would eliminate the requirement that earned income be included in taxable income in order to be included in computing the additional child tax credit.

Require Taxpayers to Reside in the United States. The proposal would require taxpayers to reside with a child in the United States to claim the additional child tax credit. The principal place of abode for members of the U.S. Armed Forces would be treated as in the United States for any period the member is stationed outside the United States while serving on extended active duty. Extended active duty would include a call or order to such duty for a period in excess of 90 days.

The proposal is effective for tax years beginning after December 31, 2007.

Revenue Estimate[17]

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	375	388	400	417	1,580	3,773

[17] The estimate includes both receipt and outlay effects. The outlay effect is -$3,773 million for 2008-2017.

IMPROVE TAX COMPLIANCE

Introduction

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

In September 2006, the Treasury Department released a comprehensive strategy to improve tax compliance.[18] The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and IRS to improve compliance.

Four key principles guided the development of this strategy:

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

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

The IRS has taken a number of steps to improve compliance. To enhance the IRS’ efforts, the Administration’s FY 2008 Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

The Treasury Department and IRS continue to consider additional approaches to reducing the tax gap that are consistent with the four principles outlined above. Some approaches under consideration, are, for example, improvements in coordination with State governments, including coordination concerning licensing activities, and further expansions of information reporting

[18] Treasury Department, A Comprehensive Strategy for Reducing the Tax Gap (September 26, 2006).

requirements, including reporting of financial activity that may not currently be subject to information reporting.

Expand Information Reporting

REQUIRE INFORMATION REPORTING ON PAYMENTS TO CORPORATIONS

Current Law

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 name and address of the recipient of the payment (generally on Form 1099). Under a longstanding regulatory regime, there are certain exceptions for payments to corporations, as well as tax-exempt and government entities.

Reasons for Change

Generally, compliance increases significantly for payments that a third party reports to the IRS. In the case of tax-exempt or government entities that are generally not subject to income tax, information returns may not be necessary. On the other hand, during the decades in which the regulatory exception for payments to corporations has become established, the number and complexity of corporate taxpayers have increased. Moreover, the longstanding regulatory exception from information reporting for payments to corporations has created compliance issues. Although the exception for information reporting to corporations is set forth in existing regulations, because it has been in place for many years and because Congress, during that time period, has made numerous changes to the information reporting rules, elimination of the exception should be made by legislative change.

Proposal

A business would be required to file an information return for payments aggregating to $600 or more in a calendar year to a corporation (except a tax-exempt corporation).

The proposal would be effective for payments made to corporations on or after January 1, 2008.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
				($ in millions)			
0	69	421	609	769	832	2,700	7,736

REQUIRE BASIS REPORTING ON SECURITY SALES

Current Law

Brokers (including mutual funds and certain other persons) file information returns with the IRS setting forth the amount of sales proceeds from the sale of securities, as well as the name, Taxpayer Identification Number, and address of the recipient (generally on Form 1099-B).

Reasons for Change

Generally, compliance increases significantly for payments that a third party reports to the IRS. The potential for non-compliance on sales of securities is considerable under current law, because the taxpayer's basis is not reported to the IRS. Requiring brokers to maintain records of the adjusted basis of securities sold by their customers and report this information to the IRS would increase compliance with capital gains reporting. In addition, such a requirement would provide significant simplification benefits by relieving taxpayers from the often complicated task of calculating adjusted basis to determine gain or loss on the sale of securities.

Proposal

Certain brokers (including brokerage houses, mutual funds, asset managers and fiduciaries) would be required to report information regarding adjusted basis in connection with the sale of certain publicly traded securities. The IRS and Treasury Department would be granted regulatory authority to promulgate specific rules, including exceptions, to implement this mandate. Brokers also would be required to report acquisition or disposition dates for securities to determine short-term or long-term gain or loss for taxpayers. To facilitate accurate basis reporting if a customer transfers securities from an account with one broker to an account with another, the transferor broker would be required to provide the relevant information to the transferee. Under regulations, a broker would be exempt from reporting items of information that the broker is unable to obtain with reasonable efforts. Regulations may establish a regime under which customers provide information to their brokers about customer transactions that produce adjustments to basis and about the customers' initial basis in securities when the broker has no other way of knowing this information. Information about basis adjustments that are applicable to all holders of securities of a particular class would be available to brokers either directly from the relevant issuer or indirectly from the issuer through a central repository of information.

The reporting provisions would apply to securities acquired after December 31, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	31	178	328	498	1,035	6,709

EXPAND BROKER INFORMATION REPORTING

Current Law

Generally, a broker files an information return with the IRS showing customer name and address as well as gross proceeds. For example, stock and bond brokers generally report gross proceeds on Form 1099-B. However, existing law does not clearly impose the information return requirement on businesses that, with respect to sales of tangible personal property, may not be acting as agents of the customers (i.e., the sellers of the property).

Reasons for Change

Generally, compliance increases significantly for amounts that a third party reports to the IRS. Some taxpayers fail to report income derived from the sale of tangible personal property through brokers.

Proposal

In certain circumstances, a broker would be required to make an information return showing its customer's name, address, and Taxpayer Identification Number, as well as gross proceeds from the sale of tangible personal property. The requirement would apply only with respect to a customer for whom the broker has handled 100 or more separate transactions generating at least $5,000 in gross proceeds in a year. There would be an exception from the proposed requirement (and the sale would not be taken into account for the 100 transactions/$5,000 gross proceeds test) if the sale is required to be reported by other information return requirements (such as payment card sales the gross proceeds of which would be reported under the payment card reporting proposal). The IRS and Treasury Department would have regulatory authority to allow additional exceptions in appropriate situations in which the benefit of information reporting is outweighed by the cost of compliance. In a case in which a broker may not have required information because another person handles gross proceeds for a customer, a regulatory exception for such broker may be accompanied by imposition of the reporting requirement on that other person.

The proposal would be effective for sales of property on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	20	77	136	186	220	639	1,974

REQUIRE INFORMATION REPORTING ON MERCHANT PAYMENT CARD REIMBURSEMENTS

Current Law

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). For example, any service recipient engaged in a trade or business is required to file an information return if the aggregate amount of payments for services is $600 or more in a calendar year.

Reasons for Change

Payment cards (both credit cards and debit cards) are an increasingly common form of payment for many merchant transactions. Some merchants fail to report accurately their gross income, including income derived from payment card transactions. Generally, compliance increases significantly for amounts that a third party reports to the IRS.

Proposal

The proposal would provide the IRS with authority to promulgate regulations requiring merchant acquiring banks (i.e., organizations that process card payments for merchants who accept payment cards) to report to the IRS annually the gross reimbursement payments made to merchants in a calendar year. The IRS and Treasury Department would have regulatory authority to provide exceptions from the requirements where the benefit of improved compliance from information reporting is outweighed by the cost of compliance.

The proposal would be effective for payments made on or after January 1, 2008.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
0	113	404	694	949	1,174	3,334	10,745

REQUIRE A CERTIFIED TAXPAYER IDENTIFICATION NUMBER FROM CONTRACTORS

Current Law

In the course of a trade or business, service recipients ("businesses") making payments aggregating to $600 or more in a calendar year to any non-employee service provider ("contractor") that is not a corporation are required to send an information return to the IRS setting forth the amount, as well as name and address of the contractor. The information returns, required annually after the end of the year, are made on Form 1099-MISC based on identifying information furnished by the contractor but not verified by the IRS. Copies are provided both to the contractor and to the IRS. Withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payments of estimated income taxes and self-employment taxes (SECA) near the end of each calendar quarter. The contractor is required to pay any balance due when the annual income tax return is subsequently filed.

Reasons for Change

Estimated tax filing is relatively burdensome, especially for less sophisticated and lower-income taxpayers. Moreover, by the time estimated tax payments (or final tax payments) are due, some contractors will not have put aside the necessary funds. Given that the SECA tax rate is 15.3 percent (up to certain income limits), the required tax payments can be more than 25 percent of a contractor's gross receipts, even for a contractor with modest income.

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.

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 (on Form W-9) the contractor's certified Taxpayer Identification Number (TIN). A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. If a contractor fails to furnish an accurate certified TIN, the business would be required to withhold a flat rate percentage of gross payments. Contractors receiving payments of $600 or more in a calendar year from a particular business could require the business to withhold a flat rate percentage of their gross payments, with the flat rate percentage of 15, 25, 30, or 35 percent being selected by the contractor.

The proposal would be effective for payments made to contractors on or after January 1, 2008.

Revenue Estimate

			Fiscal Years				
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
0	5	42	72	76	80	275	749

REQUIRE INCREASED INFORMATION REPORTING FOR CERTAIN GOVERNMENT PAYMENTS FOR PROPERTY AND SERVICES

Current Law

Businesses, governments, and other taxpayers are subject to a number of information reporting and withholding requirements. Generally, a taxpayer making payments 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 (except if the recipient is a corporation) setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). In addition, any service recipient engaged in a trade or business is required to file an information return if the aggregate of payments for services is $600 or more in a calendar year. This requirement specifically applies to government agencies, even if the service provider is a corporation. Moreover, Federal agencies must file information returns with respect to contractors, generally on Form 8596 (Information Return for Federal Contracts) and Form 8596A (Quarterly Transmittal of Information Returns for Federal Contracts). Under recently enacted legislation that will take effect in 2011, Federal, State and local government agencies generally must withhold 3 percent of payments for goods and services. Exceptions will apply to certain payments such as those actually subjected to backup withholding, wages and public assistance.

Reasons for Change

Generally, compliance increases significantly for payments that a third party reports to the IRS. Some government vendors fail to meet their tax filing and payment obligations.

Proposal

The IRS and Treasury Department would be authorized to promulgate regulations requiring information reporting on all non-wage payments by Federal, State and local governments to procure property and services. It is expected that certain categories of payments would be excluded from the new information reporting requirements, including payments of interest, payments for real property, payments to tax-exempt entities or foreign governments, intergovernmental payments, and payments made pursuant to a classified or confidential contract. The proposal would be effective for payments made on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	25	100	130	108	27	390	390

INCREASE INFORMATION RETURN PENALTIES

Current Law

Taxpayers are subject to a number of information reporting requirements under the Code. When these requirements are not adhered to, penalties may apply. Generally, there is a penalty of $50, not to exceed $250,000 in a calendar year, for each failure to file timely an accurate information return. For certain small filers whose average annual gross receipts do not exceed $5,000,000, the limit is $100,000 instead of $250,000. If a failure is due to intentional disregard of a filing requirement, the minimum penalty for each failure is $100, with no calendar year limit.

Reasons for Change

Generally, compliance increases significantly with respect to amounts reported on information returns. In some cases, taxpayers may have failed to comply with existing information reporting requirements because the amount of the potentially applicable penalties is too small to discourage non-compliance. Increasing the penalty amounts, which were established in 1989 and have not been increased, will help to ensure the timely filing of accurate information returns.

Proposal

The $50 and $100 penalty amounts would be increased to $100 and $250, respectively. The $250,000 and $100,000 caps would be increased to $1,500,000 and $500,000.

The proposal would be effective for information returns required to be filed on or after January 1, 2008.

Revenue Estimate

			Fiscal Years				
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
0	0	0	29	72	72	173	546

Improve Compliance by Businesses

REQUIRE E-FILING BY CERTAIN LARGE ORGANIZATIONS

Current Law

Effective for tax years ending on or after December 31, 2005, corporations with assets of $10 million or more filing Form 1120 are required to file Schedule M-3 (Net Income (Loss) Reconciliation for Corporations with Total Assets of $10 Million or More). Effective for tax years ending on or after December 31, 2006, this Schedule M-3 filing requirement also applies to S corporations, life insurance corporations, property and casualty insurance corporations and cooperative associations filing various versions of Form 1120 and having $10 million or more in assets. Schedule M-3 is also required for partnerships with assets of $10 million or more and certain other partnerships.

Corporations and tax-exempt organizations that have assets of $10 million or more and file at least 250 returns during a calendar year, including income tax, information, excise tax, and employment tax returns, are required to file electronically their Form 1120/1120S income tax returns and Form 990 information returns for tax years ending on or after December 31, 2006. In addition, private foundations and charitable trusts that file at least 250 returns during a calendar year are required to file electronically their Form 990-PF information returns for tax years ending on or after December 31, 2006, regardless of their asset size. Taxpayers can request waivers of the electronic filing requirement if they cannot meet that requirement due to technology constraints, or where compliance with the requirement would result in undue financial burden on the taxpayer. Although electronic filing is required of certain corporations and other taxpayers, others may voluntarily convert to electronic filing.

Generally, regulations may require electronic filing by taxpayers (other than individuals, estates and trusts) that file at least 250 returns annually. Before requiring electronic filing, the IRS and Treasury Department must take into account the ability of taxpayers to comply at a reasonable cost.

Reasons for Change

Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. Large organizations with assets of $10 million or more generally maintain financial records in electronic form, and generally either hire tax professionals who use tax preparation software or use tax preparation software themselves although they may not currently file electronically.

Electronic filing supports the IRS' broader goals of improving service to taxpayers, enhancing compliance, and modernizing tax administration. Overall, increased electronic filing of returns may improve customer satisfaction and confidence in the filing process, and it may be more cost effective for affected entities. Expanding electronic filing to include all businesses required to file Schedule M-3 will provide tax return information in a more uniform electronic form. This will enhance the ability of the IRS to more productively focus its audit activities. This can reduce burdens on businesses where the need for an audit can be avoided.

In the case of a large business, adopting the same standard for electronic filing as for filing Schedule M-3 provides simplification benefits.

Proposal

All corporations and partnerships required to file Schedule M-3 would be required to file their income tax returns electronically. In the case of large taxpayers not required to file Schedule M-3 (such as exempt organizations), the regulatory authority to require electronic filing would be expanded beyond the current 250-return minimum. Nevertheless, any new regulations would balance the benefits of electronic filing against any burden that might accrue to taxpayers, and implementation would take place incrementally to afford adequate time for transition to electronic filing. Taxpayers would be able to request waivers of this requirement if they cannot meet the requirement due to technology constraints, if compliance with the requirement would result in undue financial burden, or if other criteria specified in regulations are met.

The provision would be effective for tax years ending on or after December 31, 2008.

Revenue Estimate

[No revenue effect]

IMPLEMENT STANDARDS CLARIFYING WHEN EMPLOYEE LEASING COMPANIES CAN BE HELD LIABLE FOR THEIR CLIENTS' FEDERAL EMPLOYMENT TAXES

Current Law

Employers are required to withhold and pay Federal Insurance Contribution Act (FICA) and income taxes, and are required to pay Federal Unemployment Tax Act (FUTA) taxes (collectively "Federal employment taxes") with respect to wages paid to their employees. Liability for Federal employment taxes generally lies with the taxpayer that is determined to be the employer under a multi-factor common law test or under specific statutory provisions. For example, a third party that is not the common law employer can be a statutory employer if the third party has control over the payment of wages. In addition, certain designated agents are jointly and severally liable with their principals for employment taxes with respect to wages paid to the principals' employees. These designated agents prepare and file employment tax returns using their own name and employer identification number. In contrast, reporting agents (often referred to as payroll service providers) are generally not liable for the employment taxes reported on their clients' returns. Reporting agents prepare and file employment tax returns for their clients using the client's name and employer identification number.

Employee leasing is the practice of contracting with an outside business to handle certain administrative, personnel, and payroll matters for a taxpayer's employees. Employee leasing companies (often referred to as professional employer organizations) typically prepare and file employment tax returns for their clients using the leasing company's name and employer identification number, often taking the position that the leasing company is the statutory or common law employer of their clients' workers.

Reasons for Change

Under present law, there is often uncertainty as to whether the employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Thus, when an employee leasing company files employment tax returns using its own name and employer identification number, but fails to pay some or all of the taxes due, or when no returns are filed with respect to wages paid by a taxpayer that uses an employee leasing company, there can be uncertainty as to how the Federal employment taxes are assessed and collected.

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.

Proposal

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.

The provision would be effective for employment tax returns required to be filed with respect to wages paid on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	3	5	5	5	6	24	57

AMEND COLLECTION DUE PROCESS PROCEDURES FOR EMPLOYMENT TAX LIABILITIES

Current Law

Employers are required to withhold and pay Federal Insurance Contribution Act (FICA) taxes and income taxes, and are required to pay Federal Unemployment Tax Act (FUTA) taxes (collectively “Federal employment taxes”) with respect to wages paid to their employees. Generally, employers are required to file annual returns (Form 940) reporting FUTA taxes and quarterly returns (Form 941) reporting FICA taxes and income tax withholding. For small employers, the taxes reported on Form 941 generally are required to be deposited on a monthly or semi-weekly basis. Beginning in calendar year 2006, certain small employers are permitted to file employment tax returns (Form 944) and pay the related tax on an annual, rather than a quarterly basis.

In order to ensure the payment and collection of employment taxes, the IRS is authorized to take various collection actions, including issuing Federal tax levies. Before a tax levy can be issued, however, the IRS generally must provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review. An exception to the requirement for pre-levy CDP proceedings applies to levies issued to collect a Federal tax liability from a State tax refund. In this context, the taxpayer is provided an opportunity for a CDP hearing within a reasonable period of time after the levy.

Reasons for Change

Frequently, an employer that fails to satisfy its Federal employment tax liabilities for one period will also fail to satisfy its liabilities for later periods, resulting in a “pyramiding” of unpaid employment taxes. Some employers who request a CDP hearing and judicial review for one tax period will continue to accrue, or pyramid, their employment tax liabilities during the CDP proceedings. Liabilities for these subsequent periods cannot be collected by levy until after the employer has been given notice and opportunity for hearing and judicial review for each period. The existing CDP framework compounds the pyramiding problem by allowing employers to continue to accrue Federal employment tax obligations without risk of collection action.

Proposal

The proposal would expand the exception to the requirement for pre-levy CDP proceedings to include levies issued to collect Federal employment taxes. As with the current procedures applicable to levies issued to collect a Federal tax liability from State tax refunds, the taxpayer would be provided an opportunity for a CDP hearing within a reasonable period of time after the levy. Collection by levy would be allowed to continue during the CDP proceedings. Taxpayers would retain their current right to seek managerial appeal of a proposed levy and to participate in the formal Collection Appeals Process before a levy is issued.

The proposal would be effective for collection actions initiated on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	140	86	33	16	14	289	364

Strengthen Tax Administration

EXPAND IRS ACCESS TO INFORMATION IN THE NATIONAL DIRECTORY OF NEW HIRES FOR TAX ADMINISTRATION PURPOSES

Current Law

The Office of Child Support Enforcement of the Department of Health and Human Services (HHS) maintains the National Directory of New Hires (NDNH), which is a database that contains newly-hired employee data from Form W-4, quarterly wage data from State and Federal employment security agencies and unemployment benefit data from State unemployment insurance agencies. The NDNH was created to help State child support enforcement agencies enforce obligations of parents across State lines.

Under current provisions of the Social Security Act, the IRS may obtain data from the NDNH, but only for the purpose of administering the Earned Income Tax Credit (EITC) and verifying employment reported on a tax return.

Generally, the IRS obtains employment and unemployment data less frequently than quarterly, and there are significant internal costs of preparing these data for use. Under various State laws, the IRS may negotiate for access to employment and unemployment data directly from State agencies that maintain these data.

Reasons for Change

Employment data are useful to the IRS in administering a wide range of tax provisions beyond the EITC, 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. NDNH data are timely, uniformly compiled, and electronically accessible. Access to the NDNH would increase the productivity of the IRS by reducing the amount of IRS resources dedicated to obtaining and processing data without reducing the current levels of taxpayer privacy.

Proposal

The Social Security Act would be amended to expand IRS access to 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. The proposal would be effective upon enactment.

Revenue Estimate

[No revenue effect]

PERMIT DISCLOSURE OF PRISON TAX SCAMS

Current Law

Generally, tax return information is confidential, unless a specific exception in the Code applies. None of the exceptions currently in the Code permit the IRS to refer inmate tax violations to prison officials for imposition of administrative sanctions. Thus, if the IRS has information about tax violations by inmates, the IRS cannot disclose return information to prison officials to impose administrative sanctions for tax-related misconduct.

Reason for Change

There are an increasing number of fraudulent refund claims filed by prisoners. Tax violations by inmates create a broad perception regarding non-compliance and are a significant tax enforcement problem. Prison officials can take administrative steps to curtail such conduct if the IRS were authorized to disclose information about fraudulent tax schemes advanced by inmates. Criminal prosecutions or injunction suits against prisoners are resource-intensive and often not as effective at curtailing tax violations by inmates through administrative sanctions imposed by prison officials.

Proposal

The IRS would be authorized to disclose certain limited return information about tax violations by inmates so that prison officials could punish and deter such conduct through administrative sanctions.

The proposal would authorize disclosures on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	0	0	0	0	0	5

MAKE REPEATED WILLFUL FAILURE TO FILE A TAX RETURN A FELONY

Current Law

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. A taxpayer who fails to file returns for multiple years commits a separate misdemeanor offense for each year.

Reasons for Change

Increased criminal penalties would help to deter multiple willful failures to file tax returns.

Proposal

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.

The proposal would be effective for returns required to be filed on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	0	1	1	1	3	12

Penalties

EXPAND PREPARER PENALTIES

Current Law

Generally, an income tax return preparer is subject to a monetary penalty for certain failures, unless a failure was due to reasonable cause and not willful neglect. The amount (set in 1989) of the penalty for a type of failure is $50 per failure, not to exceed $25,000 in a calendar year. The income tax return preparer conduct subject to this penalty includes failure to furnish a copy of a return to the taxpayer, failure to sign a return, failure to furnish a preparer taxpayer identification number, failure to retain a copy of a return, and failure to file a correct information return. An income tax return preparer is subject to a $250 penalty if he or she knew, or reasonably should have known, of an understatement of liability, on a return or refund claim, due to a position that did not have a realistic possibility of being sustained on its merits, and was frivolous or not disclosed, unless there was reasonable cause, and the preparer acted in good faith. An income tax return preparer is subject to a $1,000 penalty if an understatement of liability, on a return or refund claim, is due to the income tax return preparer's willful, reckless or intentional disregard of rules. The $1,000 penalty may be reduced by any $250 penalty paid.

Reasons for Change

Unscrupulous preparers facilitate the reporting of unreasonable and unrealistic positions on various types of returns in addition to income tax returns. Expanding the penalty to other types of returns and increasing the amount of applicable penalties will help to ensure the accountability of preparers.

Proposal

The scope of the existing preparer penalties would be expanded from income tax returns to include employment, excise, exempt organization, estate and gift tax returns and related documents. The per failure penalty would be increased from $50 to $150. The $250 penalty would be increased to the greater of $1,000 or 50 percent of the preparer's fee. The $1,000 penalty would be increased to the greater of $5,000 or 50 percent of the preparer's fee.

The proposal would be effective for returns filed on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	3	5	6	8	9	31	80

IMPOSE PENALTY ON FAILURE TO COMPLY WITH ELECTRONIC FILING REQUIREMENTS

Current Law

Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Generally, filing on paper instead of electronically is treated as a failure to file if electronic filing is required. Additions to tax are imposed for the failure to file tax returns reporting a liability. For failure to file a corporate return, the addition to tax is 5 percent on the amount required to be shown as tax due on the return, for the first month of failure, and an additional 5 percent for each month or part of a month thereafter, up to a maximum of 25 percent.

For failure to file a tax-exempt organization return, the addition to tax is $20 a day for each day the failure continues. The maximum amount per return is $10,000 or 5 percent of the organization's gross receipts for the year, whichever is less. Organizations with annual gross receipts exceeding $1 million, however, are subject to an addition to tax of $100 per day, with a maximum of $50,000.

Reasons for Change

Although there are additions to tax for the failure to file returns, there is no specific penalty in the Code for a failure to comply with a requirement to file electronically. Because the addition to tax for failure to file a corporate return is based on an underpayment of tax, no addition is imposed if the corporation is in a refund or credit status. Thus, the existing addition to tax may not provide an adequate incentive for certain corporations to file electronically. Generally, 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.

Proposal

An assessable penalty would be established 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. For failure to file in any format, the existing penalty would remain, and the proposed penalty would not apply.

The proposal would be effective for returns required to be electronically filed on or after January 1, 2008.

Revenue Estimate

[No revenue effect]

CREATE AN ERRONEOUS REFUND CLAIM PENALTY

Current Law

Negligence and substantial understatement accuracy-related penalties apply only in the case of an underpayment of tax required to be shown on a return. The amount of an accuracy-related penalty is 20 percent of the underpayment of tax resulting from a substantial valuation misstatement and is 40 percent for a gross valuation misstatement. No substantial understatement penalty is imposed unless the portion of the underpayment attributable to the valuation misstatement exceeds $5,000 ($10,000 in the case of a corporation other than an S corporation or a personal holding company). Additional and alternative accuracy-related penalties can apply in the case of an understatement of tax attributable to a transaction required to be reported to the IRS under the reporting regime for potentially abusive transactions.

A taxpayer who is denied the earned income tax credit (EITC) as a result of a deficiency procedure must recertify eligibility before claiming the credit again in a subsequent year. Failure to recertify will result in a denial of the subsequent EITC claim. EITC claims are disallowed for two years if a prior year erroneous claim of the EITC was found to be due to reckless or intentional disregard of rules and regulations. The length of the EITC denial is increased to 10 years if the prior year erroneous claim was due to fraud.

Reasons for Change

Disallowing a refund or credit claim does not result in an underpayment. Absent a frivolous position evident on the face of the return, there is no accuracy-related penalty applicable to disallowance of a refund or credit claim.

Proposal

A penalty would be imposed in the amount of up to 20 percent of a disallowed portion of a claim for refund or credit for which there is no reasonable basis for the claimed tax treatment or for which the taxpayer did not have reasonable cause. A minimum penalty amount would apply, regardless of the percentage calculation. However, no penalty would apply to erroneous claims for an EITC (given the existing procedures designed to deter such claims).

The proposal would be effective for returns filed on or after January 1, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	0	5	10	11	26	98

IMPROVE TAX ADMINISTRATION AND OTHER MISCELLANEOUS PROPOSALS

MAKE SECTION 1203 OF THE IRS RESTRUCTURING AND REFORM ACT OF 1998 MORE EFFECTIVE AND FAIR

Current Law

Section 1203 of the IRS Restructuring and Reform Act of 1998 (RRA98) requires the Commissioner of Internal Revenue to terminate an employee for certain specifically enumerated violations committed by the employee in connection with the performance of the employee's official duties. The Commissioner has non-delegable authority to determine whether mitigating factors support a personnel action other than termination for a covered violation.

Reasons for Change

The proposal would enhance the IRS' effectiveness by more carefully tailoring the types of conduct by IRS employees that are subject to sanctions, by reinforcing the seriousness with which covered violations will be handled, by providing clear guidance to IRS employees regarding covered conduct and associated penalties, and by allowing the imposition of penalties that are commensurate with specific violations.

Current law requires the termination of an IRS employee for the failure to timely file tax returns, except when such failure is due to reasonable cause and not due to willful neglect. An IRS employee who fails to timely file a refund return (i.e., for a tax year in which the employee is entitled to a refund) is subject to termination even though a taxpayer who files a refund return late generally is not subject to any penalty. Late-filed refund return cases constitute a significant percentage of the section 1203 cases handled to date. These cases do not represent the type of serious conduct for which termination under section 1203 should apply. In addition, a number of section 1203 cases have involved allegations of wrongful conduct by IRS employees against other IRS employees. The Treasury Inspector General for Tax Administration has recommended that these types of cases be removed from the list of violations covered by section 1203. Such allegations can be addressed by existing administrative and statutory procedures. The proposal would eliminate late refund returns and employee versus employee acts from the list of covered violations. The proposal also would strengthen taxpayer protections by enhancing the Commissioner's ability to punish the unauthorized access of taxpayer return information.

Current law requires termination for any covered violation unless the Commissioner personally determines that mitigating factors justify some other personnel action. The proposal would require the Commissioner to establish guidelines outlining specific penalties, up to and including termination, for specific types of covered violations. These guidelines will provide notice to IRS employees of the punishment that would result from specific violations. This change would improve IRS employee morale and enhance the fundamental fairness of the statute.

Proposal

The proposal would modify section 1203 of RRA98 by (i) removing the late filing of refund returns from the list of violations; (ii) removing employee versus employee acts (i.e., for violation of an employee's, rather than a taxpayer's, Constitutional or civil rights) from the list of violations; and (iii) adding the unauthorized inspection of returns or return information to the list of violations. In addition, the proposal would require the Commissioner to establish guidelines outlining specific penalties, up to and including termination, for specific types of wrongful conduct covered by section 1203 of RRA98. The Commissioner would retain the nondelegable authority to determine whether mitigating factors support a personnel action other than that specified in the guidelines for a covered violation.

The proposal would be effective upon enactment.

Revenue Estimate

[No revenue effect]

ALLOW FOR THE TERMINATION OF INSTALLMENT AGREEMENTS FOR FAILURE TO FILE RETURNS AND FOR FAILURE TO MAKE DEPOSITS

Current Law

The IRS may terminate an agreement with a taxpayer to pay a tax liability in installments only for specific statutory reasons. These statutory reasons do not include a taxpayer's failure to file required returns or a taxpayer's failure to make required tax deposits.

Reasons for Change

IRS administrative procedures specify that installment agreements contain a provision requiring taxpayers to meet all return filing and deposit obligations during the term of the agreement. This provision is intended to ensure that the privilege of paying a tax liability in installments is extended only to those taxpayers willing to commit to future compliance. The installment agreement statute, however, does not allow the IRS to terminate an agreement even if a taxpayer fails to file required returns or fails to make required Federal tax deposits. Thus, the taxpayer may incur significant additional unpaid tax liability before the IRS can terminate the agreement.

Proposal

The proposal would permit the IRS to terminate an installment agreement if the taxpayer fails to timely file tax returns or if a taxpayer fails to timely make required Federal tax deposits.

The proposal would be effective for failures occurring on or after the date of enactment.

Revenue Estimate

[No revenue effect]

ELIMINATE THE MONETARY THRESHOLD FOR COUNSEL REVIEW OF OFFERS IN COMPROMISE

Current Law

Whenever a compromise is reached between the IRS and a taxpayer under section 7122, a record of the compromise must be placed on file along with an opinion from the IRS Office of Chief Counsel. The opinion of Chief Counsel is not required when the total liability, including penalties and interest, is less than $50,000. All compromises, regardless of amount, are subject to continuous quality review by the Secretary.

Reasons for Change

The proposal would allow the IRS to more efficiently direct resources for offer in compromise (OIC) cases while retaining existing quality review procedures. Many OIC cases do not present any significant legal issues, and the required legal review for cases meeting the statutory threshold can delay the acceptance process under current administrative procedures. The proposal would require the establishment of criteria for determining when review by Chief Counsel is appropriate. By retaining the requirement of continuous quality review by the Secretary, this proposal would insure that the overall quality of case dispositions does not decline.

Proposal

The proposal would eliminate the requirement that the opinion of Chief Counsel be placed on file for any accepted offer in compromise involving unpaid taxes, penalties, and interest equal to or exceeding $50,000. This proposal would require the Secretary to establish standards for determining when an opinion of Chief Counsel must be obtained. The proposal would be effective for offers in compromise submitted or pending on or after the date of enactment.

Revenue Estimate

[No revenue effect]

ALLOW THE FINANCIAL MANAGEMENT SERVICE TO IMPOSE AND RETAIN TRANSACTION FEES

Current Law

The IRS may continuously levy up to 100 percent of certain Federal payments to a delinquent taxpayer under the Federal Payment Levy Program (FPLP). The FPLP is administered by the Financial Management Service (FMS) of the Department of the Treasury. FMS charges the IRS the costs incurred in developing and operating the FPLP.

Reasons for Change

The IRS pays the FPLP fees to FMS out of the IRS' own appropriations. The FPLP fees have increased since the inception of the program due to increased FMS costs and increased use of the FPLP program. The proposal would alter internal government accounting to effectively eliminate accounting costs.

Proposal

The proposal would allow FMS to add the cost of collection services to the liability being recovered from the taxpayer and retain that portion of the levied funds as payment for FMS' collection services, thereby shifting the cost of collection to the delinquent taxpayer. The proposal would be effective upon enactment.

Revenue Estimate

[No revenue effect]

EXTEND IRS AUTHORITY TO FUND UNDERCOVER OPERATIONS

Current Law

The IRS is authorized to use proceeds it receives from undercover operations to offset necessary and reasonable expenses incurred in such operations. The IRS' authority to use proceeds from undercover operations is scheduled to expire on December 31, 2007.

Reasons for Change

The IRS' authority to use proceeds from undercover operations places the IRS on equal footing with other Federal law enforcement agencies. The IRS uses this authority to facilitate long-term, complicated criminal investigations, including investigations of international money laundering activities that often are connected to terrorism. The expiration of this authority would disrupt ongoing investigations. An extension would preserve the IRS' ability to pursue these important criminal investigations.

Proposal

The proposal would extend the IRS' authority to use the proceeds received from undercover operations through December 31, 2012.

Revenue Estimate

[No revenue effect]

ELIMINATE THE SPECIAL EXCLUSION FROM UNRELATED BUSINESS TAXABLE INCOME FOR GAIN OR LOSS ON THE SALE OR EXCHANGE OF CERTAIN BROWNFIELDS

Current Law

In general, an organization that is otherwise exempt from Federal income tax is taxed on income from any trade or business regularly carried on by the organization that is not substantially related to the organization's exempt purposes. Gains or losses from the sale, exchange or other disposition of property (other than stock in trade, inventory, or property held primarily for sale to customers in the ordinary course of the trade or business) generally are excluded from unrelated business taxable income. However, such amounts may be taxable if they are derived from property that is debt-financed. The amount of income that is taxable is determined based on the ratio of the outstanding indebtedness incurred by the organization in acquiring or improving the property to the adjusted basis of the property. The debt-financed income rules do not apply in the case of certain indebtedness, such as indebtedness that is incurred in the performance or exercise of the purpose or function constituting the basis for the organization's exemption.

The American Jobs Creation Act of 2004 (the Act) created a special exclusion from unrelated business taxable income of gain or loss from the sale or exchange of certain brownfield properties by a tax-exempt organization, whether the properties are held directly or indirectly through a partnership. For property to qualify for the exclusion, the property must be acquired during a five-year period beginning January 1, 2005 and ending December 31, 2009, although the property may be disposed of after that date. Certain certification requirements must be met. In addition, the exempt organization (or the partnership of which it is a partner) must spend a minimum amount on remediation expenses, which may be determined by averaging expenses across multiple qualifying brownfield properties for a period of up to eight years.

The Act also created a special exception to the debt-financed property rules for qualifying brownfield properties. Thus, gain or loss from the sale or exchange of qualifying brownfield properties is not taxed even if the exempt organization (or partnership) incurred debt to acquire or improve the property.

Reasons for Change

The special exclusion adds considerable complexity to the Code and is difficult to administer. In addition, there are concerns about the effectiveness of the provision because there is no limit on the amount of gain that is exempt from unrelated business income tax. The special exclusion could exempt from income tax real estate development considerably beyond mere environmental remediation.

Proposal

The proposal would eliminate this special exclusion effective for taxable years beginning after December 31, 2007.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	2	14	28	28	23	95	126

LIMIT RELATED PARTY INTEREST DEDUCTIONS

Current Law

Section 163(j) of the Code applies to limit the deductibility of certain interest paid by a corporation to related persons ("disqualified interest"). Disqualified interest for these purposes generally means interest paid or accrued by a corporation to a related person if such interest income is not subject to Federal income tax. Disqualified interest also includes interest paid or accrued by a corporation to an unrelated person if the underlying indebtedness is guaranteed by a related foreign person or tax exempt organization and such interest is not subject to U.S. withholding tax. The limitations of section 163(j) only apply to a corporation with a debt-to equity ratio that exceeds 1.5 to 1. If such a corporation has net interest expense that exceeds 50 percent of its adjusted taxable income (computed by adding back net interest expense, depreciation, amortization and depletion, and any net operating loss deduction), no deduction is allowed for disqualified interest in excess of the 50-percent limit. Interest that is disallowed in a taxable year under section 163(j) may be carried forward for deduction in a future year; there is no time limit on this carryforward. In addition, excess limitation (i.e., the amount by which the corporation's 50-percent limit exceeds its net interest expense for a taxable year) may be carried forward up to three years.

Reasons for Change

Under current law, opportunities are available to reduce inappropriately the U.S. tax on income earned from U.S. operations through the use of foreign related-party debt. Amending the rules of section 163(j) is necessary to prevent these inappropriate income-reduction opportunities.

Proposal

Section 163(j) would be revised to tighten the limitation on the deductibility of interest paid to related persons. The current law 1.5 to 1 debt-to-equity safe harbor would be eliminated. The adjusted taxable income threshold for the limitation would be reduced from 50 percent to 25 percent of adjusted taxable income with respect to disqualified interest other than interest paid to unrelated parties on debt that is subject to a related-party guarantee (hereinafter referred to as "guaranteed debt"). Interest on guaranteed debt generally would be subject to the current law 50 percent of adjusted taxable income threshold. The indefinite carryforward for disallowed interest under the adjusted taxable income limitation of current law would be limited to ten years. The 3-year carryforward of excess limitation would be eliminated.

Pursuant to section 424 of the American Jobs Creation Act of 2004, the Treasury Department is conducting a study of the effectiveness of and deficiencies in the current section 163(j) rules for addressing these income-reduction opportunities. Congress has requested a report regarding this issue. Such report may include recommendations for further modifications to these rules to ensure the elimination of inappropriate income-reduction opportunities.

The proposal would be effective on the date of enactment.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
86	148	155	163	171	180	817	1,859

REPEAL TELEPHONE EXCISE TAX ON LOCAL SERVICE

Current Law

The Code imposes a three-percent excise tax on amounts paid for taxable communications services, which include local telephone service and toll telephone service. Local telephone service is defined as access to a local telephone system and the privilege of telephonic communication with substantially all persons having telephones in the local system. Toll telephone service is defined to include both (1) telephonic quality communication for which there is a toll charge that varies in amount with the distance and elapsed transmission time of each individual call, and (2) telephone service that (a) provides the right to an unlimited number of telephone calls to points in a specified area that is outside the local telephone system and (b) is subject to a periodic charge determined either as a flat amount or upon the basis of total elapsed transmission time.

Until the mid-1990's, most long-distance charges were based on the time and distance of each call. Since then, the industry has shifted to charges based solely on time. The longstanding position of the IRS was that charges based solely on time were subject to tax. Service providers followed this position and collected the tax from their customers who began filing claims for refunds. When these claims for refunds were denied, taxpayers brought refund suits against the IRS.

The government was uniformly unsuccessful in this litigation at the appellate level. Am. Bankers Ins. Group v. United States, 408 F.3d 1328 (11th Cir. 2005); OfficeMax, Inc. v. United States, 428 F.3d 583 (6th Cir. 2005); Nat'l R.R. Passenger Corp. v. United States, 431 F.3d 374 (D.C. Cir. 2005); Fortis v. United States, 447 F.3d 190 (2d Cir. 2006) and Reese Bros., Inc. v United States, 447 F.3d 229 (3d Cir. 2006) all hold that a telephonic communication for which there is a toll charge that varies with elapsed transmission time and not distance (time-only service) is not taxable toll telephone service.

The IRS has announced that it will no longer litigate this issue. As a result, amounts paid for the service at issue in the litigation are not subject to tax. The IRS has also announced that, under the analysis in the cases cited above, taxpayers are no longer required to pay tax on similar services, such as plans that provide bundled local and long distance service for either a flat monthly fee or a charge that varies with the elapsed transmission time for which the service is used. As a result, the only communications services that remain subject to the tax are purely local telephone services.

Reasons for Change

It is likely that purely local telephone service will be replaced over time by nontaxable services and that, as this occurs, the poor and elderly will be the primary users of purely local service and will bear most of the burden of the telephone excise tax.

Proposal

All taxes on communications services, including the tax on local telephone service, would be repealed. The proposal would be effective for amounts paid pursuant to bills first rendered more than 90 days after enactment of legislation repealing the tax.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
-552	-463	-148	-74	-74	-74	-833	-1,211

MODIFY FINANCING OF THE AIRPORT AND AIRWAY TRUST FUND

Current Law

The Airport and Airway Trust Fund is supported by taxes on air passenger transportation, domestic air freight transportation, and aviation fuel. The tax on domestic air passenger transportation is 7.5 percent of the amount paid for the transportation plus a segment fee of $3.40 per segment. The tax on international air transportation is $15.10 on each international arrival or departure. Both the segment fee and the international arrival and departure fee are adjusted annually for inflation. The tax on domestic air freight transportation is 6.25 percent of the amount paid for the transportation. The tax on aviation fuel, to the extent dedicated to the Airport and Airway Trust Fund, is 4.3 cents per gallon for kerosene used in commercial aviation, 21.8 cents per gallon for kerosene used in non-commercial (general) aviation, and 19.8 cents per gallon for aviation gasoline. The tax is generally imposed when the fuel is removed from a terminal.

The taxes that support the Airport and Airway Trust Fund expire on September 30, 2007. The taxes on air transportation do not apply to amounts paid after September 30, 2007. The taxes on aviation fuel do not apply to fuel removed from a terminal after September 30, 2007. The authority to make expenditures from the Trust Fund for airport and airway programs also expires on September 30, 2007.

Reasons for Change

The Federal Aviation Administration's (FAA's) financing system should be more cost based. The current excise tax system, to the extent based on taxes on the amount paid for air transportation, does not provide a direct relationship between the taxes paid by users and the air traffic control services provided by the FAA.

For non-commercial aviation, a fuel tax provides an appropriate method of recovering FAA costs for air traffic control services. In addition, fuel taxes are an appropriate source of support for FAA's Airport Improvement Program.

To provide for necessary Federal airport and airway expenditures until a cost-based system is developed, the aviation excise taxes and the expenditure authority from the Airport and Airway Trust Fund should be temporarily extended.

Proposal

The taxes on air transportation would be extended through September 30, 2008. Beginning on October 1, 2008, FAA would collect user fees for air traffic control services provided to commercial aviation. In addition, the international arrival and departure fees would remain in effect, at reduced rates, from October 1, 2008, through September 30, 2017. The aviation fuel taxes would be extended through September 30, 2017. Beginning on October 1, 2008, the rates of tax on aviation fuel would be adjusted to provide appropriate levels of support for FAA air traffic control services that benefit general aviation and for FAA's Airport Improvement

Program. Expenditure authority from the Airport and Airway Trust Fund would be extended through September 30, 2017.

<u>Revenue Estimate</u>

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	-6,407	-6,705	-7,005	-7,326	-27,443	-69,732

IMPROVE UNEMPLOYMENT INSURANCE

STRENGTHEN THE FINANCIAL INTEGRITY OF THE UNEMPLOYMENT INSURANCE SYSTEM BY REDUCING IMPROPER BENEFIT PAYMENTS AND TAX AVOIDANCE

Current Law

The Federal Unemployment Tax Act (FUTA) currently imposes a Federal payroll tax on employers of 6.2 percent of the first $7,000 paid annually to each employee. Generally, these funds support the administrative costs of the unemployment insurance system. Employers in States that meet certain Federal requirements are allowed a credit against FUTA taxes of up to 5.4 percent, making the minimum net Federal rate 0.8 percent. States also impose an unemployment tax on employers. A State's unemployment insurance taxes are first placed in the State's own clearing account and then deposited into its Federal unemployment insurance trust fund from which the State pays unemployment benefits. State recoveries of overpayments of unemployment insurance benefits must be similarly deposited and used exclusively to pay unemployment benefits.

While States may enact penalties for overpayments, amounts collected as penalties or interest on benefit overpayments may be treated as general receipts by the States.

Reasons for Change

States' abilities to reduce overpayments and increase overpayment recoveries are limited by funding. The mandatory redeposit of the collection of unemployment benefits overpayments prevents States from redirecting these amounts to future recovery activity. The mandatory redeposit rule also limits the ability of States to use private collection agencies. Although States might use penalties or interest on overpayments to increase collections, there is no requirement that such amounts be directed for additional enforcement activities.

Proposal

The proposal would increase incentives for the recovery of State unemployment benefit overpayments and delinquent employer taxes. The proposal would allow States to redirect up to 5 percent of overpayment recoveries to additional enforcement activity. The proposal would require States to impose a penalty of at least 15 percent on recipients of fraudulent overpayments, and penalty revenue would be used exclusively for additional enforcement activity. States would be prohibited from relieving an employer of benefit charges due to a benefit overpayment if the employer had caused the overpayment. In certain circumstances relating to fraudulent overpayment of delinquent employer taxes, States would be allowed to permit private collection agencies to retain a portion (up to 25 percent) of any amounts collected. At the request of a State, the Secretary of the Treasury would collect benefit overpayments due to a State from any income tax refund owed to a benefit recipient. The proposal would allow States to deposit up to 5 percent of moneys recovered in the course of a UI tax investigation into a special fund dedicated to implementing the State Unemployment Tax Act (SUTA) Dumping

Prevention Act of 2004 or enforcing State laws relating to employer fraud or tax evasion. The proposal would require employers to report a "start work date" to the National Directory of New Hires for all new hires. Finally, the proposal would authorize the Secretary of Labor to waive certain requirements to allow States to conduct Demonstration Projects geared to reemployment of individuals eligible for unemployment benefits.

The provisions of the act would be effective as of the date of enactment.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	29	29	-16	-64	-22	-1,469

EXTEND UNEMPLOYMENT INSURANCE SURTAX

Current Law

The Federal Unemployment Tax Act (FUTA) currently imposes a Federal payroll tax on employers of 6.2 percent of the first $7,000 paid annually to each employee. The tax funds a portion of the Federal/State unemployment benefits system. This 6.2 percent rate includes a temporary surtax of 0.2 percent. States also impose an unemployment tax on employers. Employers in States that meet certain Federal requirements are allowed a credit for State unemployment taxes of up to 5.4 percent, making the minimum net Federal tax rate 0.8 percent. Generally, Federal and State unemployment taxes are collected quarterly and deposited in Federal trust fund accounts.

In 1976, Congress passed a temporary surtax of 0.2 percent of taxable wages to be added to the permanent FTA tax rate. Thus, the current 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent, and temporary surtax rate of 0.2 percent. The surtax has been extended several times, the most recently through 2007, to build up reserves in the Federal trust accounts and thus to help avoid future funding problems in these accounts.

Reasons for Change

Extending the surtax will support the continued solvency of the Federal unemployment trust funds and maintain the ability of the unemployment system to adjust to any economic downturns.

Proposal

The proposal would extend the 0.2 percent surtax through December 31, 2012.

Revenue Estimate

				Fiscal Years			
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
				($ in millions)			
0	1,073	1,542	1,580	1,617	1,633	7,445	1,526

ENERGY PROVISIONS

REPEAL REDUCED RECOVERY PERIOD FOR NATURAL GAS DISTRIBUTION LINES

Current Law

Pipelines used by utilities to distribute natural gas to their customers (natural gas distribution lines) placed in service before January 1, 2011, are assigned a statutory recovery period of 15 years for purposes of the Modified Accelerated Cost Recovery System (MACRS) and a statutory class life of 35 years for purposes of the alternative depreciation system applicable to certain property and for purposes of computing the alternative minimum tax. Natural gas distribution lines placed in service after December 31, 2010, are assigned a 20-year recovery period for purposes of MACRS and a 35-year class life for purposes of the alternative depreciation system.

Reasons for Change

Because the 15-year MACRS recovery period for natural gas distribution lines benefits gas utilities rather than gas producers, it does not significantly add to our nation's energy supplies over what the market would provide if the recovery period were 20 years. Moreover, the 15-year recovery period provides natural gas utilities with an unwarranted advantage over competitors such as electric utilities.

Proposal

The proposal would assign natural gas distribution lines a statutory recovery period of 20 years for purposes of the MACRS. The 35-year class life for purposes of the alternative depreciation system would be retained. The proposal would be effective for natural gas distribution lines placed in service after December 31, 2007.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	52	88	107	119	106	472	906

MODIFY AMORTIZATION FOR CERTAIN GEOLOGICAL AND GEOPHYSICAL EXPENDITURES

Current Law

Geological and geophysical expenditures are costs incurred for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties. The amortization period for geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States is two years for independent producers and five years for integrated oil and gas producers.

Reasons for Change

Current high energy prices provide significant incentives for investments in oil and gas exploration. Additional incentives in the form of accelerated amortization of geological and geophysical expenditures are not necessary. In addition, increasing the amortization period for geological and geophysical expenditures incurred by independent oil and gas producers from two years to five years would provide more consistent tax treatment for all oil and gas producers.

Proposal

The proposal would increase the amortization period from two years to five years for geological and geophysical expenditures incurred by independent producers in connection with all oil and gas exploration in the United States. Five-year amortization would apply even if the property is abandoned and any remaining basis of the abandoned property would be recovered over the remainder of the five-year period. The proposal would be effective for amounts paid or incurred in taxable years beginning after December 31, 2007.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	15	55	81	67	56	274	582

EXTEND EXPIRING PROVISIONS

MINIMUM TAX RELIEF FOR INDIVIDUALS

Current Law

An individual is subject to an alternative minimum tax (AMT) to the extent the individual's tentative minimum tax is greater than the regular tax liability. In computing the tentative minimum tax, taxable income is calculated differently than for regular tax purposes. Under the AMT, certain income items are included that are not included for regular tax purposes. Also, certain deductions, including State and local tax deductions, miscellaneous itemized deductions, and the standard deduction, are not permitted. A specified exemption amount, which varies by filing status but not by the number of personal exemptions and which phases out at higher income levels, is allowed. The regular tax personal exemptions for taxpayers and their dependents are not allowed in computing the AMT. Under the AMT, the tax rate is 26 percent on the first $175,000 ($87,500 if married filing separately) of AMT income, and 28 percent on any excess.

Generally, for AMT purposes taxpayers are allowed to use most tax credits only to the extent their regular tax liability exceeds their tentative minimum tax. However, under provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), before 2011, the child tax credit, the adoption credit, and the saver's credit are not limited by the AMT, and the AMT does not reduce the earned income tax credit and the additional child tax credit. A temporary provision, which permitted an individual to reduce tax liability by the full amount of nonrefundable personal credits (such as the child and dependent care credit and the higher education credits) even if tax liability is reduced to an amount that is less than the individual's tentative minimum tax, expired after taxable year 2001 but was extended for taxable years 2002 and 2003 by the Job Creation and Worker Assistance Act of 2002, for 2004 and 2005 by the Working Families Tax Relief Act of 2004, and for 2006 by the Tax Increase Prevention and Reconciliation Act of 2005.

EGTRRA increased the alternative minimum tax (AMT) exemption amounts for taxable years 2001 through 2004, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) further increased the exemptions for 2003 and 2004, and the Working Families Tax Relief Act of 2004 extended the higher exemption amount through 2005. Under the Tax Increase Prevention and Reconciliation Act of 2005, the exemptions were increased further for 2006 to $42,500 for single and head of household filers, $62,550 for married taxpayers filing joint returns, and $31,275 for married taxpayers filing separate returns. Beginning in taxable year 2007, the exemption levels revert to their pre-EGTRRA levels of $33,750, $45,000, and $22,500, respectively.

Reasons for Change

The Administration is concerned that the individual AMT may impose substantial burdens upon taxpayers who were not the originally intended targets of the individual AMT. Providing higher AMT exemption levels and allowing nonrefundable personal credits to be used in full for an additional year would avoid a significant increase in the number of taxpayers subject to the AMT in the near term. Substantially fewer taxpayers would need to perform the complex and tedious AMT computations. The Administration believes the longer term solution to the problems associated with the individual AMT is best addressed within the context of other reforms to the tax system.

Proposal

The proposal would increase the AMT exemption levels for 2007 to $43,900 for single and head of household filers, $65,350 for married taxpayers filing joint returns, and $32,675 for married taxpayers filing separate returns. In addition, the proposal would allow an individual to reduce 2007 tax liability by the full amount of nonrefundable personal credits even if tax liability is reduced to an amount that is less than the individual's tentative minimum tax.

Revenue Estimate

			Fiscal Years				
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
			($ in millions)				
-9,123	-47,922	11,431	0	0	0	-36,491	-36,491

PERMANENTLY EXTEND THE RESEARCH & EXPERIMENTATION (R&E) TAX CREDIT

Current Law

The research and experimentation (R&E) tax credit is 20 percent of qualified research expenses above a base amount. The base amount is the product of the taxpayer's "fixed base percentage" and the average of the taxpayer's gross receipts for the four preceding years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for the 1984-88 period. The base amount cannot be less than 50 percent of the taxpayer's qualified research expenses for the taxable year. Taxpayers can elect into a three-tiered alternative credit that has lower credit rates (ranging from 2.65 to 3.75 percent) and lower statutory fixed base percentages (ranging from 1 to 2 percent).

The Tax Relief and Health Care Act of 2006 extended the R&E credit, which expired on December 31, 2005, for two years (through December 31, 2007) and modified the credit for qualified research expenses incurred after December 31, 2006. The first modification increases the range of rates for the alternative credit from 2.65 to 3.75 percent to 3 percent to 5 percent. The second modification provides a new simplified research credit equal to 12 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. The rate is reduced to 6 percent if a taxpayer has no qualified research expenses in any one of the three preceding taxable years. An election to use the new credit applies to all succeeding taxable years unless revoked with the consent of the Secretary.

Reasons for Change

The R&E tax credit encourages technological developments that are an important component of economic growth. However, uncertainty about the future availability of the R&E tax credit diminishes the incentive effect of the credit because it is difficult for taxpayers to factor the credit into decisions to invest in research projects that will not be initiated and completed prior to the credit's expiration. To improve the credit's effectiveness, the R&E tax credit should be made permanent.

Proposal

The proposal would make the R&E credit permanent.

In addition, the Administration is concerned that features of the R&E tax credit may limit its effectiveness in encouraging taxpayers to invest in R&E. The Administration will work closely with the Congress to develop and enact reforms to rationalize the R&E tax credit and improve its incentive effect.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-3,221	-7,071	-9,145	-10,601	-11,799	-41,837	-117,309

WORK OPPORTUNITY TAX CREDIT

Current Law

The Tax Relief and Health Care Act of 2006 consolidated the former work opportunity tax credit and the former welfare-to-work credit with modifications into a combined work opportunity tax credit (WOTC), effective for wages paid to eligible workers who begin work in 2007. In general, the WOTC is now available to employers who hire qualified workers from nine eligible targeted groups of economically disadvantaged or handicapped workers. The current eligible targeted groups for purposes of the WOTC include: (1) recipients of Temporary Assistance to Needy Families (TANF); (2) qualified veterans; (3) qualified ex-felons; (4) high-risk youth at least 18 years old but not yet 25 years old; (5) qualified referrals from State-sponsored vocational rehabilitation programs for the mentally and physically disabled ; (6) qualified summer youth; (7) qualified food stamp recipients at least 18 years old but not yet 40 years old; (8) Supplemental Security Income (SSI) recipients, and (9) long-term family assistance recipients.

In general, the amount of the WOTC available to an employer is based on the amount of qualified wages paid to an employee within an eligible targeted group during the first year of employment (the first two years of employment for employees who are long-term family assistance recipients). In general, for all targeted groups except summer youth employees and long-term family assistance recipients, the WOTC is equal to 40 percent (25 percent for employment of between 120 hours and 400 hours) of qualified first-year wages for the first $6,000 of wages. Thus, the maximum credit generally is equal to 40 percent of $6,000 of qualified first-year wages per eligible worker or $2,400. For the summer youth target group, the maximum credit is 40 percent of $3,000 of qualified first-year wages per eligible worker or $1,200. For long-term family assistance recipients, the credit is equal to 40 percent of qualified first-year wages for the first $10,000 of first-year wages and 50 percent of qualified second-year wages for the first $10,000 of second-year wages, which results in a maximum WOTC credit for long-term family assistance recipients of $9,000 per eligible worker.

The WOTC is subject to various limitations, including a requirement by employers to reduce their deduction for wages paid by the amount of the credit claimed and tax liability limitations governing the general business credit.

Membership in most eligible target groups for purposes of the WOTC requires eligible persons to be members of families that benefit from means-tested government programs, to live in areas with high poverty rates, or to have participated in government programs that provide benefits to handicapped workers. Designated local agencies are responsible for certifying that individuals hired are members of eligible target groups. Employers must have certifications of worker eligibility from designated local agencies in order to claim the credit. For workers hired without appropriate documentation of eligibility, employers must request certification documents within 28 days of the hiring date in order to obtain the necessary certification documents.

The WOTC is unavailable to employers for wages paid to workers in the nine targeted groups who begin work after December 31, 2007.

Reasons for Change

The WOTC provides appropriate tax incentives to employers for hiring and training economically disadvantaged workers.

Proposal

The proposal would extend the WOTC to employers for qualified wages paid to eligible target group employees who begin work after December 31, 2007 and before January 1, 2009.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-71	-192	-162	-80	-51	-556	-582

FIRST-TIME HOMEBUYER CREDIT FOR THE DISTRICT OF COLUMBIA

Current Law

A one-time, nonrefundable $5,000 credit is available to purchasers of a principal residence in the District of Columbia who have not owned a residence in the District during the year preceding the purchase. The credit phases out for taxpayers with modified adjusted gross income between $70,000 and $90,000 ($110,000 and $130,000 for joint returns).

The credit does not apply to purchases after December 31, 2007.

Reasons for Change

The homeownership rate in the District of Columbia is significantly below the rate for neighboring States and the nation as a whole. Homeownership fosters healthy, vibrant communities and is a key to revitalizing the Nation's capital. Extending the credit would enhance the District's ability to attract new homeowners and establish a stable residential base.

Proposal

The first-time homebuyer credit for the District of Columbia would be extended for one year, making the credit available with respect to purchases through December 31, 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-1	-19	0	0	0	-20	-20

AUTHORITY TO ISSUE QUALIFIED ZONE ACADEMY BONDS

Current Law

During 1998-2007, State and local governments have been able to issue qualified zone academy bonds (QZABs) for qualified purposes to fund the improvement of certain eligible public schools. In general, QZABs are not interest-bearing obligations. Rather, an eligible holder of a QZAB receives annual Federal income tax credits in lieu of interest. These annual credits compensate the holder for lending money and, therefore, are treated like taxable interest payments for Federal tax purposes. Eligible holders are banks, insurance companies, and corporations actively engaged in the business of lending money. The credit rate for a QZAB is set on its day of sale by reference to credit rates established by the Department of the Treasury and is a rate that is intended to permit the issuance of the QZAB without discount and without interest cost to the issuer. The credit accrues annually and is includible in gross income (as if it were an interest payment on a taxable bond) and can be claimed against regular income tax liability. The maximum term of a QZAB is determined by reference to a percentage of the adjusted applicable Federal rate (AFR) published by IRS for the month in which the QZAB is issued. This maturity restriction results in a Federal subsidy which is approximately equal to half the face amount of the bond.

A national volume cap of $400 million annually applies to QZABs. The annual national volume cap is allocated among the States in proportion to their respective populations of individuals with incomes below the poverty line. Unused authority to issue QZABs can be carried forward for two years.

A number of requirements must be met for a bond to be treated as a QZAB. First, the bond must be issued pursuant to an allocation of bond authority from the issuer's State educational agency. Second, at least 95 percent of the bond proceeds must be used for an eligible purpose at a qualified zone academy. Eligible purposes include rehabilitating school facilities, acquiring equipment, developing course materials, or training teachers. A qualified zone academy is a public school (or an academic program within a public school) that is designed in cooperation with business and is either (1) located in an empowerment zone or enterprise community, or (2) attended by students at least 35 percent of whom are estimated to be eligible for free or reduced-cost lunches under the National School Lunch Act. Third, private entities must have promised to contribute to the qualified zone academy certain property or services with a present value equal to at least 10 percent of the bond proceeds.

For QZABs issued from volume cap authority arising in 2006 and thereafter, several additional program restrictions apply. A new spending rule applies which requires an issuer to spend at least 95 percent of the proceeds of an issue of QZABs within five years (and to redeem bonds from unspent proceeds upon failure to meet that spending requirement). In addition, an IRS information reporting requirement applies to these QZABs similar to one applicable to tax-exempt bonds. Finally, arbitrage investment restrictions apply to these QZABs similar to those applicable to tax-exempt bonds.

Reasons for Change

Aging school buildings and new educational technologies create a need to renovate older school buildings and to develop new curricula. Many school systems have insufficient fiscal capacity to finance needed renovation and programs. The QZAB provision encourages the development of innovative school programs through public/private partnerships.

Proposal

The authority to issue $400 million of QZABs per year would be extended for one year through 2008.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	-3	-8	-13	-18	-20	-62	-162

DEFERRAL OF GAINS FROM THE SALE OF ELECTRIC TRANSMISSION PROPERTY

Current Law

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). If the amount realized exceeds the amount used to purchase other gas or electric utility property during the reinvestment period, the realized gain to the extent of such excess is recognized in the year of the qualifying electric transmission transaction.

A sale or other disposition of property is a qualifying electric transmission transaction if (i) the property is used in the trade or business of providing electric transmission services or is an ownership interest in an entity whose principal trade or business is providing electric transmission services and (ii) the sale or other disposition is to an independent transmission company and occurs before January 1, 2008.

In general, whether the purchaser qualifies as an independent transmission company depends on determinations by the Federal Energy Regulatory Commission (FERC) or, in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas, by that Commission. In certain cases, a person's qualification as an independent transmission company also depends on whether the person's transmission facilities are under the operational control of a FERC-approved independent transmission provider before January 1, 2008.

Reasons for Change

To improve transmission management and facilitate the formation of competitive energy markets, Federal and State energy regulators are calling for vertically integrated utilities to place their transmission assets under the ownership or control of independent transmission companies. An extension of the special rule allowing limited deferral of the tax on gain from the dispositions to independent transmission companies would facilitate electric deregulation and encourage investment in modernization of the country's energy infrastructure.

Proposal

The special rule allowing the deferral of tax on the gain from the sale or disposition of electric transmission property would be extended for one year, allowing taxpayers to elect deferral with respect to sales or dispositions that occur before January 1, 2009. In addition, for cases in which qualification as an independent transmission company depends on operational control of transmission facilities by a FERC-approved independent transmission provider, the deadline for achieving such control would be extended for one year (i.e., qualification would depend on whether the transmission facilities were under such control before January 1, 2009).

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
-63	-48	-52	-65	-39	5	-199	41

DISCLOSURE OF TAX RETURN INFORMATION RELATED TO TERRORIST ACTIVITY

Current Law

Current law permits disclosure by the IRS of return information to aid the investigation or response to terrorism in two situations. First, if a specified official of a Federal law enforcement or intelligence agency submits a written request, the IRS may disclose a taxpayer's identity and return information to such agency's officers and employees involved with a terrorist incident, threat, or activity. The head of a Federal law enforcement agency in turn may make disclosures to State or local law enforcement agencies working as part of a team on the investigation or response. Second, if the IRS wishes to apprise a Federal law enforcement agency of a terrorist incident, threat, or activity, the IRS may disclose a taxpayer's identity and return information to the agency's head (who in turn may disclose the information to agency officers and employees as necessary). With respect to returns and return information that the taxpayer supplied (other than taxpayer identity information), the IRS cannot make the disclosure to Federal law enforcement or intelligence agency officers and employees without a court order indicating there is reasonable cause to believe the returns and return information at issue are relevant to the terrorist incident, threat or activity. If a Federal law enforcement or intelligence agency seeks taxpayer return information, specified officials in the Department of Justice may apply for an ex parte court order. If the IRS wishes to disclose taxpayer return information, the IRS may apply for an ex parte court order and may make disclosures to the Department of Justice as necessary to prepare such application on behalf of the IRS.

Reasons for Change

The disclosure authority relating to terrorist activities expires on December 31, 2007. The Administration believes that extension would help provide continued support for investigations and responses relating to terrorism.

Proposal

The proposal would extend this authority until December 31, 2008.

Revenue Estimate

[No revenue effect]

EXCISE TAX ON COAL

Current Law

An excise tax is imposed on coal at a rate of $1.10 per ton for coal from underground mines and $0.55 per ton for coal from surface mines. In either case, the tax imposed with respect to a ton of coal may not exceed 4.4 percent of the amount for which it is sold by the producer. Receipts from the tax are deposited in the Black Lung Disability Trust Fund. Amounts in the Fund are used to pay compensation, medical, and survivor benefits to eligible miners and their survivors and to cover costs of program administration. Miners and survivors qualify for benefits from the Fund only if the miner's mine employment terminated before 1970 or no mine operator is liable for the payment of benefits. The Fund is also permitted to borrow from the general fund any amounts necessary to make authorized expenditures if excise tax receipts do not provide sufficient funding.

Reduced rates of tax apply after the earlier of December 31, 2013, or the date on which the Black Lung Disability Trust Fund has repaid, with interest, all amounts borrowed from the general fund of the Treasury. The reduced rates of tax are $0.50 per ton for coal from underground mines and $0.25 per ton for coal from surface mines. In addition, the maximum tax imposed with respect to a ton of coal is reduced from 4.4 percent of the amount for which it is sold by the producer to 2 percent of that amount.

Reasons for Change

To reduce the duration of the general fund subsidy for black lung disability programs, excise tax rates on coal should remain at their current levels until all amounts borrowed from the general fund of the Treasury have been repaid with interest.

Proposal

The proposal would retain the excise tax on coal at the current rates until the date on which the Black Lung Disability Trust Fund has repaid, with interest, all amounts borrowed from the general fund of the Treasury. After repayment of the Fund's debt, the reduced rates of $0.50 per ton for coal from underground mines and $0.25 per ton for coal from surface mines would apply and the tax per ton of coal would be capped at 2 percent of the amount for which it is sold by the producer. The proposal would be effective for coal sales after December 31, 2006.

Revenue Estimate

Fiscal Years							
2007	2008	2009	2010	2011	2012	2008-2012	2008-2017
($ in millions)							
0	0	0	0	0	0	0	1,081

QUALIFIED RETIREMENT PLAN DISTRIBUTIONS TO INDIVIDUALS CALLED TO ACTIVE DUTY

Current Law

Taxpayers who receive distributions from a qualified retirement plan prior to age 59½ , death, or disability generally are subject to a 10 percent tax, in addition to regular income tax, on the amount includible in income as a result of the distribution, unless an exception applies. Examples of distributions that are excepted from this additional tax include early distributions made to an employee who separates from service after age 55, or to distributions that are part of a series of substantially equal periodic payments over the life (or life expectancy) of the employee or the joint lives (or life expectancies) of the employee and his or her beneficiary. Employee deferrals in a section 401(k) plan or section 403(b) annuity may not be distributed at all before severance from employment, age 59½, death, disability, or financial hardship of the individual.

The Pension Protection Act of 2006 provided that "qualified reservist distributions" are an additional exception to the 10 percent additional tax on early withdrawals. A qualified reservist distribution is a distribution (1) from an IRA or attributable to elective deferrals under a section 401(k) plan, section 403(b) annuity, or certain similar arrangements, (2) made to an individual who (by reason of being a member of a reserve component, which includes national guard units) was ordered or called to active duty after September 11, 2001, for a period in excess of 179 days or for an indefinite period, and (3) that is made during the period beginning on the date of such order or call to duty and ending at the close of the active duty period. A section 401(k) plan or section 403(b) annuity does not violate the distribution restrictions applicable to such plans by reason of making a qualified reservist distribution. An individual who receives a qualified reservist distribution may, at any time during the two-year period beginning on the day after the end of the active duty period, make one or more contributions to an IRA of such individual in an aggregate amount not greater than the amount of the distribution. The dollar limitations otherwise applicable to contributions to IRAs do not apply to any contribution made pursuant to this rule. No deduction is allowed for any contribution made under this rule. This exception to the 10 percent early withdrawal penalty does not apply to individuals called to active duty after December 31, 2007.

Reasons for Change

Americans commonly incur economic hardship as a result of being called to active military service. They should not be penalized if they need to draw on their qualified retirement funds to address these hardships.

Proposal

The exception to the 10 percent early withdrawal tax on distributions to individuals called to active duty for at least 179 days would be extended to individuals called to active duty on or before December 31, 2008.

Revenue Estimate

[No revenue effect]

INCLUDE COMBAT PAY AS EARNED INCOME FOR EITC

Current Law

Subject to certain limitations, compensation earned by members of the Armed Forces while serving in combat zones may be excluded from gross income. Enlisted personnel and warrant officers may exclude the full amount of compensation earned in combat zones. Commissioned officers also may exclude compensation earned in combat zones, but only to the extent of the maximum amount that enlisted personnel receive. For up to two years following service in a combat zone, military personnel also may exclude compensation earned while hospitalized from wounds, disease, or injuries incurred while serving in a combat zone.

Nontaxable compensation is not includable in earned income for purposes of computing the earned income tax credit (EITC). However, a taxpayer may elect to treat combat pay otherwise excluded from gross income as earned income for purposes of the EITC, effective for taxable years ending after October 4, 2004, and before January 1, 2008.

Reasons for Change

Excluding combat pay from earned income can decrease or increase the amount of the EITC received by military personnel serving in combat zones. The effect of the exclusion varies depending on a number of factors, including the taxpayer's rank, number of years of service in the military, number of months in a combat zone, marital status, and number of children. The effects of the exclusion are most adverse among very low-ranking enlisted personnel who serve in combat zones for most or all of the tax year. However, in 2006, the exclusion likely increased the EITC for most military personnel.

Extending the availability of the election to include combat pay as earned income for purposes of the EITC would assist very low-ranking enlisted personnel who serve long periods in combat zones, without disadvantaging other military personnel also serving in combat zones.

Proposal

The election to treat combat pay otherwise excluded from gross income as earned income for purposes of the EITC would be extended through December 31, 2008.

Revenue Estimates */
FY 2008 Budget Tax Proposals Affecting Receipts

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
							Fiscal Years (in millions of dollars)						
Make Permanent Certain Tax Relief Enacted in 2001 and 2003:													
Dividends tax rate structure	344	683	695	-3,595	-13,789	1,491	-4,389	-12,826	-18,392	-19,400	-20,451	-14,515	-89,973
Capital gains tax rate structure	0	0	0	-3,405	-17,477	-7,269	-7,599	-9,565	-10,890	-11,215	-11,639	-28,151	-79,059
Expensing for small business	0	0	0	-3,728	-4,947	-3,376	-2,454	-1,826	-1,429	-1,242	-1,156	-12,051	-20,158
Marginal individual income tax rate reductions	0	0	0	0	-71,892	-113,251	-116,044	-119,209	-122,054	-124,798	-126,532	-185,143	-793,780
Child tax credit 1/	0	0	0	0	-5,311	-33,065	-33,248	-33,431	-33,535	-33,660	-33,782	-38,376	-206,032
Marriage penalty relief 2/	0	0	0	0	-5,014	-9,594	-8,680	-7,843	-7,026	-6,306	-5,820	-14,608	-50,283
Education incentives	0	0	0	0	-739	-1,336	-1,402	-1,459	-1,519	-1,578	-1,640	-2,075	-9,673
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	-156	-1,373	-2,290	-3,067	-26,845	-57,652	-60,012	-65,184	-70,077	-75,385	-80,605	-91,227	-442,490
Other incentives for families and children	0	0	0	6	-179	-866	-860	-859	-861	-861	-861	-1,039	-5,341
Total make permanent the tax relief enacted in 2001 and 2003	**188**	**-690**	**-1,595**	**-13,789**	**-146,193**	**-224,918**	**-234,688**	**-252,202**	**-265,783**	**-274,445**	**-282,486**	**-387,185**	**-1,696,789**
Tax Incentives:													
Simplify and encourage saving:													
Expand tax-free savings opportunities	0	1,527	3,545	3,023	1,075	-1,314	-1,634	-866	-1,505	-2,011	-2,432	7,856	-592
Consolidate employer-based savings accounts	0	-80	-120	-132	-141	-150	-159	-169	-178	-187	-168	-623	-1,484
Total simplify and encourage savings	0	1,447	3,425	2,891	934	-1,464	-1,793	-1,035	-1,683	-2,198	-2,600	7,233	-2,076
Encourage entrepreneurship and investment:													
Increase expensing for small business	0	-1,597	-2,180	-1,541	-1,135	-847	-659	-567	-527	-521	-521	-7,300	-10,095
Invest in health care:													
Provide a flat $15,000 deduction for family coverage ($7,500 for individual coverage) for those with health insurance 3/	0	0	-31,664	-43,521	-35,548	-24,748	-11,048	4,059	19,930	36,034	53,770	-135,480	-32,735
Expand and make health savings accounts (HSA's) more flexible	0	-318	-593	-784	-937	-1,037	-1,130	-1,225	-1,329	-1,439	-1,574	-3,669	-10,366
Improve the Health Coverage Tax Credit 4/	0	-5	-13	-16	-19	-20	-21	-22	-23	-25	-26	-73	-190
Allow the orphan drug tax credit for certain pre-designation expenses	0	0	0	0	0	0	0	0	0	0	-1	0	-1
Total invest in health care	0	-323	-32,270	-44,321	-36,504	-25,805	-12,199	2,812	18,578	34,570	52,170	-139,222	-43,292
Provide incentives for charitable giving:													
Permanently extend tax-free withdrawals from IRAs for charitable contributions	0	-120	-255	-235	-171	-147	-161	-177	-190	-200	-211	-928	-1,867
Permanently extend the enhanced charitable deduction for contributions of food inventory	0	-44	-96	-106	-116	-127	-140	-154	-169	-187	-206	-489	-1,345
Permanently extend the enhanced deduction for corporate contributions of computer equipment for educational purposes	0	-50	-118	-147	-154	-162	-170	-178	-187	-197	-207	-631	-1,570
Permanently extend increased limits on contributions of partial interests in real property for conservation purposes	0	-48	-35	-22	-18	-21	-22	-23	-24	-25	-27	-144	-265
Permanently extend the basis adjustment to stock of S corporations contributing appreciated property	0	-3	-15	-21	-25	-28	-32	-37	-42	-47	-51	-92	-301
Reform excise tax based on investment income of private foundations	0	-61	-91	-97	-103	-110	-119	-130	-142	-151	-159	-462	-1,163
Repeal the $150 million limitation on qualified 501(c)(3) bonds	0	-2	-3	-9	-13	-14	-14	-13	-13	-12	-11	-41	-104
Repeal certain restrictions on the use of qualified 501(c)(3) bonds for residential rental property	0	-2	-5	-10	-17	-24	-32	-39	-46	-52	-59	-58	-286
Total incentives for charitable giving	0	-330	-618	-647	-617	-633	-690	-751	-813	-871	-931	-2,845	-6,901

Revenue Estimates */
FY 2008 Budget Tax Proposals Affecting Receipts

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
							Fiscal Years (in millions of dollars)						
Strengthen education:													
Permanently extend the above-the-line deduction for qualified out-of-pocket classroom expenses	0	-18	-180	-183	-185	-188	-191	-194	-197	-200	-203	-754	-1,739
Allow the saver's credit for contributions to qualified tuition programs (section 529 plans)	0	-63	-163	-176	-189	-200	-208	-221	-236	-249	-261	-791	-1,966
Total strengthen education	0	-81	-343	-359	-374	-388	-399	-415	-433	-449	-464	-1,545	-3,705
Protect the environment:													
Permanently extend expensing of brownfields remediation costs	61	-244	-400	-352	-342	-331	-292	-256	-236	-207	-191	-1,669	-2,851
Eliminate the volume cap for private activity bonds for water infrastructure	0	-1	-3	-5	-9	-13	-18	-24	-30	-37	-44	-31	-184
Total protect the environment	61	-245	-403	-357	-351	-344	-310	-280	-266	-244	-235	-1,700	-3,035
Restructure Assistance to New York City													
Provide tax incentives for transportation infrastructure	0	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-1,000	-2,000
Subtotal: Tax Incentives	**61**	**-1,329**	**-32,589**	**-44,534**	**-38,247**	**-29,681**	**-16,250**	**-436**	**14,656**	**30,087**	**47,219**	**-146,379**	**-71,104**
Simplify the Tax Law for Families:													
Clarify uniform definition of a child 5/	17	246	244	280	276	256	282	310	332	356	377	1,302	2,959
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigrant status 6/	0	241	-58	-39	-39	-35	-32	-29	-26	-23	-20	70	-60
Reduce computational complexity of refundable child tax credit 7/	0	0	375	388	400	417	426	435	436	446	450	1,580	3,773
Subtotal: Simplify Tax Law for Families	**17**	**487**	**561**	**629**	**637**	**638**	**676**	**716**	**742**	**779**	**807**	**2,952**	**6,672**
Improve Tax Compliance:													
Expand information reporting:													
Require information reporting on payments to corporations	0	69	421	609	769	832	893	951	1,008	1,061	1,123	2,700	7,736
Require basis reporting on security sales	0	0	31	178	328	498	771	1,023	1,186	1,289	1,405	1,035	6,709
Expand broker information reporting	0	20	77	136	186	220	240	254	267	280	294	639	1,974
Require information reporting on merchant payment card reimbursements	0	113	404	694	949	1,174	1,309	1,406	1,490	1,564	1,642	3,334	10,745
Require a certified taxpayer identification number from contractors	0	5	42	72	76	80	85	90	94	100	105	275	749
Require increased information reporting for certain government payments for property and services	0	25	100	130	108	27	0	0	0	0	0	390	390
Increase information return penalties	0	0	0	29	72	72	73	74	75	75	76	173	546
Total expand information reporting	0	232	1,075	1,848	2,488	2,903	3,371	3,798	4,120	4,369	4,645	8,546	28,849
Improve compliance by businesses:													
Require e-filing by certain large businesses						*No Revenue Effect*							
Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes	0	3	5	5	5	6	6	6	7	7	7	24	57
Amend collection due process procedures for employment tax liabilities	0	140	86	33	16	14	14	14	15	16	16	289	364
Total improve compliance by business	0	143	91	38	21	20	20	20	22	23	23	313	421
Strengthen tax administration:													
Expand IRS access to information in the National Directory of New Hires for tax administration purposes						*No Revenue Effect*							
Permit disclosure of prison tax scams	0	0	0	0	0	0	1	1	1	1	1	0	5
Make repeated willful failure to file a tax return a felony	0	0	0	1	1	1	1	2	2	2	2	3	12
Total strengthen tax administration	0	0	0	1	1	1	2	3	3	3	3	3	17

Revenue Estimates */
FY 2008 Budget Tax Proposals Affecting Receipts

Fiscal Years (in millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
Penalties:													
Expand preparer penalties	0	3	5	6	8	9	9	9	10	10	11	31	80
Impose penalty on failure to comply with electronic filing requirements	0	0	0	0	0	0	0	0	0	0	0	0	0
Create an erroneous refund claim penalty	0	0	0	5	10	11	12	13	14	16	17	26	98
Total penalties	0	3	5	11	18	20	21	22	24	26	28	57	178
Subtotal: Improve Tax Compliance	**0**	**378**	**1,171**	**1,898**	**2,528**	**2,944**	**3,414**	**3,843**	**4,169**	**4,421**	**4,699**	**8,919**	**29,465**
Improve Tax Administration and Other Miscellaneous Proposals:													
Make Section 1203 of the IRS Restructuring and Reform Act of 1998 more effective and fair						*No Revenue Effect*							
Allow for the termination of installment agreements for failure to file returns and for failure to make deposits						*No Revenue Effect*							
Eliminate the monetary threshold for counsel review of offers in compromise						*No Revenue Effect*							
Allow the Financial Management Service to impose and retain transaction fees						*No Revenue Effect*							
Extend IRS authority to fund undercover operations						*No Revenue Effect*							
Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields	0	2	14	28	28	23	18	10	3	0	0	95	126
Limit related party interest deductions	86	148	155	163	171	180	189	198	208	218	229	817	1,859
Total tax administration	86	150	169	191	199	203	207	208	211	218	229	912	1,985
Repeal telephone excise tax on local service	-552	-463	-148	-74	-74	-74	-75	-75	-76	-76	-76	-833	-1,211
Modify financing of the Airport and Airway Trust Fund	0	0	-6,407	-6,705	-7,005	-7,326	-7,663	-8,036	-8,427	-8,857	-9,306	-27,443	-69,732
Total other	-552	-463	-6,555	-6,779	-7,079	-7,400	-7,738	-8,111	-8,503	-8,933	-9,382	-28,276	-70,943
Subtotal: Improve Tax Administration and Other	**-466**	**-313**	**-6,386**	**-6,588**	**-6,880**	**-7,197**	**-7,531**	**-7,903**	**-8,292**	**-8,715**	**-9,153**	**-27,364**	**-68,958**
Improve Unemployment Insurance:													
Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance	0	0	29	29	-16	-64	-210	-1,170	-697	468	162	-22	-1,469
Extend unemployment insurance surtax	0	1,073	1,542	1,580	1,617	1,633	-54	-843	-1,754	-2,290	-978	7,445	1,526
Subtotal: Improve Unemployment Insurance	**0**	**1,073**	**1,571**	**1,609**	**1,601**	**1,569**	**-264**	**-2,013**	**-2,451**	**-1,822**	**-816**	**7,423**	**57**
Energy Provisions: 8/													
Repeal reduced recovery period for natural gas distribution lines	0	52	88	107	119	106	89	81	81	87	96	472	906
Modify amortization for certain geological and geophysical expenditures	0	15	55	81	67	56	58	60	61	64	65	274	582
Subtotal: Energy Provisions	**0**	**67**	**143**	**188**	**186**	**162**	**147**	**141**	**142**	**151**	**161**	**746**	**1,488**
Extend Expiring Provisions:													
Minimum tax relief for individuals	-9,123	-47,922	11,431	0	0	0	0	0	0	0	0	-36,491	-36,491
Permanently extend the Research and Experimentation (R&E) Tax Credit	0	-3,221	-7,071	-9,145	-10,601	-11,799	-12,833	-13,875	-15,002	-16,222	-17,540	-41,837	-117,309
Work Opportunity Tax Credit	0	-71	-192	-162	-80	-51	-22	-4	0	0	0	-556	-582
First-time homebuyer credit for the District of Columbia	0	-1	-19	0	0	0	0	0	0	0	0	-20	-20
Authority to issue Qualified Zone Academy Bonds	0	-3	-8	-13	-18	-20	-20	-20	-20	-20	-20	-62	-162

Revenue Estimates */
FY 2008 Budget Tax Proposals Affecting Receipts

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
							Fiscal Years (in millions of dollars)						
Deferral of gains from the sale of electric transmission property	-63	-48	-52	-65	-39	5	27	43	117	57	-4	-199	41
Disclosure of tax return information related to terrorist activity						*No Revenue Effect*							
Excise tax on coal	0	0	0	0	0	0	0	202	289	293	297	0	1,081
Qualified retirement plan distributions to individuals called to active duty	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal: Expiring Provisions	**-9,186**	**-51,266**	**4,089**	**-9,385**	**-10,738**	**-11,865**	**-12,848**	**-13,654**	**-14,616**	**-15,892**	**-17,267 0**	**-79,165**	**-153,442**
Trade:													
Implement free trade agreements and modify other trade related agreements	**0**	**-241**	**-502**	**-760**	**-994**	**-1,240**	**-1,511**	**-1,699**	**-1,860**	**-2,036**	**-2,229**	**-3,737**	**-13,072**
Total Effect of FY 2008 Budget Tax Proposals	**-9,386**	**-51,834**	**-33,537**	**-70,732**	**-198,100**	**-269,588**	**-268,855**	**-273,207**	**-273,293**	**-267,472**	**-259,065**	**-623,790**	**-1,965,683**

*/ Estimates presented for certain provisions identified in the table include the effects of both receipts and outlays. For these provisions, estimates differ from those presented in Table 17-3 of the Analytical Perspectives of the President's Budget, which presents only the effect on receipts of the Administration's legislative proposals.

1/ Affects both receipts and outlays. The outlay effect is $46 million in 2011, $11,937 million in 2012, $11,849 million in 2013, $11,784 million in 2014, $11,685 million in 2015, $11,658 million in 2016, $11,693 million in 2017, $11,983 million in 2008-$70,652 million in 2008-2017.

2/ Affects both receipts and outlays. The outlay effect is -$366 million in 2011, $1,623 million in 2012, $1,590 million in 2013, $1,561 million in 2014, $1,536 million in 2015, $1,517 million in 2016, $1,505 million in 2017, $1,257 million in 2008-2012, $8,966 million in 2008-2017.

3/ Affects both receipts and outlays. The outlay effect is $231 million in 2009, $4,629 million in 2010, $4,705 million in 2011, $4,715 million in 2012, $4,737 million in 2013, $4,742 million in 2014, $4,715 million in 2015, $4,711 million in 2016, $4,701 million in 2017, $14,280 million in 2008-2012, $37,886 million in 2008-2017.

4/ Affects both receipts and outlays. The outlay effect is $4 million in 2008, $10 million in 2009, $12 million in 2010, $14 million in 2011, $15 million in 2012, $15 million in 2013, $16 million in 2014, $17 million in 2015, $18 million in 2016, $18 million in 2017, $55 million in 2008-2012, $139 million in 2008-2017.

5/ Affects both receipts and outlays. The outlay effect is -$182 million in 2008, -$196 million in 2009, -$249 million in 2010, -$236 million in 2011, -$241 million in 2012, -$259 million in 2013, -$282 million in 2014, -$302 million in 2015, -$322 million in 2016, -$340 million in 2017, -$1,104 million 2008-2012, -$2,609 million in 2008-2017.

6/ Affects both receipts and outlays. The outlay effect is -$210 million in 2008, $33 million in 2009, $17 million in 2010, $17 million in 2011, $14 million in 2012, $10 million in 2013, $8 million in 2014, $6 million in 2015, $2 million in 2016, -$1 million in -$129 million in 2008-2012, -$104 million in 2008-2017.

7/ Affects both receipts and outlays. The outlay effect is -$375 million in 2009, -$388 million in 2010, -$400 million in 2011, -$417 million in 2012, -$426 million in 2013, -$435 million in 2014, -$436 million in 2015, -$446 million in 2016, -$450 million in 2017, -$1,580 million in 2008-2012, -$3,773 million in 2008-2017.

8/ Table 17-3 of the Analytical Perspectives section of the President's Budget includes taxes lost as a result of proposals to impose renewable fuels and fleet fuel efficiency standards. These tax losses total $45 million in 2008, $93 million in 2009, $163 million in 2010, $92 million in 2011, $98 million in 2012, $123 million in 2013, $133 million in 2014, $141 million in 2015, $112 million in 2016, and $19 million in 2017.

Office of Tax Analysis