FEDERAL RECEIPTS

15. GOVERNMENTAL RECEIPTS

During his first two years in office, President Obama signed several major tax bills designed to jumpstart the economy and provide tax relief. In September 2011, when the economy was not growing and creating jobs as it should, the President proposed the American Jobs Act, which was designed to spur the economy and give businesses confidence that if they invest and hire, there will be customers for their products and services. This Act proposed tax relief for nearly every American worker and family and tax cuts to help businesses hire and grow. At the same time, the President proposed a detailed plan to pay for this jobs bill and, when combined with the reductions in discretionary spending from the Budget Control Act of 2011, realize more than $4 trillion in deficit reduction over the next decade. This was a balanced plan that asked everyone to do their part so no one would bear the entire burden and it called on the Congress to undertake comprehensive tax reform that lowers tax rates, closes loopholes, boosts job creation here at home, and cuts the deficit.

Some of the initiatives proposed by the President in the American Jobs Act were enacted. However, the Administration recognizes that more needs to be done to expand the economy and create jobs and that tax reform is critical to rebuilding the economy to be stronger and more stable than in the past. Two of the biggest economic challenges facing the Nation – creating jobs and reducing long-term deficits – depend on a tax system that is fairer, simpler, and more efficient than the one we have today.

That is why the President is calling for fundamental reform of the tax system that meets five key principles: (1) Simplify the tax code and lower tax rates; (2) Reform inefficient and unfair tax breaks – including getting rid of subsidies for millionaires that they do not need and ensuring at least as good a deal for middle-class Americans as for wealthy Americans; (3) Decrease the deficit by $1.5 trillion while protecting progressivity; (4) Increase job growth and creation in the United States; and (5) Observe the Buffett rule so that those making over $1 million pay no less than 30 percent of their income in taxes.

To begin the national conversation about tax reform the President is offering a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to hit the $1.5 trillion target for tax reform, pay for tax cuts for the middle class, cut inefficient expenditures, and move the tax system closer to observing the Buffett Rule. They also provide continued tax relief to millions of middle class families. These proposals include eliminating the unwarranted and fiscally irresponsible Bush-era tax cuts for the highest-income families, limiting the value of tax deductions and preferences for the highest-income families, and closing a variety of tax loopholes. The Budget proposals also would expand incentives for lower- and middle-income families to earn income, save for retirement, and attend college – activities that will strengthen the middle class and help to ensure that the United States remains a land of opportunity for all, not just for the most well off.

The Administration looks forward to working with the Congress and with other stakeholders to build on the foundation laid by this Budget to enact a tax system that is fair, simple, and efficient, one that is right for the 21st century American economy.

Table 15–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Individual income taxes	1,091.5	1,164.6	1,359.3	1,476.3	1,617.4	1,762.9	1,912.2	2,051.8	2,184.2	2,319.2	2,459.4	2,604.9
Corporation income taxes	181.1	236.8	347.7	429.6	445.1	455.3	473.2	479.6	485.2	494.0	506.8	520.3
Social insurance and retirement receipts	818.8	840.6	959.1	1,038.7	1,107.2	1,181.4	1,241.9	1,311.4	1,371.0	1,432.9	1,513.3	1,590.6
(On-budget)	(253.0)	(268.5)	(281.6)	(296.3)	(326.3)	(348.6)	(360.8)	(375.9)	(384.4)	(399.1)	(420.5)	(440.7)
(Off-budget)	(565.8)	(572.1)	(677.4)	(742.4)	(780.9)	(832.8)	(881.1)	(935.5)	(986.6)	(1,033.8)	(1,092.7)	(1,149.9)
Excise taxes	72.4	79.4	88.1	98.6	104.2	106.4	111.9	120.2	135.7	142.1	149.8	159.1
Estate and gift taxes	7.4	11.4	12.7	22.9	25.1	27.1	29.2	31.6	34.1	36.7	39.4	42.1
Customs duties	29.5	30.8	33.5	35.6	37.9	39.5	41.4	43.7	45.9	48.1	50.2	52.4
Miscellaneous receipts	102.8	104.9	101.6	113.7	113.3	107.5	109.4	114.7	122.4	131.0	137.9	145.9
Total, receipts	**2,303.5**	**2,468.6**	**2,902.0**	**3,215.3**	**3,450.2**	**3,680.1**	**3,919.3**	**4,153.0**	**4,378.6**	**4,604.0**	**4,856.7**	**5,115.3**
(On-budget)	(1,737.7)	(1,896.5)	(2,224.5)	(2,472.9)	(2,669.3)	(2,847.3)	(3,038.1)	(3,217.5)	(3,392.0)	(3,570.2)	(3,764.0)	(3,965.4)
(Off-budget)	(565.8)	(572.1)	(677.4)	(742.4)	(780.9)	(832.8)	(881.1)	(935.5)	(986.6)	(1,033.8)	(1,092.7)	(1,149.9)
Total receipts as a percentage of GDP	15.4	15.8	17.8	18.7	19.0	19.1	19.2	19.4	19.5	19.7	19.9	20.1

ESTIMATES OF GOVERNMENTAL RECEIPTS

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

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

Total governmental receipts (hereafter referred to as "receipts") are estimated to be $2,468.6 billion in 2012, an increase of $165.1 billion or 7.2 percent from 2011. The estimated increase in 2012 is partly attributable to the growth in personal income and corporate profits as the economy begins to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of receipts. Receipts in 2012 are estimated to be 15.8 percent of Gross Domestic Product (GDP), which is higher than in 2011, when receipts were 15.4 percent of GDP.

Receipts are estimated to rise to $2,902.0 billion in 2013, an increase of $433.4 billion or 17.6 percent relative to 2012. Receipts are projected to grow at an average annual rate of 7.8 percent between 2013 and 2017, rising to $3,919.3 billion. Receipts are projected to rise to $5,115.3 billion in 2022, growing at an average annual rate of 5.5 percent between 2017 and 2022. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation. The Administration's proposals contribute to the growth in receipts, beginning in 2013.

As a share of GDP, receipts are projected to increase from 15.8 percent in 2012 to 17.8 percent in 2013, and to rise to 20.1 percent in 2022. However, as a share of GDP, receipts would still be lower than in 2000, when the receipts share of GDP reached 20.6 percent.

LEGISLATION ENACTED IN 2011 THAT AFFECTS GOVERNMENTAL RECEIPTS

In 2011, President Obama signed into law Free Trade agreements with Colombia, Korea and Panama. Other legislation enacted in 2011 temporarily extended the authority to collect taxes that fund the Airport and Airway Trust Fund, temporarily extended the authority to collect taxes that fund the Highway Trust Fund, provided tax credits to businesses that hire certain veterans, and temporarily extended the two-percentage point reduction in the Social Security payroll tax rate for employees and self-employed individuals.

The major provisions of legislation enacted in 2011 that affect receipts are described below.[1]

AIRPORT AND AIRWAY EXTENSION ACT OF 2011 (Public Law 112-7)

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

COMPREHENSIVE 1099 TAXPAYER PROTECTION AND REPAYMENT OF EXCHANGE SUBSIDY OVERPAYMENTS ACT OF 2011 (Public Law 112-9)

This Act, which was signed into law by President Obama on April 14, 2011, repealed certain information reporting requirements for tax purposes and modified the limitation on repayment of advance premium assistance credits for coverage under a qualified health plan. These provisions are described below.

Repeal expansion of information reporting requirements with respect to payments to corporations and for property provided in the Affordable Care Act (Public Law 111-148, as amended by Public Law 111-152).—Generally, a taxpayer making payments to a recipient that aggregate 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 Internal Revenue Service (IRS) setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). Prior to enactment of the Affordable Care Act, this information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, the Affordable Care Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property. The expansions provided in the Affordable Care Act were repealed under this Act, effective for payments made after December 31, 2011.

Repeal expansion of information reporting requirements with respect to real estate expenses provided in the Small Business Jobs Act of 2010 (Public Law 111-240).—Generally, prior to enactment of the Small Business Jobs Act of 2010, information reporting requirements did not apply to payments by persons engaged in a passive investment activity. However, under the Small Business Jobs Act of 2010, recipients of rental income who make payments of $600 or more to a service provider, such as a plumber, painter, or accountant, in the course of earning rental income were required to send an information return to the IRS and to the service provider, effective for payments made after December 31, 2010. Exceptions to the reporting requirement were made for taxpayers (including members of the military or employees of the intelligence community) who rent their

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

principal residence on a temporary basis, for those who receive only small amounts of rental income per year, and for those for whom the requirements would cause hardship, as determined by the Secretary of the Treasury in accordance with regulations. The expanded information reporting requirements provided in the Small Business Jobs Act were repealed under this Act, effective for payments made after December 31, 2010.

Modify the limitation on repayment of advance premium assistance credits for health insurance purchased through an exchange.—The Affordable Care Act provided a "premium assistance tax credit" to certain individuals who purchase health insurance through an Affordable Insurance Exchange. The credit, which is effective for taxable years ending after December 31, 2013, is refundable and payable in advance to the insurer. Eligibility for the advanced credit is based initially on the individual's household income and family size for the most recent taxable year; however, eligibility can be updated to reflect changes in circumstances, including changes in income, in marital or other household circumstances, and in employment status. If the premium assistance received through an advance payment exceeds the amount of the credit to which the taxpayer is entitled, the excess advance payment must be repaid (subject to a limitation for certain taxpayers) and is treated as an increase in tax. Under the Affordable Care Act, as amended by the Medicare and Medicaid Extenders Act of 2010, the limitations on the amount that must be repaid increased incrementally from $600 for a family with income under 200 percent of the Federal Poverty Level (FPL) to $3,500 for a family with income between 449 and 500 percent of the FPL. Under this Act, the limitations were eliminated for a family with income of at least 400 percent of the FPL. For a family with income below 400 percent of the FPL, the cap remained the same or was increased by $500, depending on family income. As a result, the family caps are $600 for a family with income under 200 percent of the FPL, $1,500 for a family between 200 and 300 percent of the FPL, and $2,500 for a family between 300 and 400 percent of the FPL. The limitation amounts for single tax-filers are equal to half of the family cap.

DEPARTMENT OF DEFENSE AND FULL-YEAR CONTINUING APPROPRIATIONS ACT, 2011 (Public Law 112-10)

This Act, which was signed into law by President Obama on April 15, 2011, provided funding for the Federal Government through September 30, 2011. In addition, this Act affected receipts by repealing the Free Choice Voucher program enacted under the Affordable Care Act. Under this program, effective January 1, 2014, employees with household income at or below 400 percent of the FPL, whose required contribution for minimum essential coverage through their employer's plan was between 8 and 9.8 percent of their household income, would have been eligible for employer-paid vouchers. These vouchers, which would have been equal to the amount the employer would have contributed toward the employee's employer-provided coverage, could have been used to purchase coverage in an Affordable Insurance Exchange.

AIRPORT AND AIRWAY EXTENSION ACT OF 2011, PART II (Public Law 112-16)

This Act, which was signed into law by President Obama on May 31, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through June 30, 2011. These taxes had been scheduled to expire after May 31, 2011, under prior law.

AIRPORT AND AIRWAY EXTENSION ACT OF 2011, PART III (Public Law 112-21)

This Act, which was signed into law by President Obama on June 29, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through July 22, 2011. These taxes had been scheduled to expire after June 30, 2011, under prior law.

AIRPORT AND AIRWAY EXTENSION ACT OF 2011, PART IV (Public Law 112-27)

This Act, which was signed into law by President Obama on August 5, 2011, reinstated retroactively to July 23, 2011, and through September 16, 2011, the authority to collect taxes that fund the Airport and Airway Trust Fund. Passengers who purchased tickets prior to July 23, 2011, for travel between July 22, 2011, and August 5, 2011 (the period during which authority to collect these taxes lapsed) were not entitled to a refund of the airline ticket tax.

SURFACE AND AIR TRANSPORTATION PROGRAMS EXTENSION ACT OF 2011 (Public Law 112-30)

This Act, which was signed into law by President Obama on September 16, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through January 31, 2012. These taxes had been scheduled to expire after September 16, 2011, under prior law. This Act also extended the authority to collect taxes that fund the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund (LUST), and the Sport Fish Restoration and Boating Trust Fund through March 31, 2012. These taxes had been scheduled to expire after September 30, 2011, under prior law.

CONTINUING APPROPRIATIONS ACT, 2012 (Public Law 112-33)

This Act, which was signed into law by President Obama on September 30, 2011, provided appropriations for continuing projects and activities of the Federal Government through October 4, 2011. In addition, this

Act affected receipts by extending the ban on all imports from Burma, including a ban on imports of certain gemstones originating from Burma and on jewelry containing such gemstones, effective retroactive to July 29, 2011, and through July 28, 2012. These restrictions had expired on July 28, 2011, under prior law.

TRADE ADJUSTMENT ASSISTANCE EXTENSION ACT OF 2011 (Public Law 112-40)

This Act, which was signed into law by President Obama on October 21, 2011, temporarily and retroactively extended certain provisions of the Trade Adjustment Assistance program (TAA), which had expired in February 2011, for American workers whose livelihoods have been adversely affected by trade. This Act also included several provisions that affect receipts; the major provisions that affect receipts are described below.

Extend Generalized System of Preferences (GSP).—GSP was retroactively extended to January 1, 2011, through July 31, 2013. This program provides preferential, duty-free entry to the United States for up to 4,800 products from 129 designated beneficiary countries and territories. Many GSP imports are used as inputs by U.S. companies to manufacture goods in the United States.

Extend COBRA benefits for certain TAA-eligible individuals and Pension Benefit Guaranty Corporation (PBGC) Recipients.—This Act extended retroactively to February 13, 2011, and through December 31, 2013, COBRA continuation coverage for certain workers (and qualified family members) who have been displaced because of trade-related issues.

Extend and modify health coverage tax credit.—This Act extended retroactively to February 13, 2011, and through December 31, 2013, the health coverage tax credit for certain workers (and qualified family members) who have been displaced because of trade-related issues. The credit rate applicable to this time period is 72.5 percent, 7.5 percentage points less than the 80-percent rate that expired on February 12, 2011. This Act eliminated the credit entirely beginning January 1, 2014.

UNITED STATES-KOREA FREE TRADE AGREEMENT IMPLEMENTATION ACT (Public Law 112-41)

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Korea Free Trade Agreement, as signed by the United States and the Republic of Korea on June 30, 2007, and carried out provisions of the exchange of letters concluded between the United States and Korea in February 2011. When this Agreement enters into force it will offer unprecedented access to Korea's nearly $1 trillion economy, bolster the Nation's economic competitiveness in the Asia-Pacific region and regional security interests, and strengthen U.S. ties with a key ally. Other provisions of this Act that affect receipts include: (1) an increase from $100 to $500 in the penalty levied on paid tax return preparers who fail to comply with earned income tax credit (EITC) due diligence requirements; and (2) a requirement, for tax administration purposes, for prisons located in the United States to provide to the Secretary of the Treasury the name, Social Security number, and certain other information for each person incarcerated in the prison. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 100.25 percent of the amount otherwise due in 2012 and to 102.75 percent in 2016. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

UNITED STATES-COLOMBIA TRADE PROMOTION AGREEMENT IMPLEMENTATION ACT (Public Law 112-42)

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S implementation of the United States-Colombia Trade Promotion Agreement, as signed by the United States and Colombia on November 22, 2006, and amended through a protocol signed in Washington, D.C. on June 28, 2007. When this Agreement enters into force it will advance U.S. economic interests by providing duty-free access to the Colombian market for U.S. agricultural, industrial, and consumer goods exports. This Agreement also represents an historic development in U.S. relations with Colombia, a steadfast strategic partner of the United States and a leader in the region, and reflects the commitment of the United States to help Colombia battle the production of illegal crops by creating alternative economic opportunities. This Act also affected receipts by retroactively extending the Andean Trade Preference Act, which had expired on February 12, 2011, through July 31, 2013. In addition, estimated tax payments due in July through September of 2016 by corporations with assets of at least $1 billion are increased to 103.25 percent of the amount otherwise due; the next required estimated tax payment is reduced accordingly.

UNITED STATES-PANAMA TRADE PROMOTION AGREEMENT IMPLEMENTATION ACT (Public Law 112-43)

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Panama Trade Promotion Agreement, as signed by the United States and Panama on June 28, 2007. When this Agreement enters into force, it will advance U.S. national economic interests by creating significant opportunities for American workers, farmers, ranchers, and businesses by opening Panama's market and eliminating barriers to U.S. goods, services, and investment, while promoting the Nation's core values. The Agreement builds on the success of the Caribbean Basin Initiative (CBI) program, which has contributed to economic growth and development and export diversification in Panama, one of the fastest growing economies in the Western Hemisphere. This Act also affected receipts by increasing estimated tax payments due in July through September by corporations with assets of at least $1 billion to 100.50 percent of the amount otherwise due in 2012 and to 103.5 percent of the amount otherwise due in 2016. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO REPEAL THE IMPOSITION OF 3 PERCENT WITHHOLDING ON CERTAIN PAYMENTS MADE TO VENDORS BY GOVERNMENT ENTITIES, TO MODIFY THE CALCULATION OF MODIFIED ADJUSTED GROSS INCOME FOR PURPOSES OF DETERMINING ELIGIBILITY FOR CERTAIN HEALTHCARE-RELATED PROGRAMS, AND FOR OTHER PURPOSES (Public Law 112-56)

This Act, which was signed into law by President Obama on November 21, 2011, modified various programs and benefits that help veterans transition from military to civilian life. It also contained several provisions that affect receipts, including the extension and expansion of tax credits for employers who hire certain veterans. The major provisions of this Act that affect receipts are described below.

Repeal three-percent withholding on certain payments to vendors by government entities.—Under prior law, certain payments made by Federal, State, and local government entities to private contractors providing property or services were subject to withholding. The rate of withholding was three percent and applied to payments made after December 31, 2011. This Act repealed the three-percent withholding provision of prior law.

Modify the calculation of modified adjusted gross income (MAGI) for purposes of determining eligibility for certain healthcare-related programs.—This Act modified the definition of MAGI for purposes of determining financial eligibility for Medicaid and the State Children's Health Insurance Program, and for premium assistance tax credits and cost-sharing reductions available for health insurance purchased through an Affordable Insurance Exchange, to include all Social Security and Tier 1 Railroad Retirement benefits. Under prior law only the taxable portion of these benefits was included in MAGI. The use of MAGI to determine eligibility begins after December 31, 2013, in tandem with the Medicaid expansion and the startup of premium assistance tax credits.

Increase and expand tax credits for employers who hire certain veterans.—Under prior law, a tax credit equal to 40 percent of the first $12,000 of qualified first-year wages (for a maximum credit of $4,800) was provided for wages paid by an employer to a qualified veteran who was entitled to compensation for a service-connected disability, and either was hired not more than one year after being discharged or released from active duty, or was unemployed for at least six months during the one-year period ending on the date of employment, and began work before January 1, 2012. Under this Act, this tax credit was increased to 40 percent of the first $24,000 of qualified first-year wages (for a maximum credit of $9,600) for wages paid by an employer to any qualified veteran with a service-connected disability who was unemployed for at least six months. This change was effective for qualified first-year wages paid to veterans who began work after November 21, 2011, and before January 1, 2013. In addition, the credit equal to 40 percent of the first $12,000 of qualified first-year wages (for a maximum credit of $4,800) provided for wages paid by an employer to any qualified veteran entitled to compensation for a service-connected disability hired within one year of discharge was extended for one year.

This Act also provided the following new tax credits for qualified first-year wages paid by an employer to a qualified veteran who began work after November 21, 2011, and before January 1, 2013: (1) a credit equal to 40 percent of the first $6,000 of qualified first-year wages (for a maximum credit of $2,400) paid to a qualified veteran unemployed for four weeks but less than six months during the one-year period ending on the date of employment; and (2) a credit equal to 40 percent of the first $14,000 of first-year wages (for a maximum credit of $5,600) paid to a qualified veteran unemployed for at least six months during the one-year period ending on the date of employment.

The prior-law credit equal to 40 percent of the first $6,000 of qualified first-year wages (for a maximum credit of $2,400) paid to a qualified veteran who began work before January 1, 2012, and was a member of a family receiving assistance under a supplemental nutrition assistance program under the Food and Nutrition Act of 2008 for at least three months during the one-year period ending on the date of employment was extended for one year.

Under this Act, these tax credits were expanded to apply to qualified first-year wages paid to qualified veterans by qualified tax-exempt organizations. The credits for qualified tax-exempt organizations, which are taken against payroll taxes, are equal to 26 percent (rather than 40 percent) of qualified wages, up to the designated maximum amount of qualified wages to which the credit applies.

Increase levy authority for payments to Federal contractors with delinquent tax debt.—Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Under prior law, the Treasury was authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor had an unpaid tax liability;

the levy was limited to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. Under this Act, effective November 21, 2011, the law was clarified to provide that Treasury is allowed to levy up to 100 percent of payments made to a Federal vendor for the sale or lease of real estate or other types of property.

TEMPORARY PAYROLL TAX CUT CONTINUATION ACT OF 2011 (Public Law 112-78)

This Act, which was signed into law by President Obama on December 23, 2011, affected receipts by extending the temporary two-percentage point reduction in the employee Social Security payroll tax rate, as enacted under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, to apply to the first $18,350 of taxable wages received after December 31, 2011, and before March 1, 2012. A similar reduction applies to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate is reduced from 12.4 percent to 10.4 percent of the first $18,350 of net taxable self-employment income received during the first two months of taxable years beginning in 2012. This Act provided for a recapture of any benefit a taxpayer may receive from the reduction in the payroll tax rate for remuneration received during the first two months of 2012 in excess of $18,350. In addition, the Social Security Trust Fund is held harmless and will receive transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to these reductions in the payroll tax rate.

ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE

An important step in addressing the Nation's fiscal problems is to be upfront about them and to establish a baseline that provides a realistic measure of the deficit outlook before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the true cost of extending major tax policies that are scheduled to expire but that are likely to be extended. The BEA baseline, which is commonly used in budgeting and is defined in statute, reflects, with some exceptions, the projected receipts level under current law.

However, current law includes a number of scheduled tax changes that are unlikely to occur and that prevent it from serving as a realistic benchmark for judging the effect of new legislation. These tax changes include expiration of most of the income tax reductions enacted in 2001 and 2003. They also include reversion of the estate, gift, and generation-skipping transfer (GST) taxes to pre-2001 parameters, and expiration of relief from the Alternative Minimum Tax (AMT).

This Budget uses an adjusted baseline that is intended to be more realistic. This baseline does not reflect the President's policy proposals, but is rather a realistic and fair benchmark from which to measure the effects of those policies. This baseline permanently continues the 2001 and 2003 tax cuts (as modified by subsequent legislation) for all taxpayers. The Administration's adjusted baseline also permanently continues estate, gift, and GST taxes at 2012 parameters and reflects permanent extension of relief from the AMT.

Continue the 2001 and 2003 tax cuts.—Most of the tax reductions enacted in 2001 and 2003 were recently extended for two years and are now scheduled to expire on December 31, 2012. This includes reductions in marginal individual income tax rates, special provisions for married couples, expansions in the child tax credit, increases in small business expensing, and preferential rates for capital gains and dividends. The Administration's adjusted baseline projection permanently extends all of these expiring provisions (as amended by subsequent legislation).

Extend estate, gift, and GST taxes at 2012 parameters.—The Administration's adjusted baseline projection reflects permanent extension of the estate, gift, and GST tax parameters and provisions in effect for calendar year 2012, effective for decedents dying after December 31, 2012. Under those parameters, the estates and generation-skipping transfers of a decedent dying after December 31, 2012, are taxed at a maximum tax rate of 35 percent and are provided a life-time exclusion of $5 million (indexed for inflation from 2010 and after 2011). Gifts made after December 31, 2012, are taxed at a maximum tax rate of 35 percent and provided a life-time exclusion of $5 million. In addition, the portability of unused estate and gift exclusion amounts between spouses is permanently extended to apply to decedents dying after December 31, 2012.

Extend and index for inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312).—The Administration's adjusted baseline projection reflects permanent extension and annual indexation of: (1) the AMT exemption amounts in effect for taxable year 2011 ($48,450 for single taxpayers, $74,450 for married taxpayers filing a joint return and surviving spouses, and $37,225 for married taxpayers filing a separate return and for estates and trusts); (2) the income thresholds for the 28-percent AMT rate ($87,500 for married taxpayers filing a separate return and $175,000 for all other taxpayers); and (3) the income thresholds for the phaseout of the exemption amounts ($150,000 for married taxpayers filing a joint return and surviving spouses, $112,500 for single taxpayers, and $75,000 for married taxpayers filing a separate return). The adjusted baseline projection also extends AMT relief for nonrefundable personal tax credits.

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

(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
BEA baseline receipts	**2,611.1**	**3,125.9**	**3,447.2**	**3,608.1**	**3,817.8**	**4,121.6**	**4,383.5**	**4,643.4**	**4,881.9**	**5,163.3**	**5,448.4**	**18,120.6**	**42,641.0**
Adjustments to BEA baseline:													
Continue the 2001 and 2003 tax cuts:													
Dividends tax rate structure	....	–25.4	–18.3	–24.6	–30.3	–33.3	–34.2	–35.0	–35.8	–36.7	–37.8	–131.9	–311.5
Capital gains tax rate structure	....	–7.7	0.7	–2.8	–7.8	–10.8	–11.6	–12.2	–12.7	–13.2	–13.7	–28.4	–91.9
Expensing for small businesses	....	–5.0	–7.3	–6.1	–5.2	–4.5	–4.2	–4.1	–4.1	–4.2	–4.3	–28.1	–48.9
Marginal individual income tax rate reductions	....	–69.3	–100.8	–105.9	–111.4	–117.4	–122.9	–128.0	–133.1	–138.4	–143.7	–504.8	–1,171.0
Child tax credit [1]	....	–4.9	–19.8	–20.3	–20.8	–21.2	–21.5	–21.7	–21.9	–22.1	–22.2	–87.0	–196.4
Provisions for married taxpayers [1]	....	–5.0	–7.3	–7.1	–6.9	–6.8	–6.7	–6.6	–6.6	–6.6	–6.7	–33.1	–66.2
Education incentives	....	–0.9	–1.9	–2.0	–2.1	–2.2	–2.3	–2.4	–2.5	–2.6	–2.6	–9.1	–21.5
Other incentives for families and children	....	–0.4	–1.2	–1.4	–1.4	–1.4	–1.6	–1.6	–1.6	–1.5	–1.6	–5.8	–13.7
Total, continue the 2001 and 2003 tax cuts	....	–118.5	–155.9	–170.1	–185.8	–197.8	–205.1	–211.7	–218.3	–225.3	–232.7	–828.0	–1,921.1
Extend estate, gift, and generation-skipping transfer taxes at 2012 parameters	–1.5	–4.9	–31.9	–35.8	–39.8	–43.6	–47.7	–51.4	–55.1	–58.8	–62.1	–155.9	–431.1
Extend and index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	–19.1	–120.2	–114.7	–129.7	–148.3	–169.1	–191.5	–215.9	–241.7	–269.0	–298.3	–681.9	–1,898.3
Total, adjustments to BEA baseline	**–20.6**	**–243.6**	**–302.5**	**–335.6**	**–373.8**	**–410.4**	**–444.3**	**–479.0**	**–515.1**	**–553.0**	**–593.1**	**–1,665.9**	**–4,250.5**
Adjusted baseline receipts	**2,590.5**	**2,882.3**	**3,144.7**	**3,272.5**	**3,444.0**	**3,711.1**	**3,939.1**	**4,164.3**	**4,366.8**	**4,610.3**	**4,855.3**	**16,454.7**	**38,390.5**

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Child tax credit	....	1.2	23.2	23.3	23.5	23.6	23.6	23.7	23.7	23.8	23.8	94.8	213.3
Provisions for married taxpayers	....	0.2	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.3	4.4	17.1	38.6
Total, outlay effects of adjustments to BEA baseline	....	1.4	27.3	27.6	27.7	27.9	27.9	28.0	28.0	28.1	28.1	111.8	251.9

PROPOSALS

The President is calling for fundamental tax reform and has offered five key principles – that reform should cut rates and simplify the system, reform tax loopholes and expenditures, cut the deficit, increase job creation and economic growth in the United States, and observe the Buffett rule. As a down payment on reform, the President is offering a detailed set of proposals that would provide permanent tax cuts to working families, return to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, close loopholes, and eliminate subsidies to special interests. Extensions of certain expiring provisions and initiatives to promote program integrity are also proposed. The Administration's proposals that affect receipts are described below.

Temporary Tax Relief to Create Jobs and Jumpstart Growth

Extend temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals.—The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced the employee Social Security payroll tax rate from 6.2 percent to 4.2 percent of the first $106,800 of taxable wages received after December 31, 2010, and before January 1, 2012. A similar reduction applied to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate was reduced from 12.4 percent to 10.4 percent of the first $106,800 of net taxable self-employment income for taxable years beginning in 2011. The Social Security Trust Fund was held harmless and received transfers from the General Fund of the Treasury equal to the reduction in payroll taxes attributable to these reductions in the payroll tax rate. The Temporary Payroll Tax Cut Continuation Act of 2011 extended these reductions in the Social Security and Tier 1 Railroad Retirement payroll tax rates to apply to the first $18,350 of taxable wages received after December 31, 2011, and before March 1, 2012, and to net taxable self-employment income received during the first two months of taxable years beginning in 2012.

The Administration proposes to extend the temporary two-percentage point reduction in the employee Social

Security payroll tax rate to apply to the first $110,100 of taxable wages received after December 31, 2011, and before January 1, 2013. A similar reduction would apply to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate would be reduced from 12.4 percent to 10.4 percent of the first $110,100 of net taxable self-employment income received in taxable years beginning in 2012. The Social Security Trust Fund would be held harmless and receive transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to these reductions in payroll tax rates.

Extend 100-percent first-year depreciation deduction for certain property.—Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, additional first-year depreciation was increased to 100 percent of the adjusted basis of qualified property acquired and placed in service after September 8, 2010, and before January 1, 2012 (with an extension of the placed-in-service deadline to January 1, 2013, for certain longer-lived and transportation property). Corporations are allowed to claim additional AMT credits in lieu of claiming the additional depreciation. The Administration proposes to extend 100-percent first-year depreciation for one year, effective for qualified property acquired and placed in service before January 1, 2013 (January 1, 2014 for certain longer-lived and transportation property). The Administration also proposes to continue the corporate election to claim additional AMT credits in lieu of the additional depreciation for property placed in service in 2012 regardless of prior-year elections of this provision.

Provide a temporary 10-percent tax credit for new jobs and wage increases.—Under current law, there is no generally available income tax credit for job creation or increasing employees' wages. The Administration proposes to provide an income tax credit for employers for increases in wage expense, whether driven by job creation, increased wages or both. The credit would be equal to 10 percent of the increase in the employer's 2012 eligible wages over the prior year (2011). Eligible wages are the employer's Old Age, Survivors, and Disability Insurance (OASDI) wages. The maximum amount of the increase in eligible wages would be $5 million per employer, for a maximum credit of $500,000. For employers with no OASDI wages in 2011, eligible wages would be 80 percent of their OASDI wage base for 2012. The credit also would be available to tax exempt organizations and public universities. The proposal would be effective for the one-year period beginning on January 1, 2012.

Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.—The American Recovery and Reinvestment Act (ARRA), Public Law 111-5, provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualified advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy); the total amount of credits certified may not exceed $2.3 billion. The Administration proposes to provide an additional $5 billion in credits, thereby increasing the amount of credits certified by the Department of the Treasury to $7.3 billion.

Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction.—The proposal would replace the existing deduction for energy efficient commercial building property expenditures with a tax credit and also allow taxpayers to take an alternative credit for placing in service specified property that meets certain energy efficiency standards. Special rules would be provided that would allow the credit to benefit a real estate investment trust (REIT) or its shareholders. The tax credit would be available for property placed in service during calendar year 2013.

Reform and extend Build America Bonds.—ARRA created the Build America Bond program as an optional new lower cost borrowing incentive for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the original program applicable to Build America Bonds issued in 2009 and 2010, the Department of the Treasury makes direct subsidy payments (called "refundable tax credits") to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to extend the Build America Bond program for two years at a subsidy rate of 30 percent, and to extend it permanently thereafter at a subsidy rate of 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration also proposes to expand the Build America Bond program beyond new investments in governmental capital projects to include certain additional program uses for which State and local governments may use tax-exempt bonds under existing law. The proposed modifications to the Build America Bond program would be effective for bonds issued beginning upon the date of enactment.

Tax Cuts for Families and Individuals

Extend American opportunity tax credit (AOTC).—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The credit was extended for two years, to apply to taxable years 2011 and 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. The credit is phased out ratably for single taxpayers with modified adjusted gross income (AGI) between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially (40 percent) refundable. The AOTC also has a higher maximum credit amount, is available for the first four years of post-secondary education, and has higher phaseout limits than the Hope Credit. The Administration proposes to permanently extend the AOTC and index the expense amounts and phaseout limits, effective for taxable years beginning after December 31, 2012.

Provide for automatic enrollment in individual retirement accounts (IRAs), including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs.—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to offer their employees automatic enrollment in an IRA, effective after December 31, 2013. Employers with ten or fewer employees and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or opting for a traditional IRA. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified).

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement (including those that are not required to do so) would be entitled to a temporary business tax credit for the employer's expenses associated with the arrangement up to $500 for the first year and $250 for the second year. Furthermore, these employers would be entitled to an additional credit of $25 per participating employee up to a total of $250 per year for six years.

Under current law, small employers (those that have no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, to encourage small employers not currently sponsoring a qualified retirement or SIMPLE plan to do so, the Administration proposes to double this tax credit to a maximum of $1,000 per year for three years (effective for taxable years beginning after December 31, 2013) and to extend it to four years (rather than three) for any small employer that adopts a new qualified retirement or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

Expand EITC for larger families.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Three separate credit schedules apply, depending on whether the eligible taxpayer has no, one, or more than one qualifying child. Effective for taxable years 2009 through 2012, a fourth credit schedule was added for families with three or more qualifying children. Effective for taxable years beginning after December 31, 2012, the Administration proposes to make permanent the credit schedule (with a 45-percent credit percentage) for families with three or more qualifying children.

Expand child and dependent care tax credit.—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are eligible only if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for up to 35 percent of up to $3,000 in eligible expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every $2,000 of AGI over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). There are no further income limits. The income phasedown and the credit are not indexed for inflation. The proposal would increase the beginning of the phasedown to $75,000 (and thus, the end of the phasedown range to

$103,000). The proposal would be effective for tax years beginning after December 31, 2012.

Extend exclusion from income for cancellation of certain home mortgage debt.—The Administration proposes to extend the provision that excludes from gross income amounts that are realized from discharges of qualified principal residence indebtedness. The exclusion would apply to amounts that are discharged before January 1, 2015, or that are discharged pursuant to an agreement entered into before that date.

Provide exclusion from income for student loan forgiveness for students after 25 years of income-based or income-contingent repayment.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with two options for making payments that are related to their income levels after college: the income-contingent and the income-based repayment options. Under both of these options borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the plan for 25 years. For those who reach the 25-year point, any remaining loan balance is forgiven. Under current law, any debt forgiven is considered gross income to the borrower and subject to individual income tax. The potential tax consequence may be making some student loan borrowers reluctant to avail themselves of either of these two loan repayment options. To address that problem, the Administration proposes to exclude from gross income amounts forgiven at the end of the repayment period for Federal student loans using these two methods of repayment. The provision would be effective for discharges of loans after December 31, 2012.

Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the Indian Health Service (IHS) Health Professions Programs.—Under current law, debt forgiven or otherwise discharged is generally considered gross income to the borrower and subject to income tax. There are certain exceptions, including for individuals who receive payments under the National Health Service Corps Loan Repayment Program or certain similar State loan repayment programs. Furthermore, although scholarship amounts for tuition and related expenses are generally excluded from income under current law, scholarship amounts that represent payment for teaching, research, and other services are not. There are exceptions for participants in the National Health Service Corps Scholarship Program and the Armed Forces Health Professions Scholarship and Financial Assistance Program. The IHS Health Professions Programs are very similar to those programs whose participants are permitted to exclude discharged loan amounts and certain scholarship amounts from income. The Administration proposes to extend this exception to the IHS Health Professions Loan Repayment Program and the IHS Health Professions Scholarship Program. These provisions would be effective for discharges of loans after December 31, 2012, and for qualifying scholarship amounts received after December 31, 2012.

Incentives for Expanding Manufacturing and Insourcing Jobs in America

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

Provide new Manufacturing Communities tax credit.—The Administration proposes to provide new tax credit authority to support qualified investments in communities affected by military base closures or mass layoffs, such as those arising from plant closures. This would provide about $2 billion in credits for qualified investments approved in each of the three years, 2012 through 2014.

Target the domestic production activities deduction to domestic manufacturing activities and double the deduction for advanced manufacturing activities.—Current law allows a deduction to taxpayers that generate income from domestic production activities. The deduction is generally equal to nine percent of qualified income, which includes receipts earned from a wide list of domestic production activities, not just those traditionally considered manufacturing. The Administration proposes to limit the extent to which the deduction is allowed with respect to nonmanufacturing activities by excluding income derived from sources such as the production of oil and gas and the production of coal and other hard mineral fossil fuels from the qualified income on which the deduction is computed. Additional revenue obtained from this retargeting would be used to increase the deduction rate for domestic manufacturing activity and to provide for an even greater deduction rate for activities involving the manufacture of certain advanced technology property. The proposal would be effective for taxable years beginning after December 31, 2012.

Enhance and make permanent the research and experimentation (R&E) tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. These tax credits expired with respect to expenditures paid or incurred after December 31, 2011. The Administration proposes to permanently extend these tax credits and to raise the rate of the alternative simplified credit to 17 percent.

Provide a tax credit for the production of advanced technology vehicles.—Current law provides a tax credit for plug-in electric drive motor vehicles. The Administration proposes to replace this credit with a credit for advanced technology vehicles. The credit would be available for a vehicle that meets the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of January 1, 2012, there are few vehicles in operation in the United States using the same technology as such vehicle; and (3) the technology used by the vehicle substantially exceeds the footprint-based target miles per gallon gasoline equivalent (MPGe). The Secretary of the Treasury, in consultation with the Secretary of Energy, will determine what constitutes the same technology for this purpose. The credit would be limited to vehicles that weigh no more than 14,000 pounds and are treated as motor vehicles for purposes of title II of the Clean Air Act. In general, the credit would be scalable based on the vehicle's MPGe, but would be capped at $10,000 ($7,500 for vehicles with a manufacturer's suggested retail price (MSRP) above $45,000). The credit for a battery-powered vehicle would be determined under current law rules for the credit for plug-in electric drive motor vehicles if that computation results in a greater credit. The credit would be allowed for vehicles placed in service after the date of enactment and before January 1, 2020. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2017, to 50 percent of such amount for vehicles placed in service in 2018, and to 25 percent of such amount for vehicles placed in service in 2019. The credit would be allowed to the person that sold the vehicle to the person placing the vehicle in service (or, at the election of the seller, to the person financing the sale) but only if the amount of the credit is disclosed to the purchaser.

Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles.—Current law provides no tax incentive for vehicles (other than fuel-cell vehicles) weighing more than 14,000 pounds. The Administration proposes to provide a tax credit for dedicated alternative-fuel commercial vehicles weighing more than 14,000 pounds. The credit would be equal to 50 percent of the incremental cost of such vehicles compared to the cost of a comparable diesel fuel or gasoline vehicle. The credit would be limited to $25,000 for vehicles weighing up to 26,000 pounds and to $40,000 for vehicles weighing more than 26,000 pounds. In the case of fuel-cell vehicles, the proposed credit would be reduced by the amount of the credit allowed with respect to the vehicle under current law. The credit would be allowed for vehicles placed in service after December 31, 2012, and before January 1, 2019. For vehicles placed in service in calendar year 2018, the credit would be limited to 50 percent of the otherwise allowable amount. The credit would be allowed to the person placing the vehicle in service or, in the case of a vehicle placed in service by a tax-exempt or governmental entity, to the person that sold the vehicle to such entity (or, at the election of the seller, to the person financing the sale), but only if the amount of the credit is disclosed to the purchaser.

Extend and modify certain energy incentives.—Current law provides production tax credits for wind facilities placed in service in 2012 and certain other renewable energy facilities placed in service before 2014. Current law also provides an investment tax credit for energy property. Energy property is: (1) property that is part of a facility that, but for the election to claim an investment tax credit, would qualify for a production tax credit; and (2) certain other listed property (including solar energy property). In addition, current law provides grants for energy property on which construction began in 2009, 2010, or 2011. The grant is available for: (1) wind facility property if the property is placed in service in 2012; (2) all other property that is part of a facility otherwise eligible for the renewable electricity production tax credit if the property is placed in service before 2014; and (3) any other property that is eligible for the investment tax credit for energy property if the property is placed in service before 2017. The Administration proposes to extend the production tax credit for wind facilities and the investment tax credit for wind facility property through 2013. In addition, the Administration proposes to extend the grant program to all otherwise qualifying property placed in service in 2012 (including property on which construction begins in 2012). For property placed in service after 2012, the Administration proposes to replace the grant program with a refundable income tax credit administered by the IRS. The refundable tax credit would be available for property on which construction begins in the five years, 2009 through 2013. The refundable credit would be allowed with respect to property placed in service in 2013 (in the case of property, including wind facility property, that is part of a facility otherwise eligible for the renewable electricity production tax credit) and for property placed in service in the four years, 2013 through 2016 (in the case of any other property otherwise eligible for the investment tax credit for energy property).

Tax Relief for Small Business

Eliminate capital gains taxation on investments in small business stock.—Current law provides a 100-percent exclusion from tax for capital gains realized on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2012, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. For stock acquired prior to September 28, 2010, a portion of the excluded gain is subject to the AMT. A taxpayer may elect to rollover capital gain from the sale of qualified small business stock held for more than six months if other qualified small business stock is purchased during the 60-day period beginning on the date of sale. The exclusion is limited to individual investments and not the investments of a corporation. A 50-percent exclusion applies under the law prior to ARRA. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. Under the Small Business Jobs Act, the exclusion was increased to 100 percent, effective for stock issued after September 27, 2010, and before January 1, 2011. The 100 percent exclusion was extended for one year, to apply to qualified small business stock issued after December 31, 2010, and before January 1, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration proposes to permanently extend the 100-percent exclusion, extend the rollover period from 60 days to six months for stock held at least three years, and eliminate the AMT preference for the excluded gain. Reporting requirements would be tightened to ensure compliance. These proposals would be effective for qualified small business stock issued after December 31, 2011.

Double the amount of expensed start-up expenditures.—A taxpayer generally is allowed to elect to deduct up to $5,000 of start-up expenditures (amounts otherwise deductible as expenses had they not been paid or incurred before business begins) in the taxable year in which the active trade or business begins. The $5,000 amount is reduced (but not below zero), by the amount by which the cumulative cost of start-up expenditures exceeds $50,000. Effective only for taxable years beginning in 2010, the Small Business Jobs Act of 2010 increased the amount of start-up expenditures a taxpayer may elect to deduct to $10,000; that amount is reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds $60,000. The Administration proposes to double permanently, from $5,000 to $10,000, the amount of start-up expenditures that a taxpayer may elect to deduct, effective for tax years ending on or after the date of enactment. That amount would be reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds $60,000.

Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.—The Affordable Care Act provided a tax credit to help small employers provide health insurance for their employees and their families. To claim the credit, a qualified employer must make non-elective uniform contributions of at least 50 percent of the premium. For taxable years beginning in 2010 through 2013, the credit is available for health insurance coverage purchased from an insurance company licensed under State law. For taxable years beginning after 2013, the credit is available only for health insurance purchased through an Affordable Insurance Exchange and only for a maximum coverage period of two consecutive taxable years beginning with the first year in which the employer or any predecessor first offers one or more qualified plans to its employees through an exchange. To be a qualified small employer, an employer must have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent wages that average less than $50,000. The maximum credit is a specified percentage of premiums the employer pays during the taxable year, subject to certain limitations. For taxable years beginning in 2010 through 2013, the maximum percentage is 35 percent for businesses (25 percent for tax-exempt employers). For taxable years beginning after 2013, the maximum percentage is 50 percent for businesses (35 percent for tax-exempt employers). The credit is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between an average annual wage of $25,000 and $50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying an average wage less than $50,000 might not be eligible for any tax credit. In addition, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the State average premium.

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

Incentives to Promote Regional Growth

Extend and modify the New Markets tax credit (NMTC).—The NMTC is a 39 percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provisions expired at the end of 2011. The Administration proposes to extend the NMTC through 2013, with an allocation amount of $5 billion for each year. The Administration also proposes that $250 million of this $5 billion be allocated to support financing healthy food options in distressed communities as part of the Healthy Food Financing Initiative. The proposal would also permit the NMTC to permanently offset AMT liability.

Designate Growth Zones.—The Administration proposes to designate 20 Growth Zones (14 in urban areas and 6 in rural areas). The zone designation and corresponding incentives would be in effect from January 1, 2014, through December 31, 2018. The zones would be chosen through a competitive application process based on the strength of the applicant's "competitiveness plan," economic indicators, and other criteria. Two tax incentives would be applicable to growth zones. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first $15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

Restructure assistance to New York City, provide tax incentives for transportation infrastructure.— Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentive provisions. The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. New York State and New York City each would be eligible for a tax credit for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2013 to 2022, 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 credits not used in a given year would be added to the $200 million annual limit for the following year, including years after 2022. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following years. The credit would be allowed against any payments (other than payments of excise taxes and social security and Medicare payroll taxes) made by the State and City under any provision of the Internal Revenue Code, including income tax withholding.

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

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

Reform and expand the Low-Income Housing tax credit (LIHTC).— To serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with a rule under which the income limits for at least 40 percent of the units in a project could average to not greater than 60 percent of area median income (AMI). None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. A special rule would apply to rehabilitation projects that contain units that receive ongoing subsidies (e.g., rental assistance, operating subsidies, or interest subsidies) administered by the Department of Housing and Urban Development or the Department of Agriculture. If a tenant, when admitted to such a property, had an income not more than 60 percent of the then-applicable AMI and if, when the tenant's income is measured for purposes of LIHTC qualification, the income is greater than 60 percent of the now-applicable AMI but not more than 80 percent of AMI, then the proposal would make it possible for that tenant to remain in residence without impairing the LIHTCs earned by the project. The provision would apply to elections under section 42(g)(1) of the Internal Revenue Code that are made after the date of enactment.

The Administration also proposes to allow a 30-percent "basis boost" for LIHTCs for certain projects involving preservation, recapitalization, and rehabilitation of existing housing that was originally financed with Federal funds and is subject to a long-term use agreement limiting occupancy to low-income households. If the State housing finance agency grants a "Federal-Investment Protection Designation" to such rehabilitation, there would be two favorable consequences. First, the rehabilitation would be able to qualify for 30-percent-present-value LIHTCs without issuing bonds if the following two requirements are satisfied: (1) the rehabilitation receives a tax-exempt-volume-cap allocation that is not less than the amount of bonds that would be necessary to qualify for LIHTCs; and (2) the State's remaining volume cap is reduced as if tax-exempt bonds had been issued. Second, if the rehabilitation is eligible for 30-percent-present-value credits – either as a result of being bond financed or as a result of the new, alternative qualification – then the State housing finance agency would be able to designate some or all of the qualified basis of the rehabilitation for a 30 percent "boost." In each State, the basis receiving this "boost" designation in a calendar year would be limited to an amount equal to 0.8 percent of the State's volume cap for that calendar year. The aggregate amount of basis annually eligible for the "boost" could be carried forward for up to five years. The proposal would be effective for allocations of volume cap after the date of enactment. States' authorizations to designate basis for a "boost" would begin with the calendar year containing the date of enactment.

To increase the demand for LIHTCs, the Administration proposes to make them beneficial to REITs. If a REIT is entitled to LIHTCs for a taxable year, the REIT would be able to designate as tax exempt some of the dividends that it distributes to its shareholders. The maximum amount of dividends that could be designated in this fashion would be the quotient of the REIT's LIHTCs for the year, divided by the highest corporate tax rate. Thus, the after-tax result for the REIT's shareholders would resemble the result as if the REIT had distributed both a taxable dividend and the LIHTCs themselves. If the REIT does not have sufficient earnings and profits to support a dividend for this entire amount, it could carry forward indefinitely the ability to make the designation. A regulated investment company (RIC) that receives such a tax-exempt dividend would itself be able to distribute to its shareholders that amount of tax-exempt dividends. The proposal would be effective for taxable years that end after the date of enactment.

The Administration also proposes to require LIHTC-supported housing to provide appropriate protections for victims of actual or threatened domestic violence. The Violence Against Women Act requires affordable housing that is supported by various other Federal programs to provide certain protections for these victims. Under the proposal, the long-term use agreements that must be executed for LIHTC-supported buildings would have to contain comparable protections. The proposal would be effective for long-term use agreements that are either first executed, or subsequently modified, on or after the date that is 30 days after enactment.

Continue Certain Expiring Provisions through Calendar Year 2013

A number of temporary tax provisions that have been routinely extended have expired or are scheduled to expire on or before December 31, 2012. The Administration proposes to extend a number of these provisions through December 31, 2013. For example, the optional deduction for State and local general sales taxes; the deduction for qualified out-of-pocket class room expenses; the deduction for qualified tuition and related expenses; Subpart F "active financing" and "look-through" exceptions; the modified recovery period for qualified leasehold, restaurant, and retail improvements; and several trade agreements would be extended through December 31, 2013. Temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.

Upper-Income Tax Provisions

Sunset the Bush Tax Cuts for Those with Income in Excess of $250,000 ($200,000 if Single)

Reinstate the limitation on itemized deductions for upper-income taxpayers.—Prior to the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Public Law 107-16, the deduction for otherwise allowable itemized deductions (other than medical expenses, investment interest, theft and casualty losses, and wagering losses) was reduced by three percent of AGI in excess of certain thresholds, but not by more than 80 percent of the otherwise allowable amount. EGTRRA phased in the repeal of the limitation on itemized deductions over a five-year period, 2006 through 2010. The repeal of the limitation on itemized deductions was extended for two years through 2012 under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that the limitation on itemized deductions is permanently repealed. The Administration proposes to reinstate the limitations on itemized deductions for married taxpayers filing joint returns with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000 (at 2009 levels), effective for taxable years beginning after December 31, 2012.

Reinstate the personal exemption phaseout for upper-income taxpayers.—Prior to the enactment of EGTRRA, the deduction for personal exemptions for the taxpayer and his or her dependents was phased out for taxpayers with AGI in excess of certain thresholds. EGTRRA phased in the repeal of the phaseout of personal exemptions over a five-year period, 2006 through 2010. The repeal of the phaseout of personal exemptions was extended for two years through 2012 under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that the phaseout of personal exemptions is permanently repealed. The Administration proposes to reinstate the phaseout of personal exemptions for married taxpayers filing joint returns with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000 (at 2009 levels), effective for taxable years beginning after December 31, 2012.

Reinstate the 36-percent and 39.6-percent rates for upper-income taxpayers.—EGTRRA split the 15-percent statutory individual income tax rate bracket of prior law into two tax rate brackets of 10 and 15 percent, and replaced the four remaining statutory individual income tax rate brackets of 28, 31, 36 and 39.6 percent with statutory tax rate brackets of 25, 28, 33, and 35 percent. These tax rate brackets provided in EGTRRA, which were scheduled to expire on December 31, 2010, were extended through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that these tax rate changes are made permanent. The Administration proposes to replace part of the 33-percent tax rate bracket and all of the 35-percent tax rate bracket with the prior law tax rate brackets of 36 and 39.6 percent. These rate increases would apply to married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and to single taxpayers with income over $200,000 (at 2009 levels).

Tax qualified dividends as ordinary income for upper-income taxpayers.—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), Public Law 108-27, the maximum tax rate on qualified dividends received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Under prior law, dividends were taxed as ordinary income at rates of 15 percent to 39.6 percent. The reduced rates provided under JGTRRA were extended for two years, through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that these qualified dividend rate reductions are made permanent. The Administration proposes to tax qualified dividends at ordinary income tax rates for married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000 (at 2009 levels). All other taxpayers would be taxed at the rates in effect in 2012. The proposal would be effective for dividends received after December 31, 2012.

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

Reduce the Value of Certain Tax Expenditures

Reduce the value of certain tax expenditures.— The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over $250,000 (at 2009 levels) and single taxpayers with income over $200,000 (at 2009 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2012.

Modify Estate and Gift Tax Provisions

Restore the estate, gift, and GST tax parameters in effect in 2009.—The Administration proposes to permanently extend estate, gift, and GST tax parameters as they applied for calendar year 2009. Under those parameters, the estate of a decedent dying after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $3.5 million. Similarly, GSTs made after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $3.5 million. Gifts made after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $1 million. In addition, as reflected in the adjusted baseline, the portability of unused estate and gift exclusion amounts between spouses would be made permanent and would apply to decedents dying after December 31, 2012.

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

Modify rules on valuation discounts.—Current law provides that the fair market value for estate and gift tax purposes of certain interests transferred intrafamily is to be determined without taking into consideration certain "applicable restrictions" that would otherwise justify discounts for lack of marketability and control in the determination of that value. Judicial decisions and the enactment of new statutes in most states, in effect, have made these rules inapplicable in many situations that were intended to be subject to those rules. In addition, additional arrangements have been identified which purport to reduce the value of the taxable transfer for transfer tax purposes, without reducing the economic value to the recipient of the transferred interest. The Administration proposes to create an additional category of "disregarded restrictions" that also would be ignored in valuing certain transferred interests. Those interests would be valued instead by assuming the applicability of certain assumptions to be specified in regulations. Disregarded restrictions would include limitations on a holder's right to liquidate that holder's interest that are more restrictive than a standard to be identified in regulations, and any limitation on a transferee's ability to be admitted as a full partner or holder of an equity interest in the entity. The proposal would include additional rules to support the implementation of the proposal, and would include a grant of appropriate regulatory authority. This proposal would apply to transfers of property subject to restrictions created after October 8, 1990 (the effective date of section 2704).

Require a minimum term for grantor retained annuity trusts (GRATs).—Current law provides that the value of the remainder interest in a GRAT for gift tax purposes is determined by deducting the present value of the annuity to be paid during the GRAT term from the fair market value of the property contributed to the GRAT. If the grantor of the GRAT dies during that term, the portion of the trust assets needed to produce the annuity is included in the grantor's gross estate for estate tax purposes. In practice, grantors commonly use brief GRAT terms (often of less than two years) and significant annuities to minimize both the risk of estate tax inclusion and the value of the remainder for gift tax purposes. The Administration proposes to require that, for all trusts created after the date of enactment, the GRAT must have a minimum term of ten years and a maximum term of ten years more than the annuitant's life expectancy, the value of the remainder at the creation of the trust must be greater than zero, and the annuity must not decrease during the GRAT term.

Limit Duration of GST tax exemption.—Current law provides that each person has a lifetime GST tax exemption ($5,120,000 in 2012) that may be allocated to the person's transfers to or for the benefit of transferees who are two or more generations younger than the transferor ("skip persons"). The allocation of a person's GST exemption to such a transfer made in trust exempts from the GST tax not only the amount of the transfer (up to the amount of exemption allocated), but also all future appreciation and income from that amount during the existence of the trust. At the time of the enactment of the GST tax provisions, the law of almost all States included a Rule Against Perpetuities (RAP) that required the termination of every trust after a certain period of time. Because many States now either have repealed or limited the application of their RAP laws, trusts subject to the laws of those States may continue in perpetuity. As a result of this change in State laws, the transfer tax shield provided by the GST exemption effectively has been expanded from trusts funded with $1 million and a maximum duration limited by the RAP, to trusts funded with $5,120,000 and continuing (and growing) in perpetuity. The Administration proposes to limit the duration of the benefit of the GST tax exemption by imposing a bright-line test, more clearly administrable than the common law RAP, that, in effect, would terminate the GST tax exclusion on the 90th anniversary of the creation of the trust. An exception would be made for trusts that are distributed to another trust for the sole benefit of one individual if the distributee trust will be includable in the individual's gross estate for Federal estate tax purposes to the extent it is not distributed to that individual during his or her life.

Coordinate certain income and transfer tax rules applicable to grantor trusts.—A grantor trust is ignored for income tax purposes, even though the trust may be irrevocable and the deemed owner may have no beneficial interest in the trust or its assets. The lack of coordination between the income tax and transfer tax rules applicable to a grantor trust creates opportunities to structure transactions between the trust and its deemed owner that are ignored for income tax purposes and can result in the transfer of significant wealth by the deemed owner without transfer tax consequences. The Administration proposes to change certain transfer tax rules regarding grantor trusts. To the extent that a grantor of a trust is deemed to be an owner for income tax purposes, the trust's assets would be included in that grantor's gross estate for estate tax purposes and would be subject to gift tax at any time during that grantor's life when the grantor ceases to be treated as an owner for income tax purposes. This proposal also would apply to any non-grantor deemed to be an owner of the trust to the extent that the non-grantor engaged in a sale, exchange, or comparable transaction with the trust that would have subjected the non-grantor to capital gains tax if that person had not been a deemed owner of the trust. The transfer taxes would be payable from the trust.

Extend the lien on estate tax deferrals provided under section 6166 of the Internal Revenue Code.—There is a lien on nearly all estate assets for the ten-year period immediately following a decedent's death to secure the full payment of the Federal estate tax. However, when the estate tax payments on interests in certain closely held businesses are deferred under section 6166, this lien expires approximately five years before the due date of the final payment of the deferred tax. Existing methods of protecting the Federal government's interest in collecting the amounts due are expensive and may be harmful to businesses. The Administration proposes to extend the existing estate tax lien throughout the section 6166 deferral period to eliminate the need for any additional security in a manner that is economical and efficient for both taxpayers and the Federal government.

Reform U.S. International Tax System

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

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

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

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

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

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

Modify tax rules for dual capacity taxpayers.—The Administration proposes to tighten the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country (so-called "dual capacity" taxpayers).

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

Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment.—To address concerns that taxpayers may repatriate offshore earnings through a related corporation and avoid current taxation, the Administration proposes to tax immediately a non-dividend distribution from a foreign corporation to the extent the distribution was funded by a related foreign corporation with a principal purpose of avoiding dividend treatment from distributions to a U.S. shareholder.

Extend section 338(h)(16) of the Internal Revenue Code to certain asset acquisitions.—Under section 338, taxpayers can elect to treat the acquisition of the stock of a corporation in a taxable transaction as an acquisition of the corporation's assets for U.S. tax purposes. Because this election does not alter the foreign tax consequences of the transaction, section 338(h)(16) limits the ability of taxpayers to claim additional foreign tax credits by generally requiring the seller to continue to treat the gain recognized on the transaction as gain from the sale of stock for foreign tax credit purposes. The Administration proposes to extend the rules limiting the ability of taxpayers to claim additional foreign tax credits as a result of a section 338 election to other similar transactions that are treated as asset acquisitions for U.S. tax purposes but that are treated as acquisitions of an equity interest in an entity for foreign tax purposes.

Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated.—Under the Administration's proposal, foreign income taxes paid by a foreign corporation would be reduced if a redemption transaction results in the elimination of earnings and profits of the foreign corporation. The foreign income taxes reduced under the proposal would be the foreign income taxes that are associated with the eliminated earnings and profits.

Reform Treatment of Financial and Insurance Industry Institutions and Products

Impose a financial crisis responsibility fee.—The Administration proposes to impose a fee on U.S.-based bank holding companies, thrift holding companies, certain broker-dealers, as well as companies that control insured depositories and certain broker-dealers, with assets in excess of $50 billion. U.S. subsidiaries of international firms that fall into these categories with assets in excess of $50 billion would also be covered. The fee would raise approximately $60 billion over ten years.

Require accrual of income on forward sale of corporate stock.—A corporation generally does not recognize gain or loss on the issuance or repurchase of its own stock. Thus, a corporation does not recognize gain or loss when it issues its stock in the future pursuant to a contract that entitles the corporation to receive a specified amount of consideration when the contract settles (typically referred to as a forward contract). A corporation does, however, recognize interest income upon the current sale of any stock (including its own) for a payment to be received in the future. The only difference between a corporate issuer's current sale of its stock for deferred payment and an issuer's forward sale of the same stock is the timing of the stock issuance. In a current sale, the stock is issued at the inception of the transaction, whereas in a forward sale the stock is issued at the time the deferred payment is received. In both cases, a portion of the deferred payment economically compensates the corporation for the time value of deferring the payment. It is inappropriate to treat these two transactions differently. The Administration proposes to require a corporation that enters into a forward contract to sell its own stock to treat a portion of the payment received when the stock is issued as a payment of interest. The proposal would be effective for forward contracts entered into after December 31, 2012.

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

Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code.—In general, if a corporation repurchases a debt instrument that is convertible into its stock, or into stock of a corporation in control of, or controlled by, the corporation, section 249 may disallow or limit the issuer's deduction for any premium paid to repurchase the debt instrument. For this purpose, "control" is determined by reference to section 368(c), which encompasses only direct relationships (e.g., a parent corporation and its wholly-owned, first tier subsidiary). The definition of "control" in section 249 is narrow and has allowed the limitation in section 249 to be too easily avoided. Indirect control relationships (e.g., a parent corporation and a second-tier subsidiary) present the same economic identity of interests as direct control relationships and should be treated in a similar manner. The Administration proposes to amend the definition of "control" in section 249(b)(2) by referencing the definition of a controlled group in section 1563(a)(1), which includes indirect control relationships.

Modify rules that apply to sales of life insurance contracts.—The seller of a life insurance contract generally must report as taxable income the difference between the amount received from the buyer and the adjusted basis of the contract. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to a "transfer-for-value rule" applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In response to the growth in the number and size of life settlement transactions, the Administration proposes to expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold, and would modify the "transfer-for-value" exceptions to prevent purchasers of policies from avoiding tax on death benefits that are received. The proposal would apply to sales or assignments of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2012.

Modify proration rules for life insurance company general and separate accounts.—Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and a policyholder's share. The result of this proration calculation is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS. In some cases, the existing regime produces a company's share that exceeds the company's actual economic interest in the underlying income. The Administration proposes to replace this regime with one that is much simpler. Under the proposal, the general account dividends received deduction (DRD), tax-exempt interest, and increases in certain policy cash values would be subject to the same flat policyholders' proration percentage that applies to non-life insurance companies (15 percent under current law); the DRD with regard to separate account dividends would be based on the proportion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2012.

Expand pro rata interest expense disallowance for corporate-owned life insurance (COLI).—The interest deductions of a business other than an insurance company are reduced to the extent the interest is allocable to unborrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors, employees, and 20-percent owners. The Administration proposes to repeal the exception for officers, directors, and employees unless those individuals are also 20-percent owners of the business that is the owner or beneficiary of the contracts. Thus, purchases of life insurance by small businesses and other taxpayers that depend heavily on the services of a 20-percent owner would be unaffected, but the funding of deductible interest expenses with tax-exempt or tax-deferred inside buildup would be curtailed. The proposal would apply to contracts issued after December 31, 2012, in taxable years ending after that date.

Eliminate Fossil Fuel Preferences

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that The Nation can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and gas activities are proposed to be repealed beginning in 2013: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; and (7) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2013: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; and (3) capital gains treatment for royalties. As discussed in the paragraph describing the Administration's proposal to target the domestic production activities deduction, the Administration proposes to repeal the deduction for oil and gas and other fossil fuel production.

Other Revenue Changes and Loophole Closers

Levy a fee on the production of hardrock minerals to restore abandoned mines.—Until 1977, there were no Federal requirements to restore land after mining for coal, leaving nearly $4 billion worth of abandoned coal mine hazards remaining today. The Department of the Interior collects a fee on every ton of coal produced in the United States to finance the reclamation of these abandoned coal mines. Historic mining of hardrock minerals, such as gold and copper, also left numerous abandoned mine lands (AML); however, there is no similar source of Federal funding to reclaim these sites. Just as the coal industry is held responsible for the actions of its predecessors, the Administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposed fee on the production of hardrock minerals would be charged per volume of material displaced after January 1, 2013, and the receipts would be distributed through a competitive grant program to restore the most hazardous hardrock AML sites, on both public and private lands.

Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes.—An excise tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported petroleum products entered into the United States for consumption, use, or warehousing; and (3) any domestically produced crude oil that is used (other than on the premises where produced for extracting oil or natural gas) in or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. Under current law, the tax does not apply to crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax is deposited in the Oil Spill Liability Trust Fund. Amounts in the trust fund are used for several purposes, including the payment of costs associated with responding to and removing oil spills. The tax imposed on crude oil and imported petroleum products is eight cents per barrel, effective for periods after December 31, 2008, and before January 1, 2017, and nine cents per barrel, effective for periods after December 31, 2016. The Administration proposes to increase these taxes by one cent per barrel, to nine cents per barrel beginning on January 1, 2013, and to 10 cents per barrel after December 31, 2016. In addition, the Administration proposes to update the law to include other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax would cover, at the applicable rate, other sources of crudes received at a U.S. refinery, entered into the United State, or used or exported as described above after December 31, 2012. The Superfund tax on crude oil and petroleum products, which the Administration is proposing to reinstate (see the following discussion), would also be imposed on these substances.

Reinstate Superfund taxes.—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or tax years (income tax) beginning after 2012, with expiration for periods and tax years after 2022. The proposed taxes include the following: (1) an excise tax of 9.7-cents-per-barrel on crude oil and imported petroleum products; (2) an excise tax on hazardous chemicals listed in 26 U.S.C. § 4661 at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use listed hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds $2 million. Consistent with the Administration's proposal regarding taxes deposited in the Oil Spill Liability Trust Fund, the Superfund excise tax on crude oil and petroleum products would cover other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock.

Make unemployment insurance (UI) surtax permanent.—The net Federal UI tax on employers dropped from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to permanently reinstate the 0.8 percent rate, effective with respect to wages paid on or after January 1, 2013.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The economic downturn has severely tested the adequacy of States' UI systems, forcing the majority of States to borrow to continue paying benefits. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation. To provide short-term relief to employers in these States, the Administration proposes a suspension of interest on State UI borrowing in 2012 and 2013 along with a suspension of the FUTA credit reduction, which is an automatic debt repayment mechanism. The Administration also proposes to increase the FUTA taxable wage base to $15,000 starting in 2015, to index it to inflation, and to reduce the FUTA tax rate. States with lower wage bases will need to adjust their UI tax structures. This will put State UI systems on a firmer financial footing for the future.

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

Extend Federal unemployment benefits and invest in program integrity.—The Administration proposes to extend Federal unemployment benefits through 2012 to provide a helping hand to long-term unemployed workers looking for work who were laid off through no fault of their own. Along with Emergency Unemployment Compensation (EUC), the Administration proposes to extend 100-percent Federal financing of Extended Benefits (EB) for States with particularly high unemployment. The cost of EB is typically split 50-50 between the Federal Government and the States. Picking up the extra cost of these unemployment benefits allows States to keep their unemployment taxes low, reducing the tax burden on businesses, but providing lower receipts for the UI program as a whole. The Administration also proposes to make investments in program integrity by increasing funding for Reemployment and Eligibility Assessments (REAs), which are provided by the States. These assessments help ensure that benefits go only to eligible claimants and also provide help with work-search strategies. The Administration's proposal provides additional funding for REAs for regular UI recipients and proposes funding for REAs and reemployment services for EUC recipients. Both of these proposals, if enacted, will reduce UI outlays by cutting down on improper payments and getting claimants back to work more quickly. Reduced outlays will allow States to keep UI taxes lower, reducing overall receipts in the UI trust funds.

Repeal last-in, first-out (LIFO) method of accounting for inventories.—Under the LIFO method of accounting for inventories, it is assumed that the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. The Administration proposes to repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2013. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over ten years.

Repeal lower-of-cost-or-market inventory accounting method.—The Administration proposes to prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for the first taxable year beginning after December 31, 2013, and any resulting income inclusion would be recognized ratably over four years.

Eliminate special depreciation rules for purchases of general aviation passenger aircraft.—Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Administration proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years, effective for such airplanes placed in service after December 31, 2012.

Repeal gain limitation for dividends received in reorganization exchanges.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1) of the Internal Revenue Code) can result in distributions of property with minimal U.S. tax consequences. The Administration proposes to repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)). The proposal would be effective for taxable years beginning after December 31, 2012.

Tax carried (profits) interests as ordinary income.—A partnership does not pay Federal income tax; instead, an item of income or loss of the partnership and associated character flows through to the partners who must include such items on their income tax returns. Certain partners receive partnership interests, typically interests in future profits, in exchange for services (commonly referred to as "profits interests" or "carried interests"). Current law taxes the recipient of a carried interest on the value at the time granted, which may be based on the value the partner would receive if the partnership were liquidated immediately (for example, the value of an interest only in future profits would be zero). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 15-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as an "investment services partnership interest" (ISPI) and to tax a partner's share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for tax years ending after December 31, 2012.

Expand the definition of built-in loss for purposes of partnership loss transfers.—Section 743(b) provides that upon a sale or exchange of a partnership interest, a partnership that either has a section 754 election in effect or has a substantial built-in loss in its assets must adjust the bases of its assets under the rules of section 755. Section 743(d) defines a substantial built-in loss by reference to the partnership's adjusted basis – that is, there is a substantial built-in loss if the partnership's adjusted bases in its assets exceeds by more than $250,000 the fair market value of such property. Although the provision prevents the duplication of losses where the partnership has a substantial built-in loss in its assets, it does not prevent the duplication of losses where the transferee partner would be allocated a loss in excess of $250,000 if the partnership sold all of its assets, but the partnership itself does not have a substantial built-in loss in its assets. Accordingly, the Administration proposes to amend section 743 to measure a substantial built-in loss also by reference to whether the transferee would be allocated a loss in excess of $250,000 if the partnership sold all of its assets immediately after the sale or exchange.

Extend partnership basis limitation rules to nondeductible expenditures.—Section 704(d) provides that a partner's distributive share of loss is allowed only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such loss occurred. Any excess is allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in its partnership interest to take the deductions. Section 704(d) does not apply to partnership expenditures that are not deductible in computing its taxable income and not properly chargeable to capital account. Thus, even though a partner's distributive share of nondeductible expenditures reduces the partner's basis in its partnership interest, such items are not subject to section 704(d) and the partner may deduct or credit them currently even if the partner's basis in its partnership interest is zero. The Administration proposes to amend section 704(d) to allow a partner's distributive share of expenditures not deductible in computing the partnership's taxable income and not properly chargeable to capital account only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such expenditure occurred.

Limit the importation of losses under section 267(d) of the Internal Revenue Code.—If a loss sustained by a transferor is disallowed under section 267(a)(1) or section 707(b)(1) because the transferor and transferee are related under section 267(b) or section 707(b)(1), as the case may be, section 267(d) provides that the transferee may reduce any gain the transferee later recognizes on a disposition of the transferred asset by the amount of the loss disallowed to the transferor. This has the effect of shifting the benefit of the loss from the transferor to the transferee. Thus, losses can be imported where gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. To prevent this, the Administration proposes to amend section 267(d) to provide that the principles of section 267(d) do not apply to the extent gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer.

Deny deduction for punitive damages.—The Administration proposes to deny tax deductions for punitive damages paid or incurred by a taxpayer, whether upon a judgment or in settlement of a claim. Where the liability for punitive damages is covered by insurance, such damages paid or incurred by the insurer would be included in the gross income of the insured person. This proposal would apply to damages paid or incurred after December 31, 2013.

Eliminate the deduction for contributions of conservation easements on golf courses.—Under current law, a charitable contribution deduction is generally not allowed for a contribution of a partial interest in property. However, a donor may deduct the value of a conservation easement donated to a qualified charitable organization exclusively for conservation purposes. The value of the deduction for any contribution that produces a return benefit to the donor must be reduced by the value of the benefit received. Contributions of easements on golf courses have raised concerns that the deduction amounts claimed for such easements are excessive, and also that the conservation easement deduction is not narrowly tailored to promote only bona fide conservation activities, as opposed to the private interests of donors. The proposal would amend the charitable contribution deduction provision to prohibit a deduction for any contribution of property that is, or is intended to be, used as a golf course.

Reduce the Tax Gap and Make Reforms

Expand Information Reporting

Require information reporting for private separate accounts of life insurance companies.—Earnings from direct investments in assets generally result in taxable income to the holder, whereas investment in comparable assets through a separate account of a life insurance company generally gives rise to tax-free or tax-deferred income. This favorable tax treatment is unavailable if the policyholder has so much control over the investments in the account that the policyholder, rather than the company, should be treated as the owner of those investments. The proposal would require information reporting with regard to each life insurance or annuity contract whose investment in a separate account represents at least 10 percent of the value of the account. The proposal would be effective for taxable years beginning after December 31, 2012.

Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.—Currently, withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payment of estimated income taxes and self-employment (SECA) taxes near the end of each calendar quarter. An optional withholding method for contractors would reduce the burdens of having to make quarterly payments, would help contractors automatically set aside funds for tax payments, and would help increase compliance. Under the Administration's proposal, a contractor receiving payments of $600 or more in a calendar year from a particular business would be required to furnish to the business the contractor's certified TIN. A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. Contractors receiving payments of $600 or more in a calendar year from a particular business could require the business to withhold a flat rate percentage of their gross payments. This proposal would be effective for payments made to contractors after December 31, 2012.

Improve Compliance by Businesses

Require greater electronic filing of returns.—Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. The Administration proposes that regulatory authority be granted to the Department of the Treasury to require that information returns be filed electronically. Also, corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 would be required to file their tax returns electronically. In the case of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations), the regulatory authority to require electronic filing would allow reduction of the current threshold of filing 250 or more returns during a calendar year. The proposal would be effective for taxable years ending after December 31, 2012.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports.—The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement activity. (It also serves to satisfy certain requirements for filing with the PBGC.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to tax code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOL's ERISA Title I jurisdiction cannot be requested on the joint form and currently is not collected. Collecting it would require a separate "IRS only" form that could be filed on paper, a process that would be neither simple nor efficient for taxpayers or for the IRS and DOL. The Administration proposes to provide the IRS authority to require the inclusion of information that is relevant only to employee benefit plan tax requirements in the electronically filed annual reports to the same extent that DOL can require such electronic reporting. The proposal would be effective for plan years beginning after December 31, 2012.

Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.—Under current law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and payment of those taxes from denying liability when the taxes are not paid. The Administration proposes to set forth standards 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 proposal would be effective for employment tax returns required to be filed with respect to wages paid after December 31, 2012.

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

Repeal special estimated tax payment provision for certain insurance companies.—The deductible unpaid loss reserves of insurance companies are required to be computed on a discounted basis to reflect the time value of money. However, a taxpayer may elect to deduct an additional amount equal to the difference between discounted and undiscounted reserves, if it also makes a "special estimated tax payment" equal to the tax benefit attributable to the extra deduction. The special estimated tax payments are applied against the company's tax liability in future years as reserves are released. This provision requires complex record keeping yet, by design, is revenue neutral. The Administration proposes to repeal the provision effective for taxable years beginning after December 31, 2012.

Eliminate special rules modifying the amount of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are generally due on or before April 15, June 15, September 15, and December 15 of the particular taxable year. The amount due each quarter is generally one-quarter (25 percent) of the amount due for the year. A number of legislative acts have modified the standard rules as to the amount due by "large corporations" for a particular quarter. The Administration proposes to repeal all legislative changes that affect the amount of corporate estimated payments due for any particular quarter. The proposal would be effective for taxable years beginning after December 31, 2012.

Strengthen Tax Administration

Streamline audit and adjustment procedures for large partnerships.—Under current law, large partnerships, other than electing large partnerships (ELPs), are subject to the unified audit rules established under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), Public Law 97-248. ELPs are subject to streamlined audit and adjustment procedures. ELPs are generally defined as partnerships that have 100 or more partners during the preceding taxable year and elect to be treated as an ELP. Since the enactment of the ELP regime, few large partnerships have elected into the ELP regime. Thus, the more complex and inefficient TEFRA partnership audit and adjustment procedures apply for most large partnerships. The Administration proposes to create a new mandatory Required Large Partnership (RLP) regime for any partnership that has 1,000 or more partners at any time during the taxable year. The RLP regime would provide many of the same streamlined audit and adjustment procedures as apply to ELPs. The proposal would apply to a partnership's taxable year ending on or after the date that is two years from the date of enactment.

Revise offer-in-compromise application rules.— Current law provides that the IRS may compromise any civil or criminal case arising under the internal revenue laws prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer's offer.

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

Make repeated willful failure to file a tax return a felony.—Current law provides that willful failure to file a tax return is a misdemeanor punishable by a term of imprisonment for not more than one year, a fine of not more than $25,000 ($100,000 in the case of a corporation), or both. The Administration would modify this rule such that any person who willfully fails to file tax returns in any three years within any five consecutive year period, if the aggregated tax liability for such period is at least $50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a fine of not more than $250,000 ($500,000 in the case of a corporation) or imprisonment for not more than five years, or both. The proposal would be effective for returns required to be filed after December 31, 2012.

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

Extend statute of limitations where State adjustment affects Federal tax liability.—In general, additional Federal tax liabilities in the form of tax, interest, penalties, and additions to tax must be assessed by the IRS within three years after the date a return is filed. Pursuant to agreement, the IRS and State and local revenue agencies exchange reports of adjustments made through examination so that corresponding adjustments can be made by each taxing authority. The general statute of limitations for assessment of Federal tax liabilities serves as a barrier to the effective use by the IRS of State and local tax adjustment reports when the reports are provided by the State or local revenue agency to the IRS with little time remaining for assessments to be made at the Federal level. The Administration therefore proposes an additional exception to the general three-year statute of limitations for assessment of Federal tax liability resulting from adjustments to State or local tax liability. The statute of limitations would be extended to the greater of: (1) one year from the date the taxpayer first files an amended tax return with the IRS reflecting adjustments to the State or local tax return; or (2) two years from the date the IRS first receives information from the State or local revenue agency under an information sharing agreement in place between the IRS and a State or local revenue agency. The statute of limitations would be extended only with respect to the increase in Federal tax attributable to the State or local tax adjustment. The statute of limitations would not be further extended if the taxpayer files additional amended returns for the same tax periods as the initial amended return or the IRS receives additional information from the State or local revenue agency under an information sharing agreement. The proposal would be effective for returns required to be filed after December 31, 2012.

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

Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code.—Taxpayers can prepare their returns electronically (by meeting with a tax return preparer or using tax preparation software) but may file their return on paper by printing it out and mailing it to the IRS. Electronically filed tax returns are processed more efficiently and more accurately than paper tax returns. However, when tax returns are filed on paper—even if that paper return was prepared electronically—the IRS must manually enter the information contained on the return into the IRS's systems. The Administration proposes to require all taxpayers who prepare their tax returns electronically but print their returns and file them on paper to print their returns with a 2-D bar code that can be scanned by the IRS to convert the paper return into an electronic format. The proposal would be effective for tax returns filed after December 31, 2012.

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

Improve and make permanent the provision authorizing the IRS to disclose certain return information to certain prison officials.—Under prior law, the IRS was authorized to disclose to the head of the Federal Bureau of Prisons and the head of any State agency charged with the responsibility for administering prisons any return information with respect to individuals incarcerated in Federal or State prison whom the Secretary of the Treasury determined may have filed or facilitated the filing of a false return. This authorization expired on December 31, 2011. The Administration proposes to reinstate the provision with certain changes to increase the provision's efficiency and effectiveness (including making the authorization for disclosure permanent and permitting disclosure directly to officers and employees of the Federal or State prison agency).

Extend IRS math error authority in certain circumstances.—The IRS may correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer's correct tax liability (this authority is generally referred to as "math error authority"). The Internal Revenue Code specifically identifies a list of circumstances where the IRS has math error authority. The Administration proposes adding the following two items to this list of circumstances: (1) when there is a lifetime limit on (a) the total amount of a credit or deduction that may be claimed or (b) the total number of years that a credit or deduction may be claimed; and (2) when the taxpayer claimed the EITC during a period in which the taxpayer was previously prohibited by the IRS from claiming the EITC because, in a prior year, the taxpayer's EITC claim was due to fraud or reckless or intentional disregard of the rules and regulations. The proposal would increase the efficiency of tax administration by allowing the IRS to disallow clearly erroneous claims, reduce the need for audits, and promote fairness by limiting such claims to taxpayers who are entitled to them. The proposal would be effective for taxable years beginning after December 31, 2012.

Impose a penalty on failure to comply with electronic filing requirements.—Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Although there are additions to tax for the failure to file returns, there is no specific penalty in the Internal Revenue Code for a failure to comply with a requirement to file electronically. Electronic filing increases efficiency of tax administration because the provision of tax return information in an electronic form enables the IRS to focus audit activities where they can have the greatest impact. This also assists taxpayers where the need for audit is reduced. The Administration is proposing an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed. The amount of the penalty would be $25,000 for a corporation or $5,000 for a tax-exempt organization. The proposal would be effective for returns required to be electronically filed after December 31, 2012.

Simplify the Tax System

Simplify the rules for claiming the EITC for workers without qualifying children.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. In general, taxpayers with low wages who do not have a qualifying child may be eligible to claim the small EITC for workers without qualifying children. However, if the taxpayer resides with a qualifying child whom the taxpayer does not claim (perhaps because that child is claimed by another individual within the household), the taxpayer is not eligible for any EITC. The Administration proposes to allow otherwise eligible taxpayers residing with qualifying children to claim the EITC for workers without qualifying children. This proposal would be effective for tax years beginning after December 31, 2012.

Eliminate minimum required distribution (MRD) requirements for IRA/plan balances of $75,000 or less.—The MRD rules generally require that participants in tax-favored retirement plans and owners of IRAs commence distributions shortly after attaining age 70-1/2 and that these retirement assets be distributed to them (or their spouses or other beneficiaries) over a period based on life expectancy. The penalty for failure to take a minimum required distribution by the applicable deadline is 50 percent of the amount not withdrawn. The Administration proposes to simplify tax compliance for retirees of modest means by exempting an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed $75,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between $75,000 and $85,000. The initial measurement date for the dollar threshold would be the beginning of the year in which the individual turns 70-1/2 or dies, with additional measurement dates only if the individual is subsequently credited with amounts (other than earnings) that were not previously taken into account. The proposal would be effective for taxpayers attaining age 70-1/2 on or after December 31, 2012.

Allow all inherited plan and IRA accounts to be rolled over within 60 days.—Generally, most amounts distributed from qualified plans or IRAs may be rolled over into another IRA or into an eligible retirement plan. However, the movement of assets from a plan or IRA account inherited by a non-spouse beneficiary cannot be accomplished by means of a 60-day rollover. This difference in treatment between plan and IRA accounts inherited by a non-spouse beneficiary and accounts of living participants serves little if any purpose, generates confusion among plan and IRA administrators, and creates a trap for unwary beneficiaries. The Administration proposes to permit rollovers of distributions to all designated beneficiaries of inherited IRA and plan accounts, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2013.

Clarify exception to recapture of unrecognized gain on sale of stock to an employee stock ownership plan (ESOP).—Section 1042 of the Internal Revenue Code allows a taxpayer to elect to defer the recognition of long-term capital gain on the sale of qualified securities to an ESOP if the proceeds are reinvested in replacement property within certain timeframes. The deferred gain is subject to recapture on disposition of the replacement property, with an exception for a disposition by gift. Section 1042 is unclear as to whether recapture applies on the nontaxable transfer of replacement property to a spouse, including pursuant to a divorce, under section 1041. The Administration proposes to amend the recapture rules of section 1042 to provide an exception for transfers under section 1041. The proposal would be effective with respect to transfers made under section 1041 after December 31, 2012.

Repeal non-qualified preferred stock designation.—In 1997, a provision was added to the Internal Revenue Code that treats as taxable "boot" the receipt of certain types of preferred stock known as non-qualified preferred stock (NQPS), where NQPS is issued in a corporate organization or reorganization exchange. Since enactment, taxpayers have often exploited the hybrid nature of NQPS, issuing NQPS in transactions that are inconsistent with the purpose of the 1997 provision. The Administration proposes to repeal the NQPS designation, and no longer treat the receipt of such stock as taxable boot. The proposal would be effective for stock issued after December 31, 2012.

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

Reform excise tax based on investment income of private foundations.—Under current law, private foundations that are exempt from Federal income tax are subject to a two-percent excise tax on their net investment income (one-percent if certain requirements are met). The excise tax on private foundations that are not exempt from Federal income tax, such as certain charitable trusts, is equal to the excess of the sum of the excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. To simplify the tax laws and encourage increased charitable activity, the Administration proposes to replace the two rates of tax on the net investment income of private foundations that are exempt from Federal income tax with a single tax rate of 1.35 percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the 1.35-percent excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The proposed change would be effective for taxable years beginning after the date of enactment.

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

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

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

Streamline private business limits on governmental bonds.—Tax-exempt bonds issued by State and local governments are treated as governmental bonds if the issuer limits private business use and other private involvement sufficiently to avoid treatment as "private activity bonds." Bonds generally are classified as private activity bonds under a two-part test if more than 10 percent of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from property or payments derived from private business use. A subsidiary restriction further reduces the private business limits on governmental bonds to 5 percent in the case of private business use that is unrelated or disproportionate to governmental use. This unrelated or disproportionate use test introduces undue complexity associated with factual determinations of relatedness, a narrow disqualification trigger, and attendant compliance burdens for State and local governments. The general 10-percent private business limit represents a sufficient and workable boundary for private involvement for governmental bonds. The Administration proposes to streamline the private business limits on governmental bonds by repealing the 5 percent unrelated or disproportionate private business limit. This proposal would be effective for bonds issued after the date of enactment.

User Fees

Reform inland waterways funding.—The Administration proposes to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. The additional revenue will enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2013.

Establish a mandatory surcharge for air traffic services.—All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same air traffic services. To more equitably share the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of $100 per flight. Military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempted. The surcharge would be effective for flights beginning after September 30, 2012.

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

Trade Initiative

Establish Reconstruction Opportunity Zones (ROZs).—In 2009, the President announced his intention to establish ROZs in Afghanistan and the border regions of Pakistan as part of the Administration's broader counterterrorism strategy.

Other Initiatives

Increase employee contributions to civil service retirement (CSRS) and the Federal employee retirement system (FERS).—The Administration proposes to increase civilian employee contributions to CSRS and FERS by 0.4 percent of pay per year over three years, beginning in 2013, with no change to employee benefits.

Authorize the Bureau of Engraving and Printing (BEP) to conduct a coupon program to distribute electronic currency readers.—The BEP will be incorporating features into the next redesign of currency to provide meaningful access for the blind and visually impaired. While research continues on the best method to deliver this outcome, the BEP plans to conduct a program distributing electronic currency readers as an interim measure for providing access. The agency currently has authority to conduct a program loaning the readers, but has determined that a coupon program is a more efficient use of resources. The BEP seeks legislative authority from Congress to conduct a coupon program to distribute electronic currency readers.

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

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

Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration (TIGTA).—Under current law, TIGTA conducts reviews to comply with reporting requirements. The Administration proposes to eliminate TIGTA's obligation to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports, review and certify annually that the IRS is complying with the requirements of section 6103(e)(8) regarding information on joint filers, and annually report on the IRS's compliance with sections 7521(b)(2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation. The proposal would revise the annual reporting requirement for all remaining provisions in the IRS Restructuring and Reform Act of 1998 (Public Law 105-206) to a biennial reporting requirement. The proposal would be effective after December 31, 2012.

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

PROGRAM INTEGRITY INITIATIVES

Increase levy authority for payments to Medicare providers with delinquent tax debt.—The Administration proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The proposal would allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes, effective for payments made after the date of enactment.

Implement a program integrity statutory cap adjustment for the IRS.—The Administration proposes an adjustment to the discretionary spending limits for IRS tax enforcement, compliance, and related activities, as established in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), Public Law 99-177, and amended by the Budget Control Act of 2011 (Public Law 112-25). Similar cap adjustments are already included in the BBEDCA for Continuing Disability Reviews and Determinations at the Social Security Administration and Health Care Fraud and Abuse Control at the Department of Health and Human Services. In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2013 cap adjustment for the IRS will fund roughly $350 million in new revenue-producing initiatives above current levels of enforcement and compliance activity. Beyond 2013, the Administration proposes to provide a further increase of about $350 million in additional new tax enforcement initiatives each year from 2014 through 2017 and to sustain all of the new initiatives plus inflationary costs through 2022. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly $17 billion over the budget window, and is estimated to generate an additional $44 billion in revenue over that same period. These resources will help the IRS continue to work on closing the tax gap, defined as the difference between taxes owed and those paid on time and estimated at $450 billion in 2006. Enforcement funds provided through the 2013 cap adjustment will continue to target international tax compliance, as well as implement information reporting authorities with the aim of making the IRS a more efficient and effective tax administrator.

Table 15–3. EFFECT OF PROPOSALS
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Temporary tax relief to create jobs and jumpstart growth:													
Extend temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals	–63,153	–31,159	....	72	–41	–17	–8	–2	–2	–1	....	–31,145	–31,158
Extend 100-percent first-year depreciation deduction for certain property	–35,046	–14,830	13,709	10,284	7,293	5,376	3,503	2,246	1,377	1,029	935	21,832	30,922
Provide a temporary 10-percent tax credit for new jobs and wage increases [1]	–14,227	–12,601	–1,054	–1,162	–1,048	–881	–461	–458	–389	–230	–164	–16,746	–18,448
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	–170	–779	–1,309	–1,215	–418	–26	67	111	57	21	7	–3,747	–3,484
Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction	....	–400	–517	–367	–232	–115	–32	2	2	2	2	–1,631	–1,655
Reform and extend Build America Bonds [1]	–17	–55	–95	–118	–119	–118	–119	–119	–119	–119	–120	–505	–1,101
Total, temporary tax relief to create jobs and jumpstart growth	–112,613	–59,824	10,734	7,494	5,435	4,219	2,950	1,780	926	702	660	–31,942	–24,924
Tax cuts for families and individuals:													
Extend AOTC [1]	....	–672	–12,673	–12,962	–14,066	–14,154	–15,217	–15,610	–16,588	–17,070	–18,358	–54,527	–137,370
Provide for automatic enrollment in IRAs, including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs [1]	....	....	–733	–1,203	–1,285	–1,383	–1,555	–1,784	–2,024	–2,333	–2,722	–4,604	–15,022
Expand EITC for larger families [1]	....	–73	–1,436	–1,469	–1,487	–1,521	–1,545	–1,575	–1,605	–1,635	–1,663	–5,986	–14,009
Expand child and dependent care tax credit [1]	....	–310	–1,088	–1,098	–1,111	–1,114	–1,117	–1,112	–1,099	–1,090	–1,078	–4,721	–10,217
Extend exclusion from income for cancellation of certain home mortgage debt	....	–1,153	–1,261	–292	....	....	....	....	....	....	....	–2,706	–2,706
Provide exclusion from income for student loan forgiveness for students after 25 years of income-based or income-contingent repayment	....	....	....	....	....	....	....	....	....	....	....	....	....
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs	....	....	–2	–2	–2	–2	–2	–2	–2	–3	–3	–8	–20
Total, tax cuts for families and individuals	....	–2,208	–17,193	–17,026	–17,951	–18,174	–19,436	–20,083	–21,318	–22,131	–23,824	–72,552	–179,344
Incentives for expanding manufacturing and insourcing jobs in America:													
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	....	–8	–8	–8	–8	–8	–9	–10	–10	–10	–11	–40	–90
Provide new Manufacturing Communities tax credit	....	–19	–103	–242	–394	–517	–617	–702	–732	–644	–456	–1,275	–4,426
Target the domestic production activities deduction to domestic manufacturing activities and double the deduction for advanced manufacturing activities	....	....	....	....	....	....	....	....	....	....	....	....	....
Enhance and make permanent the R&E tax credit	–4,012	–7,048	–7,834	–8,677	–9,553	–10,441	–11,314	–12,157	–12,991	–13,832	–14,688	–43,553	–108,535
Provide a tax credit for the production of advanced technology vehicles	–7	–53	–163	–257	–413	–610	–461	–434	–166	282	280	–1,496	–1,995
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	....	–44	–227	–261	–310	–371	–389	–177	42	25	15	–1,213	–1,697
Extend and modify certain energy incentives [1]	–460	–625	–1,781	–700	–282	–109	–20	–58	–86	–100	–109	–3,497	–3,870
Total, incentives for expanding manufacturing and insourcing jobs in America	–4,479	–7,797	–10,116	–10,145	–10,960	–12,056	–12,810	–13,538	–13,943	–14,279	–14,969	–51,074	–120,613
Tax relief for small business:													
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	–214	–619	–1,018	–1,525	–2,079	–2,536	–214	–7,991
Double the amount of expensed start-up expenditures	–76	–322	–316	–313	–311	–310	–307	–302	–299	–297	–296	–1,572	–3,073
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance [1]	–512	–1,077	–1,777	–2,168	–1,987	–1,672	–1,409	–1,215	–1,101	–981	–774	–8,681	–14,161
Total, tax relief for small business	–588	–1,399	–2,093	–2,481	–2,298	–2,196	–2,335	–2,535	–2,925	–3,357	–3,606	–10,467	–25,225
Incentives to promote regional growth:													
Extend and modify the NMTC	–14	–72	–184	–306	–397	–465	–513	–528	–466	–310	–129	–1,424	–3,370

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Designate Growth Zones [1]	....	....	–577	–1,048	–990	–934	–886	–119	518	477	409	–3,549	–3,150
Restructure assistance to New York City, provide tax incentives for transportation infrastructure	....	–200	–200	–200	–200	–200	–200	–200	–200	–200	–200	–1,000	–2,000
Modify tax-exempt bonds for Indian tribal governments	....	–2	–4	–8	–11	–15	–19	–24	–27	–31	–35	–40	–176
Allow current refundings of State and local governmental bonds [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Reform and expand the LIHTC	–1	–5	–17	–35	–55	–76	–98	–119	–142	–165	–191	–188	–903
Total, incentives to promote regional growth	–15	–279	–982	–1,597	–1,653	–1,690	–1,716	–990	–317	–229	–146	–6,201	–9,599
Continue certain expiring provisions through calendar year 2013 [1, 2]	–5,414	–13,723	–9,295	–1,066	–541	–259	–209	–238	–278	–354	–394	–24,884	–26,357
Upper-income tax provisions:													
Sunset the Bush tax cuts for those with income in excess of $250,000 ($200,000 if single):													
Reinstate the limitation on itemized deductions for upper-income taxpayers	....	4,374	9,144	10,038	11,066	12,118	13,149	14,171	15,207	16,285	17,433	46,740	122,985
Reinstate the personal exemption phaseout for upper-income taxpayers	....	1,510	3,173	3,450	3,745	4,083	4,429	4,793	5,169	5,574	6,016	15,961	41,942
Reinstate the 36-percent and 39.6-percent rates for upper-income taxpayers	....	23,101	32,492	35,507	39,133	42,744	46,268	49,839	53,509	57,394	61,567	172,977	441,554
Tax qualified dividends as ordinary income for upper-income taxpayers	....	21,537	10,483	15,624	20,183	22,269	22,529	22,776	23,085	23,615	24,314	90,096	206,415
Tax net long-term capital gains at a 20-percent rate for upper-income taxpayers	....	5,811	–4,226	–1,718	2,286	4,681	5,141	5,484	5,822	6,165	6,520	6,834	35,966
Subtotal, sunset the Bush tax cuts for those with income in excess of $250,000 ($200,000 if single) [4]	....	56,333	51,066	62,901	76,413	85,895	91,516	97,063	102,792	109,033	115,850	332,608	848,862
Reduce the value of certain tax expenditures	....	27,096	43,935	47,457	51,764	57,015	62,263	66,736	71,195	75,899	80,837	227,267	584,197
Total, upper-income tax provisions	....	83,429	95,001	110,358	128,177	142,910	153,779	163,799	173,987	184,932	196,687	559,875	1,433,059
Modify estate and gift tax provisions:													
Restore the estate, gift and GST tax parameters in effect in 2009	103	150	8,552	9,851	10,791	11,828	12,970	14,191	15,458	16,856	18,150	41,172	118,797
Require consistency in value for transfer and income tax purposes	....	149	165	172	182	192	204	217	230	244	259	860	2,014
Modify rules on valuation discounts	....	766	1,422	1,516	1,626	1,748	1,889	2,038	2,189	2,354	2,531	7,078	18,079
Require a minimum term for GRATs	....	40	85	144	206	273	347	426	509	599	705	748	3,334
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Coordinate certain income and transfer tax rules applicable to grantor trusts	....	22	31	39	50	65	82	105	133	169	214	207	910
Extend the lien on estate tax deferrals provided under section 6166	2	5	9	13	16	17	18	19	20	21	22	60	160
Total, modify estate and gift tax provisions	105	1,132	10,264	11,735	12,871	14,123	15,510	16,996	18,539	20,243	21,881	50,125	143,294
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income of foreign subsidiaries	....	3,487	5,926	6,156	6,420	6,693	3,436	1,215	1,258	1,306	1,356	28,682	37,253
Determine the foreign tax credit on a pooling basis	....	3,211	5,457	5,668	5,911	6,163	6,403	6,630	6,865	7,128	7,399	26,410	60,835
Tax currently excess returns associated with transfers of intangibles offshore	....	1,498	2,653	2,621	2,550	2,460	2,375	2,290	2,231	2,178	2,117	11,782	22,973
Limit shifting of income through intangible property transfers	....	28	62	88	115	143	172	203	235	269	308	436	1,623
Disallow the deduction for non-taxed reinsurance premiums paid to affiliates	....	111	211	229	241	248	260	274	274	290	311	1,040	2,449
Limit earnings stripping by expatriated entities	....	222	382	401	421	442	464	487	512	537	564	1,868	4,432
Modify tax rules for dual capacity taxpayers	....	530	912	965	1,023	1,081	1,139	1,192	1,245	1,301	1,336	4,511	10,724
Tax gain from the sale of a partnership interest on look-through basis	....	158	218	229	240	252	265	278	292	307	322	1,097	2,561
Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment	....	175	298	310	323	337	350	362	375	389	404	1,443	3,323
Extend section 338(h)(16) to certain asset acquisitions	....	60	100	100	100	100	100	100	100	100	100	460	960
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated	....	10	20	27	36	46	50	50	50	50	50	139	389
Total, reform U.S. international tax system	....	9,490	16,239	16,794	17,380	17,965	15,014	13,081	13,437	13,855	14,267	77,868	147,522

Table 15–3. EFFECT OF PROPOSALS—Continued
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Reform treatment of financial and insurance industry institutions and products:													
Impose a financial crisis responsibility fee	....	....	3,252	6,462	6,506	6,784	7,058	7,317	7,652	7,982	8,329	23,004	61,342
Require accrual of income on forward sale of corporate stock	....	4	11	18	26	34	38	40	42	44	46	93	303
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	37	152	240	254	270	286	303	321	341	361	383	1,202	2,911
Modify the definition of “control” for purposes of section 249	3	11	17	17	18	19	20	21	22	23	24	82	192
Modify rules that apply to sales of life insurance contracts	....	14	38	46	58	70	84	99	115	133	154	226	811
Modify proration rules for life insurance company general and separate accounts	....	461	788	776	808	840	846	840	805	788	754	3,673	7,706
Expand pro rata interest expense disallowance for COLI	....	21	67	173	260	411	620	856	1,216	1,628	2,058	932	7,310
Total, reform treatment of financial and insurance industy institutions and products	40	663	4,413	7,746	7,946	8,444	8,969	9,494	10,193	10,959	11,748	29,212	80,575
Eliminate fossil fuel preferences:													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	3,490	2,398	1,867	1,760	1,453	1,012	709	508	388	317	10,968	13,902
Repeal deduction for tertiary injectants	....	7	11	11	11	11	10	10	10	10	9	51	100
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	9	11	10	9	8	8	7	7	7	6	47	82
Repeal percentage depletion for oil and natural gas wells	....	612	1,046	1,083	1,122	1,166	1,206	1,242	1,274	1,329	1,385	5,029	11,465
Increase geological and geophysical amortization period for independent producers to seven years	....	61	225	339	310	226	146	68	15	3	7	1,161	1,400
Subtotal, eliminate oil and gas preferences	....	4,179	3,691	3,310	3,212	2,864	2,382	2,036	1,814	1,737	1,724	17,256	26,949
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	26	44	46	48	50	50	48	46	43	39	214	440
Repeal percentage depletion for hard mineral fossil fuels	....	185	177	172	168	168	170	174	175	176	179	870	1,744
Repeal capital gains treatment for royalties	....	11	25	31	38	43	47	51	55	58	63	148	422
Subtotal, eliminate coal preferences	....	222	246	249	254	261	267	273	276	277	281	1,232	2,606
Total, eliminate fossil fuel tax preferences [5]	....	4,401	3,937	3,559	3,466	3,125	2,649	2,309	2,090	2,014	2,005	18,488	29,555
Other revenue changes and loophole closers:													
Levy a fee on the production of hardrock minerals to restore abandoned mines	....	....	200	200	200	200	200	200	200	200	200	800	1,800
Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes [2]	....	55	72	72	72	73	75	74	75	75	74	344	717
Reinstate Superfund taxes [2]	....	1,445	2,086	2,036	1,955	2,113	2,193	2,247	2,265	2,281	2,337	9,635	20,958
Make UI surtax permanent [2]	....	974	1,363	1,386	1,410	1,435	1,454	1,466	1,475	1,486	1,487	6,568	13,936
Provide short-term tax relief to employers and expand FUTA base [2]	....	–2,990	–3,634	7,856	9,862	8,941	8,752	5,472	4,407	5,043	4,134	20,035	47,843
Expand STC unemployment program [2]	....	46	42	–39	–58	–102	–179	–233	–37	37	–68	–111	–591
Expand Federal unemployment benefits and invest in program integrity [2]	–2	–6	–6	–7	–10	–16	–421	–130	–32	–51	–50	–45	–729
Repeal LIFO method of accounting for inventories	....	....	5,535	8,834	8,399	8,376	8,782	8,738	8,338	8,421	8,359	31,144	73,782
Repeal lower-of-cost-or-market inventory accounting method	....	....	930	5,638	2,315	1,520	1,347	305	320	334	350	10,403	13,059
Eliminate special depreciation rules for purchases of general aviation passenger aircraft	....	54	174	268	304	357	376	278	162	119	114	1,157	2,206
Repeal gain limitation for dividends received in reorganization exchanges	....	48	81	84	86	89	92	94	97	100	103	388	874
Tax carried (profits) interests as ordinary income	....	1,287	1,935	1,918	1,703	1,426	1,165	1,106	1,171	1,017	768	8,269	13,496

Table 15–3. EFFECT OF PROPOSALS—Continued
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Expand the definition of built-in loss for purposes of partnership loss transfers	....	....	6	6	7	7	7	7	8	8	8	26	64
Extend partnership basis limitation rules to nondeductible expenditures	....	6	67	74	83	89	94	97	100	105	111	319	826
Limit the importation of losses under section 267(d)	....	5	63	69	77	82	87	90	94	97	103	296	767
Deny deduction for punitive damages	....	....	24	35	35	36	36	37	37	39	40	130	319
Eliminate the deduction for contributions of conservation easements on golf courses	3	37	51	53	55	59	61	64	68	71	74	255	593
Total, other revenue changes and loophole closers	1	961	8,989	28,483	26,495	24,685	24,121	19,912	18,748	19,382	18,144	89,613	189,920
Reduce the tax gap and make reforms:													
Expand information reporting:													
Require information reporting for private separate accounts of life insurance companies	....	....	1	1	1	1	1	1	1	1	2	4	10
Require a certified TIN from contractors and allow certain withholding	....	28	65	110	151	158	165	172	180	188	196	512	1,413
Subtotal, expand information reporting	....	28	66	111	152	159	166	173	181	189	198	516	1,423
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	....	4	5	6	6	6	7	7	8	8	8	27	65
Increase certainty with respect to worker classification	6	15	247	621	782	872	966	1,062	1,162	1,267	1,378	2,537	8,372
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate special rules modifying the amount of estimated tax payments by corporations	–300	300	–54,700	5,600	46,350	2,750	....	–5,600	5,600	....	....	300	300
Subtotal, improve compliance by businesses	–294	319	–54,448	6,227	47,138	3,628	973	–4,531	6,770	1,275	1,386	2,864	8,737
Strengthen tax administration:													
Streamline audit and adjustment procedures for large partnerships	....	50	221	105	128	161	192	210	214	216	217	665	1,714
Revise offer-in-compromise application rules	....	2	2	2	2	2	2	2	2	2	2	10	20
Expand IRS access to information in the NDNH for tax administration purposes	....	....	....	....	....	....	....	....	....	....	....	....	....
Make repeated willful failure to file a tax return a felony	....	....	....	....	1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions	....	....	....	1	1	1	1	1	1	1	1	3	8
Extend statute of limitations where State adjustment affects Federal tax liability	....	....	....	....	1	4	4	4	4	4	4	5	25
Improve investigative disclosure statute	....	....	....	....	1	1	1	1	2	2	2	2	10
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code	....	....	....	....	....	....	....	....	....	....	....	....	....
Allow the IRS to absorb credit and debit card processing fees for certain tax payments	....	1	2	2	2	2	2	2	2	2	2	9	19
Improve and make permanent the provision authorizing the IRS to disclose certain return information to certain prison officials	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend IRS math error authority in certain circumstances [1]	....	7	17	17	16	17	18	19	20	20	22	74	173
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	1	1	1	1	2	2	2	2	10
Subtotal, strengthen tax administration	....	60	242	127	153	190	222	241	249	251	254	772	1,989
Total, reduce the tax gap and make reforms	–294	407	–54,140	6,465	47,443	3,977	1,361	–4,117	7,200	1,715	1,838	4,152	12,149
Simplify the tax system:													
Simplify the rules for claiming the EITC for workers without qualifying children [1]	....	–41	–553	–563	–572	–582	–589	–598	–608	–619	–630	–2,311	–5,355
Eliminate MRD requirements for IRA/plan balances of $75,000 or less	....	–4	–8	–12	–18	–25	–34	–44	–56	–70	–84	–67	–355

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Allow all inherited plan and IRA accounts to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Clarify exception to recapture of unrecognized gain on sale of stock to an ESOP	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal non-qualified preferred stock designation	....	30	49	49	48	45	42	37	33	29	26	221	388
Repeal preferential dividend rule for publicly offered REITs	....	....	....	....	....	....	....	....	....	....	....	....	....
Reform excise tax based on investment income of private foundations	....	–4	–4	–5	–5	–5	–5	–6	–6	–7	–7	–23	–54
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer	....	....	....	....	....	....	....	....	....	....	....	....	....
Simplify arbitrage investment restrictions	....	–2	–10	–18	–28	–38	–46	–58	–68	–76	–87	–96	–431
Simplify single-family housing mortgage bond targeting requirements	....	....	....	....	–1	–1	–1	–3	–3	–3	–3	–2	–15
Streamline private business limits on governmental bonds	....	–1	–4	–5	–8	–9	–12	–15	–16	–19	–21	–27	–110
Total, simplify the tax system	....	–22	–530	–554	–584	–615	–645	–687	–724	–765	–806	–2,305	–5,932
User fees:													
Reform inland waterways funding [2]	....	82	113	113	113	113	113	113	113	113	114	534	1,100
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	14	14	14	14	14	70	140
Establish a mandatory surcharge for air traffic services [2]	....	647	668	692	719	744	767	783	798	813	829	3,470	7,460
Reauthorize special assessment on domestic nuclear utilities	....	200	204	208	212	217	221	226	231	235	240	1,041	2,194
Total, user fees	....	943	999	1,027	1,058	1,088	1,115	1,136	1,156	1,175	1,197	5,115	10,894
Trade initiative:													
Establish ROZs [2]	....	–1	–5	–8	–12	–19	–25	–30	–33	–36	–38	–45	–207
Other initiatives:													
Increase employee contributions to CSRS and FERS	....	899	1,805	2,752	2,840	2,938	3,041	3,140	3,242	3,347	3,452	11,234	27,456
Authorize BEP to conduct a coupon program to distribute electronic currency readers	....	53	12	12	12	13	13	13	14	14	14	102	170
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state-residents	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate certain reviews conducted by the U.S. TIGTA	....	....	....	....	....	....	....	....	....	....	....	....	....
Modify indexing to prevent deflationary adjustments	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, other initiatives	....	952	1,817	2,764	2,852	2,951	3,054	3,153	3,256	3,361	3,466	11,336	27,626
Total, effect of proposals	**–123,257**	**17,125**	**58,039**	**163,548**	**219,124**	**188,478**	**191,346**	**189,442**	**209,994**	**217,187**	**228,110**	**646,314**	**1,682,393**

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Provide a temporary 10-percent tax credit for new jobs and wage increases	....	615	....	....	....	....	....	....	....	....	....	615	615
Reform and extend Build America Bonds	105	607	1,610	2,854	4,185	5,614	7,127	8,703	10,331	12,019	13,973	14,870	67,023
Extend AOTC	....	....	5,940	6,018	6,477	6,494	6,950	7,041	7,538	7,649	8,210	24,929	62,317
Provide for automatic enrollment in IRAs, including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs	....	....	140	218	220	225	231	234	238	244	247	803	1,997
Expand EITC for larger families	....	71	1,429	1,462	1,481	1,515	1,539	1,569	1,599	1,629	1,657	5,958	13,951
Expand child and dependent care tax credit	....	....	314	324	337	346	359	369	375	384	391	1,321	3,199
Extend and modify certain energy incentives	1,147	178	706	209	95	65	....	....	....	....	....	1,253	1,253
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	34	73	120	147	134	113	95	82	74	67	53	587	958
Designate Growth Zones	....	....	23	24	27	27	29	....	....	....	....	101	130
Continue certain expiring provisions through calendar year 2013	97	455	595	....	....	....	....	....	....	....	....	1,050	1,050

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Extend IRS math error authority in certain circumstances	....	–4	–9	–9	–9	–9	–10	–10	–11	–11	–12	–40	–94
Simplify the rules for claiming the EITC for workers without qualifying children	....	24	486	495	503	512	518	526	535	545	554	2,020	4,698
Total, outlay effects of receipt proposals	1,383	2,019	11,354	11,742	13,450	14,902	16,838	18,514	20,679	22,526	25,073	53,467	157,097

[2] Net of income offsets.

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

[4] The Administration also proposes to restore the estate, gift and GST tax parameters in effect in 2009. The total effect on receipts of allowing the Bush tax cuts to expire for upper-income taxpayers is shown below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Sunset the Bush tax cuts for those with income in excess of 250,000 (200,000 if single)	....	56,333	51,066	62,901	76,413	85,895	91,516	97,063	102,792	109,033	115,850	332,608	848,862
Restore the estate, gift and GST tax parameters in effect in 2009	103	150	8,522	9,851	10,791	11,828	12,970	14,191	15,458	16,856	18,150	41,172	118,797
Total effect on receipts of allowing the Bush tax cuts to expire of upper-income taxpayers	103	56,483	59,618	72,752	87,204	97,723	104,486	111,254	118,250	125,889	134,000	373,780	967,659

[5] The Administration also proposes to repeal the domestic manufacturing deduction for oil and gas and other fossil fuel production. The effects of repeal on receipts, which are included in the estimates of the Administration's proposal to target the domestic production activities deduction, are shown below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–17	2013–22
Repeal domestic manufacturing tax deduction for oil and gas production	....	574	986	1,043	1,105	1,169	1,231	1,289	1,346	1,404	1,465	4,877	11,612
Repeal domestic manufacturing tax deduction for coal and other hard mineral fossil fuels	....	13	23	24	26	28	29	30	31	33	34	114	271
Total, effect on receipts of repealing the domestic manufacturing tax deduction for oil and gas and other fossil fuels	....	587	1,009	1,067	1,131	1,197	1,260	1,319	1,377	1,437	1,499	4,991	11,883

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

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Program integrity initiatives:													
Increase levy authority for payments to Medicare providers with delinquent tax debt	16	56	66	68	70	72	74	76	77	78	80	332	717
Implement a program integrity statutory cap adjustment for the IRS	....	421	1,123	2,251	3,455	4,694	5,585	6,200	6,483	6,661	6,779	11,944	43,652
Total, program integrity initiatives	16	477	1,189	2,319	3,525	4,766	5,659	6,276	6,560	6,739	6,859	12,276	44,369

[1] The receipt effect of a spending initiative.

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

Table 15–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2011 Actual	Estimate 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Individual income taxes:												
Federal funds	1,091,473	1,178,790	1,293,749	1,388,648	1,505,513	1,632,600	1,765,884	1,893,793	2,015,168	2,138,956	2,267,410	2,400,909
Legislative proposal, not subject to PAYGO	....	....	–1,142	1,123	2,251	3,454	4,693	5,583	6,198	6,480	6,657	6,775
Legislative proposal, subject to PAYGO	....	–14,140	66,653	86,544	109,617	126,819	141,612	152,378	162,826	173,798	185,314	197,201
Total, Individual income taxes	1,091,473	1,164,650	1,359,260	1,476,315	1,617,381	1,762,873	1,912,189	2,051,754	2,184,192	2,319,234	2,459,381	2,604,885
Corporation income taxes:												
Federal funds:												
Federal funds	181,085	281,230	364,917	458,589	407,370	381,106	443,578	456,860	471,722	469,767	487,683	500,522
Legislative proposal, subject to PAYGO	....	–44,429	–18,032	–30,290	36,494	73,067	28,387	21,377	12,124	22,864	17,679	18,357
Total, Federal funds	181,085	236,801	346,885	428,299	443,864	454,173	471,965	478,237	483,846	492,631	505,362	518,879
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	856	1,296	1,231	1,133	1,273	1,338	1,380	1,388	1,394	1,444
Total, Corporation income taxes	181,085	236,801	347,741	429,595	445,095	455,306	473,238	479,575	485,226	494,019	506,756	520,323
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	483,683	543,053	604,169	634,377	668,558	713,291	754,446	800,805	844,016	884,286	934,726	983,459
Legislative proposal, not subject to PAYGO	....	–53,995	–25,303	....	61	–36	–16	–10	–6	–7	–9	–8
Legislative proposal, subject to PAYGO	....	18	208	288	–1,113	–1,336	–1,192	–1,085	–665	–545	–616	–465
Disability insurance (off-budget)	82,105	92,219	102,595	107,725	113,529	121,126	128,114	135,985	143,323	150,161	158,727	167,003
Legislative proposal, not subject to PAYGO	....	–9,158	–4,293	....	10	–6	–3	–2	–1	–1	–1	–1
Legislative proposal, subject to PAYGO	....	3	35	49	–189	–227	–202	–183	–113	–92	–105	–79
Hospital Insurance	188,490	202,529	213,857	225,700	238,815	256,164	271,870	289,109	304,835	319,223	337,341	355,310
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	–1	–1	–1	–1	–2	–2
Legislative proposal, subject to PAYGO	....	18	86	530	782	958	1,093	1,216	1,426	1,552	1,629	1,773
Railroad retirement:												
Social security equivalent account	1,823	1,978	2,136	2,176	2,237	2,307	2,386	2,462	2,535	2,608	2,680	2,754
Rail pension & supplemental annuity	2,415	2,509	2,679	2,759	2,965	3,087	3,188	3,290	3,385	3,637	3,932	4,075
Total, Employment and general retirement	758,516	779,174	896,169	973,604	1,025,655	1,095,328	1,159,683	1,231,586	1,298,734	1,360,821	1,438,302	1,513,819
(On-budget)	(192,728)	(207,034)	(218,758)	(231,165)	(244,799)	(262,516)	(278,536)	(296,076)	(312,180)	(327,019)	(345,580)	(363,910)
(Off-budget)	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)
Unemployment insurance:												
Deposits by States [1]	49,269	50,083	51,445	52,150	53,149	53,197	51,858	50,022	47,856	48,028	48,830	50,334
Legislative proposal, not subject to PAYGO	....	....	....	–1	–3	–8	–18	–35	–41	–50	–77	–76
Legislative proposal, subject to PAYGO	....	–1	52	316	11,216	11,830	11,120	10,522	8,306	6,900	7,725	6,824
Federal unemployment receipts [1]	6,799	6,847	8,774	9,896	10,113	11,898	10,373	10,391	8,424	8,438	8,819	9,290
Legislative proposal, subject to PAYGO	....	....	–2,521	–3,086	339.000	2,251	1,790	1,594	31	501	582	222
Railroad unemployment receipts [1]	173	209	111	50	99	164	165	119	89	116	157	160
Total, Unemployment insurance	56,241	57,138	57,861	59,325	74,913	79,332	75,288	72,613	64,665	63,933	66,036	66,754
Other retirement:												
Federal employees retirement- employee share	4,005	4,315	4,108	3,948	3,861	3,884	3,977	4,157	4,445	4,891	5,553	6,524
Legislative proposal, subject to PAYGO	....	....	899	1,805	2,752	2,840	2,938	3,041	3,140	3,242	3,347	3,452

Table 15–5. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Non-Federal employees retirement [2]	30	23	20	19	19	19	19	19	19	19	19	19
Total, Other retirement	4,035	4,338	5,027	5,772	6,632	6,743	6,934	7,217	7,604	8,152	8,919	9,995
Total, Social insurance and retirement receipts (trust funds)	818,792	840,650	959,057	1,038,701	1,107,200	1,181,403	1,241,905	1,311,416	1,371,003	1,432,906	1,513,257	1,590,568
(On-budget)	(253,004)	(268,510)	(281,646)	(296,262)	(326,344)	(348,591)	(360,758)	(375,906)	(384,449)	(399,104)	(420,535)	(440,659)
(Off-budget)	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)
Excise taxes:												
Federal funds:												
Alcohol	9,294	9,634	9,663	9,678	9,700	9,868	10,102	10,349	10,605	10,864	11,131	11,403
Legislative proposal, subject to PAYGO	....	–97	–96	–24	....	....	....	....	....	....	....	....
Tobacco	16,685	16,489	16,184	15,887	15,813	15,803	15,760	15,655	15,534	15,369	15,179	15,026
Transportation fuels	–8,644	–4,986	–1,018	–1,017	–1,021	–1,015	–1,027	–1,032	–1,043	–1,046	–1,048	–1,055
Legislative proposal, subject to PAYGO	....	–176	–759	–370	....	....	....	....	....	....	....	....
Telephone and teletype services	930	694	456	280	163	118	109	106	102	100	100	100
High-cost health insurance coverage	....	....	....	....	....	....	....	5,724	20,271	24,433	29,436	35,816
Health insurance providers	....	....	....	7,600	11,135	11,300	13,770	14,280	15,126	16,047	17,024	18,061
Indoor tanning services	99	132	151	163	175	188	201	214	219	221	223	224
Medical devices	....	....	1,861	2,601	2,733	2,835	2,970	3,132	3,303	3,481	3,668	3,865
Other Federal fund excise taxes	540	1,169	2,326	2,436	2,542	2,630	2,717	2,801	2,887	2,969	3,060	3,154
Legislative proposal, subject to PAYGO	....	97	92	20	–4	–4	–4	–4	–5	–5	–6	–6
Total, Federal funds	18,904	22,956	28,860	37,254	41,236	41,723	44,598	51,225	66,999	72,433	78,767	86,588
Trust funds:												
Transportation	36,906	38,714	39,308	40,249	41,175	42,118	43,044	43,834	44,464	45,164	45,956	46,970
Airport and airway	11,532	11,600	11,949	12,406	13,001	13,606	14,182	14,724	15,132	15,532	15,930	16,335
Legislative proposal, subject to PAYGO	....	....	863	889	923	959	993	1,023	1,044	1,064	1,084	1,104
Sport fish restoration and boating safety	593	565	595	625	662	696	736	766	806	836	866	901
Tobacco assessments	932	981	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	623	603	600	595	598	607	615	623	390	293	299	305
Inland waterway	84	92	95	98	101	105	109	113	116	118	121	124
Legislative proposal, subject to PAYGO	....	....	2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal subject to PAYGO)	....	....	787	1,053	1,073	1,097	1,120	1,140	1,156	1,169	1,181	1,192
Oil spill liability	501	508	509	507	509	514	567	584	585	585	583	581
Legislative proposal, subject to PAYGO	....	....	74	96	96	96	99	101	100	101	101	100
Vaccine injury compensation	278	274	283	293	303	310	318	325	334	341	351	361
Leaking underground storage tank	152	178	182	184	188	190	192	195	197	199	201	205
Supplementary medical insurance	1,876	2,944	2,800	2,980	3,000	3,000	3,900	4,090	2,930	2,800	2,800	2,800
Patient-centered outcomes research	....	....	188	384	418	439	467	491	518	548	580	616
Total, Trust funds	53,477	56,459	59,195	61,321	63,009	64,699	67,304	68,971	68,734	69,712	71,015	72,556
Total, Excise taxes	72,381	79,415	88,055	98,575	104,245	106,422	111,902	120,196	135,733	142,145	149,782	159,144
Estate and gift taxes:												
Federal funds	7,399	11,375	11,758	12,756	13,531	14,401	15,311	16,296	17,308	18,313	19,396	20,403
Legislative proposal, subject to PAYGO	....	2	980	10,112	11,537	12,677	13,932	15,322	16,807	18,347	20,047	21,704
Total, Estate and gift taxes	7,399	11,377	12,738	22,868	25,068	27,078	29,243	31,618	34,115	36,660	39,443	42,107
Customs duties and fees:												
Federal funds:												
Federal funds	27,982	29,197	31,912	34,026	35,896	37,464	39,267	41,460	43,608	45,656	47,621	49,744

Table 15–5. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2011 Actual	Estimate 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Legislative proposal, subject to PAYGO	....	....	–167	–311	–11	–16	–25	–33	–40	–44	–48	–51
Total, Federal funds	27,982	29,197	31,745	33,715	35,885	37,448	39,242	41,427	43,568	45,612	47,573	49,693
Trust funds:												
Trust funds	1,537	1,620	1,743	1,870	1,972	2,031	2,126	2,252	2,371	2,480	2,584	2,667
Total, Customs duties and fees	29,519	30,817	33,488	35,585	37,857	39,479	41,368	43,679	45,939	48,092	50,157	52,360
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	415	410	412	413	415	417	418	420	421	423	425	426
Deposit of earnings, Federal Reserve System	82,546	81,339	80,356	61,314	45,758	36,279	35,738	37,519	39,840	42,466	43,370	45,338
Legislative proposal, subject to PAYGO	....	....	53	12	12	12	13	13	13	14	14	14
Transfers from the Federal Reserve	183	432	448	497	554	562	571	579	588	597	606	615
Fees for permits and regulatory and judicial services	12,032	12,736	13,284	29,281	35,096	36,382	35,793	37,024	40,349	44,285	48,162	51,943
Legislative proposal, subject to PAYGO	....	....	214	418	422	426	431	435	440	445	449	454
Fines, penalties, and forfeitures	6,819	8,951	5,835	20,606	29,951	32,326	35,364	37,623	39,579	41,601	43,739	45,946
Refunds and recoveries	–45	–80	–51	–33	–32	–32	–32	–32	–32	–32	–32	–32
Total, Federal funds	101,950	103,788	100,551	112,508	112,176	106,372	108,296	113,581	121,198	129,799	136,733	144,704
Trust funds:												
United Mine Workers of America, combined benefit fund	38	35	32	29	27	25	23	21	16	14	13	5
Defense cooperation	55	223	65	127	127	127	127	127	127	127	127	127
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures	774	843	889	879	866	889	873	901	912	942	964	986
Total, Trust funds	867	1,101	1,066	1,146	1,131	1,152	1,134	1,160	1,166	1,194	1,215	1,230
Total, Miscellaneous receipts	102,817	104,889	101,617	113,654	113,307	107,524	109,430	114,741	122,364	130,993	137,948	145,934
Total, budget receipts	2,303,466	2,468,599	2,901,956	3,215,293	3,450,153	3,680,085	3,919,275	4,152,979	4,378,572	4,604,049	4,856,724	5,115,321
(On-budget)	(1,737,678)	(1,896,459)	(2,224,545)	(2,472,854)	(2,669,297)	(2,847,273)	(3,038,128)	(3,217,469)	(3,392,018)	(3,570,247)	(3,764,002)	(3,965,412)
(Off-budget)	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)

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

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

16. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

I. INTRODUCTION AND BACKGROUND

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

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities, and the spending associated with these activities is included in total or "gross outlays." For 2011, gross outlays to the public were $4,152 billion,[1] or 27.8 percent of gross domestic product (GDP). Offsetting collections and offsetting receipts from the public are subtracted from gross outlays to the public to yield "net outlays," which is the most common measure of outlays cited and generally referred to as simply "outlays." For 2011, net outlays were $3,603 billion or 24.1 percent of GDP. Government-wide net outlays reflect the Government's net disbursements to the public and are subtracted from governmental receipts to derive the Government's surplus or deficit. For 2011, governmental receipts were $2,303 billion or 15.4 percent of GDP and the deficit was $1,300 billion, or 8.7 percent of GDP.

Some offsetting collections and offsetting receipts arise from business-like transactions with the public. Unlike governmental receipts, these offsetting collections and offsetting receipts are not derived from the Government's exercise of its sovereign power. Rather, they arise primarily from voluntary payments from the public for goods or services provided by the Government. For this reason, it is appropriate to classify these offsetting collections and offsetting receipts as offsets to outlays rather than as governmental receipts on the receipts side of the budget.[2] Treating offsetting collections and offsetting receipts as offsets to outlays produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace. Activities that generate offsetting collections and offsetting receipts include the sale of postage stamps, land, timber, oil, electricity, and radio spectrum rights; services provided to the public (e.g., passports and admission to national parks); and premiums for health care benefits (e.g., Medicare Parts B and D).

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

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

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are credited to expenditure accounts, which

[1] Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2011, gross outlays were $5,291 billion. Intragovernmental outlays are outlays associated with transfers from one Government account to another Government account. For 2011, intragovernmental outlays totaled $1,139 billion.

[2] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President's Commission on Budget Concepts* in 1967 and is discussed in Chapter 12 of this volume: "Budget Concepts." Offsetting governmental receipts, which are a subset of offsetting receipts and were $7.6 billion in 2011, result from the Government's exercise of its sovereign power to tax, but by law are required to be subtracted from outlays rather than added to governmental receipts.

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

are accounts from which funds can be spent; offsetting collections credited to expenditure accounts reduce or offset spending at the account level. By contrast, offsetting receipts are credited to receipt accounts (even though they are not recorded as governmental receipts), and receipts accounts are used to record the collection, but not the expenditure, of funds. In some cases, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are "undistributed," which means they reduce total Government outlays, but not the outlays of any particular agency.

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

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

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

(In billions of dollars)

	Actual 2011	Estimate	
		2012	2013
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	66.5	63.5	62.9
Defense Commissary Agency	6.0	6.0	6.1
Employee contributions for employees and retired employees health benefits funds	12.8	13.0	14.0
Sale of energy:			
Tennessee Valley Authority	36.7	35.1	34.7
Bonneville Power Administration	3.2	3.8	4.2
All other user charges	80.0	66.6	117.8
Subtotal, user charges	205.2	188.0	239.6
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	8.4	7.1	7.9
Supplemental Security Income (collections from the States)	3.6	3.5	3.6
Other collections	19.0	8.6	9.4
Subtotal, other collections	30.9	19.1	21.0
Subtotal, offsetting collections	236.1	207.1	260.6
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	63.4	65.3	73.3
Outer Continental Shelf rents, bonuses, and royalties	6.4	7.9	7.0
All other user charges	24.0	25.2	27.4
Subtotal, user charges deposited in receipt accounts	93.7	98.4	107.7
Other collections deposited in receipt accounts:			
Other Medicare collections	0.0	0.0	5.9
Military assistance program sales	23.9	25.5	27.7
Interest received from credit financing accounts	51.7	72.3	75.5
All other collections deposited in receipt accounts	143.6	92.6	63.5
Subtotal, other collections deposited in receipt accounts	219.2	190.4	172.7
Subtotal, offsetting receipts	312.9	288.9	280.4
Total, offsetting collections and offsetting receipts from the public	**549.0**	**496.0**	**541.0**
Total, offsetting collections and offsetting receipts excluding off-budget	482.3	432.4	478.0
ADDENDUM:			
User charges that are offsetting collections or offsetting receipts [1]	298.9	286.4	317.3
Other offsetting collections and offsetting receipts from the public	250.1	209.6	193.6
Total, offsetting collections and offsetting receipts from the public	**549.0**	**496.0**	**541.0**

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

Table 16–2 OFFSETTING RECEIPTS BY TYPE SUMMARY

(In millions of dollars)

Receipt Type	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
Intragovernmental Receipts:[1]							
Interfund	751,143	779,378	745,744	722,003	746,862	787,340	819,342
Intrafund	44,086	43,856	37,492	43,947	46,490	50,895	50,388
Total Intragovernmental	795,229	823,234	783,236	765,950	793,352	838,235	869,730
Receipts from Non-Federal Sources:							
Proprietary	305,289	280,159	270,004	282,307	285,775	288,421	294,180
Offsetting Governmental	7,647	8,691	10,363	15,274	18,524	16,869	13,140
Total Non-Federal Sources	312,936	288,850	280,367	297,581	304,299	305,290	307,320
Total Offsetting Receipts	1,108,165	1,112,084	1,063,603	1,063,531	1,097,651	1,143,525	1,177,050

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

with the public that are not evident from the commonly cited budget measure of (net) outlays. For 2013, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $541.0 billion or 3.6 percent of GDP. Of these, an estimated $260.6 billion are offsetting collections and an estimated $280.4 billion are offsetting receipts. Table 16–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

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

Tables 16–2 (above) and 16-5 (located at the end of this chapter) provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 16–1) and intragovernmental transactions.[4] In total, offsetting receipts are estimated to be $1,063.6 billion in 2013: $783.2 billion are from intragovernmental transactions and $280.4 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($270.0 billion) and those classified as offsetting receipts by law or long-standing practice ($10.4 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions with the public such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses and, absent a specification in law or a long-standing practice, would otherwise have been classified on the receipts side of the budget.

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

II. USER CHARGES

User charges or user fees[5] refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. Laws that authorize user charges, in combination with budget concepts, determine whether a user charge is classified as an offsetting collection, an offsetting receipt, or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; only 1.3 to 1.4 percent of user charges are classified as governmental receipts. As summarized in Table 16-3, total user charges for 2013 are estimated to be $352.3 billion with $347.3 billion being offsetting collections or offsetting receipts, and accounting for more than half of all offsetting collections and offsetting receipts from the public.

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

Examples of business-type or market-oriented user charges and regulatory and licensing user charges include those charges listed above for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest and dividends, and also exclude payments from one part of the Federal Government to another. In addition,

[5] In this chapter, the term “user charge” is generally used and has the same meaning as the term “user fee.” The term “user charge” is the one used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 12 of this volume, “Budget Concepts.” In common usage, the terms “user charge” and “user fee” are often used interchangeably; and in *A Glossary of Terms Used in the Federal Budget Process*, GAO provides the same definition for both terms.

user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline) or customs duties, fines, penalties, or forfeitures.

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

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

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

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

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

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

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

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

(In billions of dollars)

	Actual 2011	Estimate	
		2012	2013
Gross outlays to the public	4,152.1	4,291.5	4,344.3
Offsetting collections and offsetting receipts from the public:			
User charges [1]	298.9	286.4	347.3
Other	250.1	209.6	193.6
Subtotal, offsetting collections and offsetting receipts from the public	549.0	496.0	541.0
Net outlays	3,603.1	3,795.5	3,803.4

[1] Total user charges for 2011 were $302.7 billion, with only 3.8 billion classified as governmental receipts. Total user charges for 2012 and 2013 are estimated to be $290.1 billion and $352.3 billion, respectively, with only $3.7 billion and $5.0 billion classified as governmental receipts, respectively.

to which a fee can be easily administered must be considered. For example, if fees are charged for entering or using Government-owned land then there must be clear points of entry onto the land and attendants patrolling and monitoring the land's use.

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

Classification of user charges in the budget. As shown in the note to Table 16-3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $5.0 billion in 2013 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Governmental Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Therefore, conceptually they should be classified as governmental receipts, and, unlike in a number of other cases, there is not a long-standing practice or specification in law to classify them as offsetting receipts. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated $347.3 billion in 2013, are classified as offsetting collections and offsetting receipts on the spending side of the budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

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

III. USER CHARGE PROPOSALS

As shown in Table 16–1 above, an estimated $239.6 billion of user charges for 2013 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated $107.7 billion of user charges for 2013 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 16-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $3.2 billion in 2013 and an average of $17.0 billion per year from 2014–22. These amounts are offsetting collections, offsetting receipts, and governmental receipts only; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Budget Enforcement Act of 1990 as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees. These and other terms are discussed further in this volume in Chapter 12, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Defense (DoD)

TRICARE pharmacy benefit co-payments increase. To encourage the use of less expensive mail order pharmacies and military treatment facility pharmacies, the Budget includes a proposal to phase in over 10 years increases in fixed fee prescription drug co-payments for active duty families and all retirees regardless of the age of the beneficiary. The increased fees from active duty military families and under age 65 retirees and their families would yield discretionary savings in the Defense Health Program of $179 million in 2013 and $5.3 billion over the 10-year budget horizon. The increased fees from the over age 65 retirees and their families would reduce accrual costs by $979 million in 2013 and $12.5 billion over the 10-year budget horizon; these costs are classified as discretionary and result in reduced contributions to the Medicare Eligible Retiree Health Care Fund (MERHCF). In addition, the increased fees from over age 65 retirees and their families would yield $10.5 billion in mandatory savings in the MERHCF over the 10-year budget horizon and $0.1 in mandatory savings for Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

TRICARE Prime enrollment fee increase, Standard / Extra annual enrollment fee, and deductible / catastrophic cap adjustments. The Budget includes a proposal (1) to phase in increases in Prime enrollment fees, slight increases in deductibles, and adjustments to the catastrophic cap, and (2) to impose new annual fees on Standard and Extra enrollees. The Prime fee increases would be phased in over four years and based on the amount of beneficiary retired pay. The new annual Standard/Extra fees would be phased in over five years, but not based on retired pay. The fee adjustments would apply only to retirees under age 65 and their family members and together with the deductible increases and cap adjustments would generate savings in the Defense Health Program of $273 million in

Table 16–4. USER CHARGE PROPOSALS IN THE FY 2013 BUDGET [1]

(Estimated collections in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–2017	2013–2022
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. Offsetting collections													
Department of Defense													
TRICARE pharmacy benefit co-payments increase	....	179	304	361	418	475	550	624	700	791	893	1,737	5,295
TRICARE Prime enrollment fee increase, Standard/Extra annual enrollment fee, and deductible/catastrophic cap adjustments	....	273	548	775	1,003	1,175	1,331	1,481	1,649	1,849	2,057	3,774	12,141
Department of Health and Human Services													
Food and Drug Administration (FDA): Generic drug review activities fees [2]	....	299	318	339	361	385	410	436	465	495	527	1,702	4,035
FDA: Biosimilar review fee [2]	....	20	22	23	24	26	28	29	31	33	36	115	272
FDA: Reinspection fee for medical products	....	15	15	16	17	18	18	19	20	21	22	81	181
FDA: Food facilities registration and inspection fees	....	220	230	240	251	263	274	287	300	313	327	1,204	2,705
FDA: International courier fees	....	6	6	6	6	7	7	7	8	8	8	31	69
FDA: Cosmetic facility registration fees	....	19	20	20	21	22	23	24	25	27	28	102	229
FDA: Food contract substances fee	....	5	5	5	6	6	6	6	7	7	7	27	60
Health Resources and Services Administration: 340B Pharmacy Affairs fee	....	6	6	6	6	6	6	6	6	6	6	30	60
Substance Abuse and Mental Health Services Administration: Data request and publication request fee	....	2	2	2	2	2	2	2	2	2	2	10	20
Department of Homeland Security													
Transportation Security Administration (TSA): Aviation passenger security fee increase	....	117	480	574	687	805	927	946	966	985	1,005	2,663	7,492
Customs and Border Protection: Inspection services fee	....	25	25	26	26	27	27	27	28	29	29	129	269
Department of the Interior													
Bureau of Satefy and Environmental Enforcement (BSEE): Outer Continental Shelf oil and gas lease inspection fee increase	....	3	3	3	3	3	3	3	3	3	3	15	30
Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees	....	48	48	48	48	48	48	48	48	48	48	240	480
BLM: Grazing administrative processing fee	....	7	9	9	....	....	....	....	....	....	....	25	25
Department of Labor													
Mine Safety and Health Administration: Rock dust analysis fee	....	....	*	2	2	2	2	2	2	2	2	6	16
Employment and Training Administration (ETA): National Agricultural Workers Survey fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of State													
Western Hemisphere Travel Initiative surcharge extension	....	305	....	....	....	....	....	....	....	....	....	305	305
Border Crossing Card fee increase	....	17	17	17	17	17	17	17	17	17	17	85	170
Department of Transportation													
Federal Railroad Administration: Railroad safety inspection fee	....	80	185	188	191	194	198	202	206	211	215	838	1,870
Environmental Protection Agency													
Energy Star product fees	....	....	5	5	5	5	5	5	5	5	5	20	45
2. Offsetting receipts													
Department of Transportation:													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees	....	4	....	....	....	....	....	....	....	....	....	4	4
PHMSA: Hazardous materials special permits and approvals fees	....	12	12	12	12	13	13	13	14	14	14	61	129
Subtotal, discretionary user charge proposals	....	1,663	2,261	2,678	3,107	3,500	3,896	4,185	4,503	4,867	5,252	13,209	35,912
MANDATORY:													
Offsetting collections													
Department of Agriculture													
Biobased labeling fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of Defense													
TRICARE pharmacy benefit co-payment increase [3]	....	256	335	542	678	936	1,131	1,335	1,575	1,865	1,993	2,747	10,646
TRICARE-For-Life enrollment fee	....	141	287	436	586	627	672	716	764	816	872	2,077	5,917

Table 16–4. USER CHARGE PROPOSALS IN THE FY 2013 BUDGET [1]—Continued

(Estimated collections in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–2017	2013–2022
Department of Homeland Security													
Federal Emergency Management Agency: National Flood Insurance Program reform	....	45	119	225	335	483	649	704	778	834	909	1,207	5,081
TSA: Aviation passenger security fee increase	....	200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,417	6,374	17,999
Department of Labor													
Pension Benefit Guaranty Corporation: Premium increases	....	....	81	1,828	2,275	2,316	2,067	1,713	1,616	1,874	2,210	6,500	15,980
Offsetting receipts													
Department of Agriculture													
Food Safety and Inspection Service: User charges	....	13	13	13	13	13	13	13	13	13	13	65	130
Grain, Inspection, Packers, and Stockyards Administration: User charges	....	27	27	27	27	27	27	27	27	27	27	135	270
Animal and Plant Health Inspection Service: User charges	....	20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service: User charges	....	22	22	22	22	22	22	22	22	22	22	110	220
Department of Health and Human Services													
Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D	....	....	....	....	....	1,430	2,220	2,600	5,137	7,087	9,098	1,430	27,572
CMS: Medicare Part B premium surcharge	....	....	....	....	....	80	200	330	480	640	800	80	2,530
Department of the Interior													
BSEE and BLM: Fee on non-producing Federal oil and gas leases	....	13	29	42	55	67	82	99	115	132	149	206	783
BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds	....	....	18	18	....	....	....	....	....	....	....	36	36
BLM: Reform of Hardrock Mineral Production on Federal Lands	....	....	2	4	5	5	6	6	11	17	24	16	80
Department of Labor													
ETA: Foreign labor certification fee	....	3	18	18	18	18	18	18	18	18	18	75	165
Environmental Protection Agency													
Pesticide user charges	....	73	80	87	89	93	96	99	102	106	108	422	933
Premanufacture notice user charges	....	4	8	8	8	8	8	8	8	8	8	36	76
Hazardous waste electronic manifest system	....	....	....	6	4	3	3	3	3	3	3	13	28
Federal Communications Commission													
Wireless Innovation and Infrastructure Initiative	....	–429	3,570	7,719	5,045	929	–1,132	–162	419	–4	224	16,834	16,179
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Subtotal, mandatory user charge proposals	50	589	6,076	12,858	11,414	9,587	8,898	10,392	13,995	16,412	19,480	40,524	109,701
Subtotal, user charge proposals that are offsetting collections and offsetting receipts	50	2,252	8,337	15,536	14,521	13,087	12,794	14,577	18,498	21,279	24,732	53,733	145,613
GOVERNMENTAL RECEIPTS													
Department of Energy													
Reauthorize special assessment on domestic nuclear facilities	....	200	204	208	212	217	221	226	231	235	240	1,041	2,194
Department of the Interior													
Migratory bird hunting and conservation stamp fees	....	14	14	14	14	14	14	14	14	14	14	70	140
Department of Transportation:													
Federal Aviation Administration: Mandatory surcharge for air traffic services	....	647	668	692	719	744	767	783	798	813	829	3,470	7,460
Corps of Engineers - Civil Works													
Reform inland waterways funding	....	82	113	113	113	113	113	113	113	113	114	534	1,100
Subtotal, governmental receipts user charge proposals	....	943	999	1,027	1,058	1,088	1,115	1,136	1,156	1,175	1,197	5,115	10,894
Total, user charge proposals	**50**	**3,195**	**9,336**	**16,563**	**15,579**	**14,175**	**13,909**	**15,713**	**19,654**	**22,454**	**25,929**	**58,848**	**156,507**

* Indicates an amount of $500,000 or less.

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

[2] Proposed legislation was transmitted to Congress on January 13, 2012.

[3] Budgetary effects of the fee increase are displayed, which include savings to the Department of Defense due to changes in behavioral assumptions.

2013 and $12.1 billion over the 10-year budget horizon. The catastrophic cap adjustments include indexing the cap and excluding all enrollment fees from the cap.

Department of Health and Human Services

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

FDA: Biosimilar review fee. The Affordable Care Act established a new regulatory pathway for generic biologics, also known as biosimilars, to be approved and authorized the FDA to work with the industry to develop a new fee program. The Budget includes a proposal for a new fee to support FDA's biosimilar review activities, thereby allowing the public to benefit from affordable and lifesaving biosimilar products.

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

FDA: Food facilities registration and inspection fees. This proposed fee finances activities that support the safety and security of America's food supply and help meet the requirements of the FDA Food Safety Modernization Act.

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

FDA: Cosmetic facility registration fees. FDA promotes the safety of cosmetics and other health and beauty products. The Budget includes a new facility registration fee for cosmetic and other health and beauty product facilities that will improve FDA's capacity to promote greater safety and understanding of these products.

FDA: Food contact substances fee. Food contact substances include components of food packaging and food processing equipment that come in contact with food. This new fee will allow FDA to promote greater safety and understanding of the products that come into contact with food when used.

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

Substance Abuse and Mental Health Services Administration: Data request and publication request fee. This new fee will allow SAMHSA to perform special data analysis and material publication services for entities that are not current grantees.

Department of Homeland Security

Transportation Security Administration (TSA): Aviation passenger security fee increase. Since its establishment in 2001, under the Aviation and Transportation Security Act, the aviation passenger security fee has been limited to $2.50 per passenger enplanement with a maximum fee of $5.00 per one-way trip. This fee covers less than half of TSA's aviation security costs, which have risen over the years while the fee has remained the same. The Budget proposes to replace the current "per-enplanement" fee structure with a "per one-way trip" fee structure so that passengers pay the fee only one time when traveling to their destination. It also removes the current statutory fee limit and replaces it with a statutory fee minimum of $5.00 in 2013, with annual incremental increases of 50 cents from 2014 to 2018, resulting in a fee of $7.50 in 2018 and thereafter. The proposed fee would increase collections by an estimated $25.5 billion over 10 years. Of this amount, $7.5 billion will be applied to increase offsets to the discretionary costs of aviation security and the remaining $18 billion will be treated as mandatory savings and deposited in the general fund for deficit reduction.

Customs and Border Protection (CBP): Inspection services fee. The Budget includes a proposal to allow the Commissioner of Customs and Border Protection (CBP) to approve requests from interested parties to reimburse CBP for enhanced inspectional services. Under current law, 19 U.S.C. 58b, CBP is authorized to receive reimbursement only if the Secretary of Homeland Security determines that the volume or value of business cleared through the facility at issue is insufficient to justify the availability of CBP services and if the governor of the State in which the facility is located approves such designation. The proposed legislation would authorize CBP to (1) receive reimbursement from corporations, government agencies, and other interested parties for inspection services in the air, land and sea environments at both the domestic and foreign locations; (2) receive reimbursement at international and landing rights airports that already receive inspection services; and (3) collect reimbursable expenses including salaries, benefits, temporary duty costs, relocation and, as applicable, housing, infrastructure, equipment and training. This would allow CBP to provide services to requesting parties that it could not provide in the absence of reimbursement.

Department of the Interior

Bureau of Safety and Environmental Enforcement (BSEE): Outer Continental Shelf (OCS) oil and gas lease inspection fee. The Budget continues 2012 appropriations language to charge OCS inspection fees on oil and gas facilities that are subject to inspection by BSEE. The fees are based on the frequency and complexity of certain categories of inspections, with fees charged for drilling rigs, which are now subject to enhanced oversight based on lessons learned in the aftermath of the BP Deepwater Horizon oil spill. The overall cost of maintaining and overseeing the OCS inspection program has increased due to the need for greater oversight of industry operations. In addition, inspection costs rise as companies extend oil and gas exploration and production efforts into deeper waters; additional miles must be flown, aircraft requirements increase, and the time for travel and inspection increases as facilities become increasingly complex. The proposed fees will generate approximately $65 million in 2013, up from $62 million in 2012, thereby requiring OCS energy developers, rather than taxpayers, to cover roughly the full cost of compliance inspections.

Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees. The Budget includes appropriations language to charge inspection fees to oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends more than $40 million on managing the compliance inspection program. Inspection costs include, among other things, the salaries and travel expenses of inspectors. In 2013, the Budget proposes a $10 million increase in funding to strengthen the BLM inspections and enforcement program, with these costs to be offset by higher fees on industry users. In addition, in 2013, the Budget proposes to charge industry users fees to offset $38 million in existing inspection and enforcement program costs, resulting in a $38 million reduction in general fund appropriations for BLM. The proposed fees will generate approximately $48 million in 2013, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

BLM: Grazing administrative processing fee. The Budget includes appropriations language for a three-year pilot project to allow BLM to recover some of the costs of issuing grazing permits/leases on BLM lands. BLM would charge a fee of $1 per Animal Unit Month, which would be collected along with current grazing fees. The fee would allow BLM to address pending applications for grazing permit renewals. BLM would promulgate regulations for the continuation of the grazing administrative fee as a cost recovery fee after the pilot expires.

Department of Labor

Mine Safety and Health Administration (MSHA): Rock dust analysis fee. MSHA conducts rock dust sampling and analyses to determine whether mines are in compliance with regulations intended to prevent the build-up of combustible dust. The Administration proposes to establish a fee on mine operators to fund these activities.

Employment and Training Administration (ETA): National Agricultural Workers Survey fee. ETA conducts the National Agricultural Workers Survey, which collects information annually about the demographic, employment, and health characteristics of the U.S. crop labor force. The information is obtained directly from farm workers through face-to-face interviews. The Administration proposes to charge non-Federal entities on a case-by-case basis the cost of conducting specifically requested data collection or analysis. For example, State and local governments, educational institutions, or non-profit organizations may pay a fee to fund the addition of a question to the standard survey.

Department of State

Western Hemisphere Travel Initiative surcharge extension. The Administration proposes to extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge for one year, through September 30, 2013. The surcharge was initially enacted by the Passport Services Enhancement Act of 2005 (P.L. 109–167) to cover the Department's costs of meeting increased demand for passports, which resulted from the implementation of the Western Hemisphere Travel Initiative.

Border Crossing Card fee increase. The Budget includes a proposal to increase certain Border Crossing Card (BCC) fees. The proposal would allow the fee charged for BCC minor applicants to be set administratively rather than statutorily. Administrative fee setting will allow the fee charged BCC applicants to better reflect the associated cost of service, similar to other fees charged for consular services. The proposal would set the BCC fee for minors equal to one half the fee for adults by amending current law, which sets the fee at $13. Annual BCC fee collections are projected to increase by $17 million (from $4 million to $21 million) per year beginning in 2013 as a result of this change.

Department of Transportation

Federal Railroad Administration (FRA): Railroad safety inspection fee. The FRA establishes and enforces safety standards for U.S. railroads. FRA's rail safety inspectors work in the field and oversee railroads' operating and management practices. The Administration is proposing that, starting in 2013, the railroads cover the cost of FRA's field inspections because railroads benefit directly from Government efforts to maintain high safety standards. The proposed fee would be similar to existing charges collected from other industries regulated by Federal safety programs.

Commodity Futures Trading Commission (CFTC)

CFTC fee: After transmittal of the Budget, the Administration will propose an amendment to the Commodity Exchange Act authorizing the CFTC to collect fees from its regulated community equal to the agency's annual appropriation. This will make CFTC funding more consistent with the funding mechanisms in place for all of the other Federal financial regulators. Upon enactment of this fee authorization, the Administration will submit a budget amendment reflecting CFTC's $308 million in new budget authority fully offset by fees.

Environmental Protection Agency (EPA)

Energy Star product fees. The Administration proposes to start collecting fees from product manufacturers who seek to label their products under EPA's Energy Star program. Since 1992, the Energy Star label has served as an indicator of energy efficiency, helping consumers and businesses select qualifying products and, increasingly, Energy Star products have qualified for special rebates, tax exemptions or credits, and procurement preferences. Fee collection would start in 2014 after EPA undertakes a rulemaking process to determine products to be covered by fees and the level of fees, and to ensure that a fee system would not discourage manufacturers from participating in the program or result in a loss of environmental benefits.

2. Offsetting receipts

Department of Transportation

Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees. The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (P.L. 112-90) established a new fee for companies engaged in the design, permitting, and construction of new pipeline projects. Unfortunately, because the Act applies the new fees only to projects costing at least $2.5 billion, PHMSA does not expect the new fee authority to be used in the foreseeable future. The Administration proposes to collect new fees in 2013 from companies engaged in new pipeline projects of all sizes, even those costing less than $2.5 billion. The fees will be used to offset some of the costs incurred by PHMSA in the review of new construction projects.

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

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Agriculture (USDA)

Biobased labeling fee. In 2011, USDA authorized the use of a label for biobased products that producers can use in advertising their products. To ensure the integrity of the label, the Budget requests authority for USDA to: (1) impose civil penalties on companies who misuse the label and (2) assess each producer who applies for the label a $500 fee to fund a program audit. This fee, which will begin to be collected once authorizing legislation is enacted, has been given broad support by potential users who commented on the label's proposed rule, which was issued in May 2010.

Department of Defense

TRICARE pharmacy benefit co-payment increase. As discussed above in the section on discretionary user charge proposals, the Budget includes a proposal to encourage the use of less expensive mail order pharmacies and military treatment facility pharmacies. This proposal would increase the prescription drug co-payments for active duty families and all retirees regardless of the age of the beneficiary and yield $10.5 billion in savings in the MERHCF over the 10-year budget horizon and $0.1 billion in mandatory savings for the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

TRICARE-For-Life (TFL) enrollment fee. The Budget includes a proposal to charge age 65 and older military retirees and their families a modest annual premium, based on annual retirement pay, for TFL coverage. These annual fees would be phased in over four years and then indexed, and would yield $5.7 billion in mandatory savings in the MERHCF over the 10-year budget horizon and $0.2 billion in mandatory savings for the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration. In addition, the proposal would reduce accrual costs by $404 million in 2013 and $5.1 billion over the 10-year budget horizon; these costs are classified as discretionary and result in reduced contributions to the MERHCF.

Department of Homeland Security

Federal Emergency Management Agency: National Flood Insurance Program (NFIP) reform. Currently, there are 1.2 million NFIP properties (20 percent of all insured properties) that are charged premiums well below the actuarial value of the insured liability. On average (including subsidized and unsubsidized policies), NFIP premium collections cover approximately 70 percent of the actuarial value of the insured liability. To address this issue, the Administration supports the proposal as passed by the House in H.R. 1309, which would impact approximately 375,000 (or 30 percent) of the 1.2 million subsidized policies. The proposal would increase premiums over five years for those subsidized properties that are non-residential or non-primary residences, residences sold to new owners, or severe repetitive loss properties. This proposal would generate about $700 million in additional premium revenue over five years and approximately $5.1 billion over 10 years.

TSA: Aviation passenger security fee increase. As discussed above in the section on discretionary user charge proposals, the budget includes a proposal to increase the aviation passenger security fee by 50 cents per year for five years beginning in 2014. The fee would be $7.50 per one-way trip beginning in 2017 and would generate $18 billion in mandatory collections over the 10-year budget window, which would be deposited in the general fund for deficit reduction.

Department of Labor

Pension Benefit Guaranty Corporation (PBGC): Premium increases. The Deficit Reduction Act of 2005 and the Pension Protection Act of 2006 made significant structural changes to the Nation's pension and pension insurance systems, but did not address fully the long-term financial challenges facing PBGC. Further reforms are needed to address the current $26 billion gap between PBGC's liabilities and assets. The Administration proposes to give PBGC's Board the authority to adjust the premiums companies pay and to direct PBGC to account for the risk plans pose to PBGC. Better aligning risk with premium levels will encourage high-risk companies to fully fund their employees' promised pension benefits and will improve the solvency of PBGC. To ensure that these reforms are phased in only after challenging economic times have passed, the Budget calls for giving the PBGC Board premium setting authority beginning in 2014.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and other charges. Through a variety of activities, including slaughter and processing plant inspections, FSIS ensures that meat, poultry, and egg products are safe, wholesome, and correctly labeled and packaged. The Budget includes a proposal for two new charges. The performance based fee would recover the costs incurred for additional inspections and related activities, such as product recalls, that become necessary because of the performance of a covered establishment or plant. This fee would be charged each time one of these incidents occurs. The food safety services fee would recover a part of the cost, as determined by the Secretary, of providing FSIS related services at covered establishments and plants, and would be based on facility size.

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

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

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

Department of Health and Human Services

Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D. The Budget contains a proposal to increase income-related premiums under Medicare Parts B and D by 15 percent beginning in 2017 and to maintain the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those beneficiaries who can most afford them.

CMS: Medicare Part B premium surcharge. Medigap policies are private insurance policies that provide supplemental coverage for certain costs not covered by Medicare such as co-pays and deductibles. Medigap policies with low cost-sharing requirements, those that provide nearly first-dollar Medigap coverage, reduce the effectiveness of Medicare cost-sharing provisions intended to promote efficient health care choices. The Budget proposes a Part B premium surcharge on new Medicare beneficiaries beginning in 2017 who purchase Medigap policies with particularly low cost-sharing requirements. The surcharge would be equal to approximately 15 percent of the average Medigap premium or 30 percent of the Part B premium.

Department of the Interior

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

BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds. Beginning in 2014, the Administration proposes to repeal a provision of the Energy Policy Act that prohibits BLM from charging fees for its services. The Budget proposal would permit BLM to charge a fee for oil and gas permit processing, consistent with recent appropriations provisions, generating offsetting collections that would permit a corresponding reduction in BLM's discretionary funding. In 2013, the Administration proposes to continue the oil and gas permit processing fees imposed by appropriations language, which overrides the Energy Policy Act fee prohibition.

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

Department of Labor (DOL)

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

Environmental Protection Agency (EPA)

Pesticide user charges. All pesticides marketed in the United States must be registered with EPA. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their registrations. The Administration proposes to better cover the costs of EPA's pesticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs.

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

Hazardous waste electronic manifest system. The Resource Conservation and Recovery Act (RCRA) requires transporters of hazardous waste to document information on the waste's generator, destination, quantity, and route. Currently, the tracking system relies on paper copies that are not frequently digitized for data analysis or quality control. The Budget includes a proposal to collect fees from users of a new electronic manifesting system beginning in 2015. Use of electronic records will allow EPA to more efficiently monitor and analyze future waste shipments. Full implementation of the electronic system may reduce industry reporting costs under RCRA by $76 million to $124 million annually.

Federal Communications Commission (FCC)

Wireless Innovation and Infrastructure Initiative. The President's spectrum initiative proposes to reallocate the use of up to 500 megahertz of Federal agency and commercial spectrum bands over the next 10 years in order to increase Americans' access to wireless broadband. The Administration proposes to extend FCC auction authority and to provide new authority to hold incentive auctions, whereby current license holders may participate in an auction and receive a share of proceeds. Also, the Administration proposes to provide enhanced flexibility, through the Spectrum Reallocation Fund, to help agencies repurpose and reallocate from spectrum. Finally, the President's initiative would allow spectrum licenses for predominantly domestic satellite services to be assigned via competitive bidding, as they had been prior to a 2005 court decision. In total, this initiative is expected to raise more than $16 billion by 2022.

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

C. User Charge Proposals that are Governmental Receipts

Department of Energy

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

Department of the Interior

Migratory bird hunting and conservation stamp fees. Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "duck stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas.[8] The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2013.

Department of Transportation

Federal Aviation Administration: Mandatory surcharge for air traffic services. All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same services. To more equitably distribute the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of $100 per flight. Military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempt. The surcharge would be effective for flights beginning after September 30, 2012.

Corps of Engineers—Civil Works

Reform inland waterways funding. The Administration proposes legislation to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. The additional revenue will enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

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

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
I. INTRAGOVERNMENTAL RECEIPTS												
A. On Budget												
1. Interfund Receipts												
a. Federal Fund Payments to Trust Funds												
i. Distributed by Agency												
Contributions to retirement and insurance programs												
Military retirement fund	61,404	64,751	67,179	69,698	72,311	75,022	77,837	80,755	83,784	86,925	90,186	93,567
Supplementary medical insurance	225,179	214,872	255,203	281,602	296,035	322,509	338,507	355,384	389,636	425,373	461,718	511,238
Proposed Legislation (Non-PAYGO)	....	....	–4,565	–10,499	–12,239	–14,094	–18,121	–21,690	–24,158	–30,117	–36,147	–42,547
Hospital insurance	15,761	19,178	21,617	23,510	26,133	29,035	32,188	35,366	38,490	41,832	45,398	49,153
Proposed Legislation (Program Integrity)	....	114	....	....	....	....	....	....	....	....	....	....
Railroad social security equivalent benefit fund	151	264	211	233	253	274	302	330	358	387	417	449
Civilian supplementary retirement contributions	31,666	32,376	32,297	32,805	33,517	34,428	35,141	35,756	36,373	36,890	37,210	37,810
Proposed Legislation (Non-PAYGO)	....	....	–38	–118	–242	–377	–524	–684	–857	–1,045	–1,249	–1,468
Unemployment insurance	51,853	28,317	1,160	1,096	1,037	978	935	907	912	938	967	1,002
Proposed Legislation (PAYGO)	....	20,734	19,351	....	....	....	....	....	....	....	....	....
Other contributions	738	656	664	655	631	619	607	600	598	591	588	583

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rail industry pension fund	547	358	333	344	353	362	370	376	381	385	388	390
Subtotal, Contributions to retirement and insurance programs	387,299	381,620	393,412	399,326	417,789	448,756	467,242	487,100	525,517	562,159	599,476	650,177
Other miscellaneous transactions												
Miscellaneous payments	2,704	2,472	2,454	2,483	2,540	2,578	2,620	2,664	2,710	2,758	2,804	2,856
Proposed Legislation (PAYGO)	....	....	38,486	38,486	38,486	38,486	38,486	38,486	....	....	....	....
Other	51	151	150	150	150	150	150	150	150	....	....	....
Subtotal, Other miscellaneous transactions	2,755	2,623	41,090	41,119	41,176	41,214	41,256	41,300	2,860	2,758	2,804	2,856
Subtotal, Distributed by Agency	390,054	384,243	434,502	440,445	458,965	489,970	508,498	528,400	528,377	564,917	602,280	653,033
ii. Undistributed by Agency												
Employer share, employee retirement (on-budget)												
Civil service retirement and disability insurance	21,018	20,987	21,262	21,564	22,098	22,923	23,832	24,750	25,680	26,618	27,565	28,518
Proposed Legislation (Non-PAYGO)	....	....	–5	–17	–28	–40	–51	–67	–83	–100	–116	–134
Hospital insurance (contribution as employer)	3,384	3,516	3,649	3,766	3,924	4,118	4,265	4,416	4,634	4,831	5,037	5,288
Military retirement fund	25,734	27,310	27,794	26,515	26,241	26,317	26,117	26,782	27,536	28,308	29,101	29,916
Other federal employees retirements	307	315	326	335	345	355	365	376	387	399	411	423
Postal Service contributions to FHI	641	583	590	612	637	663	691	719	749	779	811	845
CSRDI from Postal Service	2,182	3,874	3,933	4,036	4,203	4,391	4,588	4,820	5,002	5,182	5,361	5,540
Subtotal, Employer share, employee retirement (on-budget)	53,266	56,585	57,549	56,811	57,420	58,727	59,807	61,796	63,905	66,017	68,170	70,396
Other miscellaneous transactions												
Interest received by on-budget trust funds	72,030	67,794	64,583	63,870	65,487	68,251	73,288	78,275	83,887	89,118	93,780	98,962
Proposed Legislation (Non-PAYGO)	....	2	–111	–202	–23	359	746	1,265	2,262	3,269	4,282	5,072
Subtotal, Other miscellaneous transactions	72,030	67,796	64,472	63,668	65,464	68,610	74,034	79,540	86,149	92,387	98,062	104,034
Subtotal, Undistributed by Agency	125,296	124,381	122,021	120,479	122,884	127,337	133,841	141,336	150,054	158,404	166,232	174,430
Subtotal, Federal Fund Payments to Trust Funds	**515,350**	**508,624**	**556,523**	**560,924**	**581,849**	**617,307**	**642,339**	**669,736**	**678,431**	**723,321**	**768,512**	**827,463**
b. Trust fund Payments to Federal Funds												
i. Distributed by Agency												
Personnel benefits												
Quinquennial adjustment of military service credits	116	....	....	....	....	....	....	....	....	....	....	....
Subtotal, Personnel benefits	116	....	....	....	....	....	....	....	....	....	....	....
Other miscellaneous transactions												
Other	2,604	2,497	2,425	2,304	2,152	2,130	2,121	2,119	1,960	1,943	1,949	1,982
Proposed Legislation (PAYGO)	....	....	3	3	3	3	3	3	3	3	3	3
Subtotal, Other miscellaneous transactions	2,604	2,497	2,428	2,307	2,155	2,133	2,124	2,122	1,963	1,946	1,952	1,985
Subtotal, Distributed by Agency	2,720	2,497	2,428	2,307	2,155	2,133	2,124	2,122	1,963	1,946	1,952	1,985

Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Subtotal, Trust fund Payments to Federal Funds	**2,720**	**2,497**	**2,428**	**2,307**	**2,155**	**2,133**	**2,124**	**2,122**	**1,963**	**1,946**	**1,952**	**1,985**
Subtotal, Interfund Receipts	**518,070**	**511,121**	**558,951**	**563,231**	**584,004**	**619,440**	**644,463**	**671,858**	**680,394**	**725,267**	**770,464**	**829,448**
2. Federal Intrafund Receipts												
a. Distributed by Agency												
General fund payments to retirement and health benefits funds												
DOD retiree health care fund	18,803	13,745	13,871	14,483	15,294	17,498	18,759	19,966	21,568	22,928	24,340	25,887
Proposed Legislation (Non-PAYGO)	....	....	–2,808	–3,016	–3,266	–3,505	–3,909	–4,343	–4,634	–4,928	–5,282	–5,788
Employees health benefits fund	....	11,100	5,600	5,700	5,700	5,800	2,052	2,052	2,052	2,052	2,052	2,052
Proposed Legislation (PAYGO)	....	–10,344	–4,724	–277	–127	29	884	884	884	884	884	884
Miscellaneous Federal retirement funds	492	489	469	467	475	460	441	450	476	495	521	482
Subtotal, General fund payments to retirement and health benefits funds	19,295	14,990	12,408	17,357	18,076	20,282	18,227	19,009	20,346	21,431	22,515	23,517
Interest												
Interest on Government capital in enterprises	560	624	729	854	1,122	1,236	1,278	1,529	1,517	1,488	1,716	1,728
Interest from the Federal Financing Bank	1,298	1,499	2,629	2,896	3,240	3,569	3,444	3,645	3,821	3,710	3,563	3,369
Proposed Legislation (Non-PAYGO)	....	–1	–3	....	29	118	202	300	424	508	530	530
Interest received by retirement and health benefits funds	41	83	94	104	115	127	135	142	149	159	166	175
Subtotal, Interest	1,899	2,205	3,449	3,854	4,506	5,050	5,059	5,616	5,911	5,865	5,975	5,802
Other miscellaneous transactions												
Other	5,255	6,039	4,445	4,920	5,685	6,455	7,456	8,472	9,257	9,999	10,775	11,528
Proposed Legislation (Non-PAYGO)	....	....	344	212	49	39	–69	–162	–196	–177	–194	–190
Subtotal, Other miscellaneous transactions	5,255	6,039	4,789	5,132	5,734	6,494	7,387	8,310	9,061	9,822	10,581	11,338
Subtotal, Distributed by Agency	26,449	23,234	20,646	26,343	28,316	31,826	30,673	32,935	35,318	37,118	39,071	40,657
b. Undistributed by Agency												
Employing agency contributions												
DOD retiree health care fund	11,315	11,145	8,261	8,602	9,083	9,605	10,160	10,744	11,362	12,016	12,706	13,437
Proposed Legislation (Non-PAYGO)	....	....	–1,112	–1,429	–1,508	–1,593	–1,685	–1,782	–1,884	–1,992	–2,108	–2,229
Employees health benefits	....	....	....	....	....	....	4,204	4,457	4,723	5,002	5,297	5,606
Proposed Legislation (PAYGO)	....	3,176	3,339	3,521	3,737	3,965	....	....	....	....	....	....
Subtotal, Employing agency contributions	11,315	14,321	10,488	10,694	11,312	11,977	12,679	13,419	14,201	15,026	15,895	16,814
Subtotal, Undistributed by Agency	11,315	14,321	10,488	10,694	11,312	11,977	12,679	13,419	14,201	15,026	15,895	16,814
Subtotal, Federal Intrafund Receipts	**37,764**	**37,555**	**31,134**	**37,037**	**39,628**	**43,803**	**43,352**	**46,354**	**49,519**	**52,144**	**54,966**	**57,471**
3. Trust Intrafund Receipts												
a. Distributed by Agency												
Personnel benefits												

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Payment to railroad retirement (from off-budget)	6,319	6,300	6,305	6,802	6,745	6,965	6,899	7,108	7,188	7,117	6,826	7,004
Subtotal, Personnel benefits	6,319	6,300	6,305	6,802	6,745	6,965	6,899	7,108	7,188	7,117	6,826	7,004
Other miscellaneous transactions												
Other	3	1	53	108	117	127	137	148	161	1	1	1
Subtotal, Other miscellaneous transactions	3	1	53	108	117	127	137	148	161	1	1	1
Subtotal, Distributed by Agency ..	6,322	6,301	6,358	6,910	6,862	7,092	7,036	7,256	7,349	7,118	6,827	7,005
Subtotal, Trust Intrafund Receipts	**6,322**	**6,301**	**6,358**	**6,910**	**6,862**	**7,092**	**7,036**	**7,256**	**7,349**	**7,118**	**6,827**	**7,005**
Subtotal, On Budget	**562,156**	**554,977**	**596,443**	**607,178**	**630,494**	**670,335**	**694,851**	**725,468**	**737,262**	**784,529**	**832,257**	**893,924**
B. Off Budget												
1. Interfund Receipts												
a. Federal Fund Payments to Trust Funds												
i. Distributed by Agency												
Personnel benefits												
Old-age, survivors and disability, insurance	101,993	77,314	32,543	34,717	38,577	42,735	47,176	51,425	55,679	60,220	65,004	70,102
Proposed Legislation (Non-PAYGO)	....	62,720	28,915	....	–61	35	14	7	2	1	....	....
Subtotal, Personnel benefits	101,993	140,034	61,458	34,717	38,516	42,770	47,190	51,432	55,681	60,221	65,004	70,102
Subtotal, Distributed by Agency ...	101,993	140,034	61,458	34,717	38,516	42,770	47,190	51,432	55,681	60,221	65,004	70,102
ii. Undistributed by Agency												
Personnel benefits												
Employer share, employee retirement (off-budget)	15,099	15,627	16,498	17,238	18,117	19,129	19,925	20,758	21,902	22,934	23,988	25,241
Subtotal, Personnel benefits	15,099	15,627	16,498	17,238	18,117	19,129	19,925	20,758	21,902	22,934	23,988	25,241
Other miscellaneous transactions												
Interest received by off-budget trust funds	115,981	112,596	108,837	106,817	106,225	106,001	107,764	110,776	113,590	116,828	118,544	120,047
Subtotal, Other miscellaneous transactions	115,981	112,596	108,837	106,817	106,225	106,001	107,764	110,776	113,590	116,828	118,544	120,047
Subtotal, Undistributed by Agency	131,080	128,223	125,335	124,055	124,342	125,130	127,689	131,534	135,492	139,762	142,532	145,288
Subtotal, Federal Fund Payments to Trust Funds ...	**233,073**	**268,257**	**186,793**	**158,772**	**162,858**	**167,900**	**174,879**	**182,966**	**191,173**	**199,983**	**207,536**	**215,390**
Subtotal, Interfund Receipts ...	**233,073**	**268,257**	**186,793**	**158,772**	**162,858**	**167,900**	**174,879**	**182,966**	**191,173**	**199,983**	**207,536**	**215,390**
Subtotal, Off Budget	**233,073**	**268,257**	**186,793**	**158,772**	**162,858**	**167,900**	**174,879**	**182,966**	**191,173**	**199,983**	**207,536**	**215,390**
SUBTOTAL, INTRAGOVERNMENTAL RECEIPTS ...	**795,229**	**823,234**	**783,236**	**765,950**	**793,352**	**838,235**	**869,730**	**908,434**	**928,435**	**984,512**	**1,039,793**	**1,109,314**
II. NON-FEDERAL RECEIPTS												
A. On Budget												
1. Proprietary Receipts												
a. Federal Fund Receipts												
i. Distributed by Agency												
Fees and other charges for services and special benefits												
Nuclear waste displosal revenues ...	914	765	783	793	798	802	803	803	803	803	803	803

Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Other	4,427	4,439	4,597	4,617	4,635	4,691	4,714	4,735	4,826	4,897	4,973	5,081
Proposed Legislation (Non-PAYGO)	....	....	....	33	33	33	33	33	33	33	33	33
Proposed Legislation (PAYGO)	....	....	88	105	110	112	115	117	119	121	124	126
Subtotal, Fees and other charges for services and special benefits	5,341	5,204	5,468	5,548	5,576	5,638	5,665	5,688	5,781	5,854	5,933	6,043
Interest												
Interest on foreign loans and deferred foreign collections	59	59	59	55	55	55	55	55	55	55	55	55
Interest on deposits and loan accounts	....	....	11	252	669	1,083	1,197	1,209	1,206	1,206	1,203	1,197
Other interest	34,663	52,032	53,133	51,831	54,323	57,653	61,300	64,377	67,428	70,460	72,988	76,176
Dividends and other earnings	15,588	18,790	21,690	22,560	20,442	16,690	13,385	10,830	10,435	10,335	10,122	9,927
Subtotal, Interest	50,310	70,881	74,893	74,698	75,489	75,481	75,937	76,471	79,124	82,056	84,368	87,355
Realization upon loans and investments												
Negative subsidies and downward reestimates	118,286	67,676	32,641	28,616	23,294	18,849	15,705	12,653	11,054	10,881	11,085	11,330
Proposed Legislation (PAYGO)	....	–1,820	2,151	965	1,223	1,090	951	858	775	812	779	743
Other	52	65	67	68	69	69	69	69	69	69	69	69
Subtotal, Realization upon loans and investments	118,338	65,921	34,859	29,649	24,586	20,008	16,725	13,580	11,898	11,762	11,933	12,142
Sale of Government property												
Sale of land and other real property	143	247	330	224	228	227	235	241	248	262	266	270
Proposed Legislation (PAYGO)	....	....	5	10	20	30	30	30	30	30	30	30
Other sales of government property	117	98	49	21	8	8	8	8	8	8	8	8
Subtotal, Sale of Government property	260	345	384	255	256	265	273	279	286	300	304	308
Sale of products												
Sale of timber and other natural land products	235	197	143	150	149	151	210	212	214	217	218	221
Proposed Legislation (PAYGO)	....	–54	–55	–49	–49	–49	8	9	10	10	10	10
Sale of minerals and mineral products	3,530	44	45	46	46	46	47	48	50	50	53	54
Proposed Legislation (PAYGO)	....	....	....	2	4	5	5	6	6	11	17	24
Sale of power and other utilities	967	654	792	714	713	740	729	698	726	693	684	686
Other	144	145	132	145	149	134	149	153	137	152	157	140
Subtotal, Sale of products	4,876	986	1,057	1,008	1,012	1,027	1,148	1,126	1,143	1,133	1,139	1,135
Other miscellaneous transactions												
Royalties and rents	4,153	4,615	4,677	4,724	4,856	4,981	4,870	5,154	5,350	5,541	5,816	6,078
Proposed Legislation (PAYGO)	....	....	–50	–51	–2	–2	1	....	–1	–1	–2	–2
Recoveries and refunds	5,063	5,119	5,324	5,528	5,708	5,837	6,000	6,187	6,314	6,495	6,675	6,813
Proposed Legislation (PAYGO)	....	....	5	7	–42	–61	–86	–109	–138	–162	–162	–163
Gifts and contributions	7	8	8	8	8	8	8	8	8	8	8	8
Miscellaneous receipt accounts	3,249	3,327	4,018	4,613	5,275	5,863	6,370	6,794	7,145	7,456	7,711	7,938
Proposed Legislation (PAYGO)	....	....	21	21	21	21	21	21	21	21	21	21
Subtotal, Other miscellaneous transactions	12,472	13,069	14,003	14,850	15,824	16,647	17,184	18,055	18,699	19,358	20,067	20,693

Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Subtotal, Distributed by Agency	191,597	156,406	130,664	126,008	122,743	119,066	116,932	115,199	116,931	120,463	123,744	127,676
ii. Undistributed by Agency												
Outer Continental Shelf												
Outer Continental Shelf rents and bonuses	1,042	2,031	852	925	740	740	569	735	732	743	752	759
Proposed Legislation (PAYGO)	....	....	13	29	42	55	67	82	99	115	132	149
Outer Continental Shelf royalties	5,341	5,848	6,052	6,303	6,729	7,182	7,553	7,827	8,194	8,490	9,084	9,570
Proposed Legislation (PAYGO)	....	....	50	50	....	....	....	....	....	....	....	....
Subtotal, Outer Continental Shelf	6,383	7,879	6,967	7,307	7,511	7,977	8,189	8,644	9,025	9,348	9,968	10,478
Other miscellaneous transactions												
Sale of major assets	431	....	1	....	....	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	....	120	240	360	900	240	120	120	120	120	120
Other undistributed offsetting receipts	....	4,035	4,035	4,035	4,035	2,017	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	....	....	....	400	600	550	350	4,700	4,700	....	....
Subtotal, Other miscellaneous transactions	431	4,035	4,156	4,275	4,795	3,517	790	470	4,820	4,820	120	120
Subtotal, Undistributed by Agency	6,814	11,914	11,123	11,582	12,306	11,494	8,979	9,114	13,845	14,168	10,088	10,598
Subtotal, Federal Fund Receipts	**198,411**	**168,320**	**141,787**	**137,590**	**135,049**	**130,560**	**125,911**	**124,313**	**130,776**	**134,631**	**133,832**	**138,274**
b. Trust Fund Receipts												
i. Distributed by Agency												
Fees and other charges for services and special benefits												
Medicare premiums and other charges	63,350	65,349	73,242	79,707	85,564	92,038	99,368	107,832	116,794	125,145	135,220	146,412
Proposed Legislation (PAYGO)	....	....	5,950	12,364	13,908	15,907	19,730	23,529	27,514	34,099	40,778	48,394
Veterans life insurance (trust funds)	92	80	69	60	51	43	35	29	24	19	15	11
Other	7,452	8,858	9,605	10,145	10,691	11,317	12,107	12,898	13,711	14,826	16,121	17,574
Proposed Legislation (PAYGO)	....	....	190	290	360	420	490	577	722	847	1,008	1,119
Subtotal, Fees and other charges for services and special benefits	70,894	74,287	89,056	102,566	110,574	119,725	131,730	144,865	158,765	174,936	193,142	213,510
Interest												
Other interest	1,761	1,779	1,427	1,387	1,189	1,033	928	844	756	694	645	590
Proposed Legislation (PAYGO)	....	–1,329	–968	....	....	....	....	....	....	....	....	....
Dividends and other earnings	–371	989	190	204	212	210	204	194	178	162	147	133
Subtotal, Interest	1,390	1,439	649	1,591	1,401	1,243	1,132	1,038	934	856	792	723
Realization upon loans and investments												
Negative subsidies and downward reestimates	15	71	....	....	....	....	....	....	....	....	....	....
Other	1	1	1	1	1	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	16	72	1	1	1	1	1	1	1	1	1	1
Sale of Government property												

Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Military assistance program sales (trust funds)	23,947	25,475	27,743	29,508	27,592	25,628	24,037	22,923	22,211	21,783	21,520	21,520
Subtotal, Sale of Government property	23,947	25,475	27,743	29,508	27,592	25,628	24,037	22,923	22,211	21,783	21,520	21,520
Other miscellaneous transactions												
Recoveries and refunds	10,132	10,125	10,312	10,612	10,712	10,812	10,912	11,012	11,112	11,212	11,312	11,312
Gifts and contributions	310	254	264	247	249	249	249	249	249	249	249	249
Miscellaneous receipt accounts ...	92	94	100	100	104	110	115	121	127	133	141	148
Subtotal, Other miscellaneous transactions	10,534	10,473	10,676	10,959	11,065	11,171	11,276	11,382	11,488	11,594	11,702	11,709
Subtotal, Distributed by Agency ..	106,781	111,746	128,125	144,625	150,633	157,768	168,176	180,209	193,399	209,170	227,157	247,463
Subtotal, Trust Fund Receipts ...	**106,781**	**111,746**	**128,125**	**144,625**	**150,633**	**157,768**	**168,176**	**180,209**	**193,399**	**209,170**	**227,157**	**247,463**
Subtotal, Proprietary Receipts	**305,192**	**280,066**	**269,912**	**282,215**	**285,682**	**288,328**	**294,087**	**304,522**	**324,175**	**343,801**	**360,989**	**385,737**
2. Offsetting Governmental Receipts												
a. Federal Fund Receipts												
i. Distributed by Agency												
Other miscellaneous transactions												
Defense Cooperation	1	1	1	1	1	1	1	1	1	1	1	1
Regulatory Fees	7,497	8,096	8,174	8,230	8,303	8,360	8,457	8,547	8,625	8,728	8,829	6,424
Proposed Legislation (PAYGO)	....	....	3	18	24	22	21	21	21	21	21	21
Other	146	140	140	141	141	141	141	142	142	142	143	144
Proposed Legislation (PAYGO)	....	....	200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,417
Subtotal, Other miscellaneous transactions	7,644	8,237	8,518	9,529	9,879	10,199	10,570	10,946	11,068	11,216	11,364	9,007
Subtotal, Distributed by Agency ...	7,644	8,237	8,518	9,529	9,879	10,199	10,570	10,946	11,068	11,216	11,364	9,007
ii. Undistributed by Agency												
Other miscellaneous transactions												
Spectrum auction proceeds	....	400	1,975	1,575	....	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	50	–1,350	–1,250	425	550	550	550	900	900	850	850
Subtotal, Other miscellaneous transactions	....	450	625	325	425	550	550	550	900	900	850	850
Subtotal, Undistributed by Agency	....	450	625	325	425	550	550	550	900	900	850	850
Subtotal, Federal Fund Receipts	**7,644**	**8,687**	**9,143**	**9,854**	**10,304**	**10,749**	**11,120**	**11,496**	**11,968**	**12,116**	**12,214**	**9,857**
b. Trust Fund Receipts												
i. Distributed by Agency												
Other miscellaneous transactions												
Regulatory Fees	3	4	4	4	4	4	4	4	5	5	5	5
Proposed Legislation (PAYGO)	....	....	1,216	5,416	8,216	6,116	2,016	....	....	....	....	....
Subtotal, Other miscellaneous transactions	3	4	1,220	5,420	8,220	6,120	2,020	4	5	5	5	5
Subtotal, Distributed by Agency ..	3	4	1,220	5,420	8,220	6,120	2,020	4	5	5	5	5
Subtotal, Trust Fund Receipts ...	**3**	**4**	**1,220**	**5,420**	**8,220**	**6,120**	**2,020**	**4**	**5**	**5**	**5**	**5**

Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Subtotal, Offsetting Governmental Receipts	**7,647**	**8,691**	**10,363**	**15,274**	**18,524**	**16,869**	**13,140**	**11,500**	**11,973**	**12,121**	**12,219**	**9,862**
Subtotal, On Budget	**312,839**	**288,757**	**280,275**	**297,489**	**304,206**	**305,197**	**307,227**	**316,022**	**336,148**	**355,922**	**373,208**	**395,599**
B. Off Budget												
1. Proprietary Receipts												
a. Trust Fund Receipts												
i. Distributed by Agency												
Fees and other charges for services and special benefits												
Other	31	31	30	30	31	31	31	32	33	34	35	37
Subtotal, Fees and other charges for services and special benefits	31	31	30	30	31	31	31	32	33	34	35	37
Other miscellaneous transactions												
Recoveries and refunds	66	62	62	62	62	62	62	62	62	62	62	62
Subtotal, Other miscellaneous transactions	66	62	62	62	62	62	62	62	62	62	62	62
Subtotal, Distributed by Agency	97	93	92	92	93	93	93	94	95	96	97	99
Subtotal, Proprietary Receipts	**97**	**93**	**92**	**92**	**93**	**93**	**93**	**94**	**95**	**96**	**97**	**99**
Subtotal, Off Budget	**97**	**93**	**92**	**92**	**93**	**93**	**93**	**94**	**95**	**96**	**97**	**99**
SUBTOTAL, NON-FEDERAL RECEIPTS	**312,936**	**288,850**	**280,367**	**297,581**	**304,299**	**305,290**	**307,320**	**316,116**	**336,243**	**356,018**	**373,305**	**395,698**
GRAND TOTAL OFFSETTING RECEIPTS	**1,108,165**	**1,112,084**	**1,063,603**	**1,063,531**	**1,097,651**	**1,143,525**	**1,177,050**	**1,224,550**	**1,264,678**	**1,340,530**	**1,413,098**	**1,505,012**

17. TAX EXPENDITURES

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

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

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

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2011–2017 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

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

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2011. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2011. The estimates are based on the economic assumptions from the Mid-session Review of the 2012 Budget.

The total revenue effects for tax expenditures for fiscal years 2011–2017 are displayed according to the Budget's functional categories in Table 17–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

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

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

Table 17–3 ranks the major tax expenditures by the size of their 2013–2017 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 17–1 and 17–2, as well as to the descriptions below.

In the 2005 *Analytical Perspectives*, the treatment of capital gains was changed to exclude the portion of capital gains derived from corporate equity from the estimate of the tax expenditure for preferential tax rates on capital gains. In addition, the preferential rates on qualified dividend income that were enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 were not identified as a tax expenditure. In this volume, the estimates reflect the pre-2005 methodology where no interaction effects among the various taxes are taken into account. For example, preferences under the personal income tax are evaluated in isolation of additional taxes that may apply under the corporate tax, the payroll tax, the estate tax, and excise taxes. The preferential rate on qualified dividends is identified as a tax expenditure.

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

Interpreting Tax Expenditure Estimates

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

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

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

Present-Value Estimates

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

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

The present-value estimates represent the revenue effects, net of future tax payments, that follow from activities undertaken during calendar year 2011 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2011 would cause a deferral of tax payments on wages in 2011 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2011 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

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

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

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

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

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017

(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	13,250	14,270	14,900	15,380	12,960	12,710	13,030	68,980
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	5,550	5,400	5,800	6,140	6,430	6,740	7,050	32,160
3	Exclusion of certain allowances for Federal employees abroad	1,020	1,070	1,120	1,180	1,240	1,300	1,370	6,210
4	Inventory property sales source rules exception	3,160	3,430	3,730	4,050	4,400	4,780	5,180	22,140
5	Deferral of income from controlled foreign corporations (normal tax method)	41,410	42,000	41,810	41,770	43,020	44,240	45,180	216,020
6	Deferred taxes for financial firms on certain income earned overseas	6,180	2,510	0	0	0	0	0	0
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	800	3,060	5,070	6,190	6,910	7,420	7,680	33,270
8	Credit for increasing research activities	8,760	6,420	4,230	3,380	2,700	2,160	1,720	14,190
Energy:									
9	Expensing of exploration and development costs, fuels	500	470	790	880	630	390	260	2,950
10	Excess of percentage over cost depletion, fuels	1,190	1,220	1,260	1,310	1,370	1,430	1,490	6,860
11	Alternative fuel production credit	10	10	10	0	0	0	0	10
12	Exception from passive loss limitation for working interests in oil and gas properties	30	20	30	30	30	20	20	130
13	Capital gains treatment of royalties on coal	60	90	80	60	80	100	110	430
14	Exclusion of interest on energy facility bonds	20	30	30	30	40	40	60	200
15	Energy production credit [1]	1,560	1,710	1,900	1,960	1,940	1,850	1,680	9,330
16	Energy investment credit [1]	700	920	1,510	2,290	2,900	3,250	2,260	12,210
17	Alcohol fuel credits [2]	500	140	110	50	30	10	10	210
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	90	100	180	240	390	620	680	2,110
20	Exclusion of utility conservation subsidies	220	210	210	210	210	200	190	1,020
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	120	–70	–180	–190	–180	–150	–120	–820
23	Credit for investment in clean coal facilities	370	400	410	470	510	280	40	1,710
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	670	580	530	–560	–1,170	–990	–830	–3,020
25	Natural gas distribution pipelines treated as 15-year property	120	110	90	80	80	90	100	440
26	Amortize all geological and geophysical expenditures over 2 years	120	150	160	140	90	60	30	480
27	Allowance of deduction for certain energy efficient commercial building property	80	90	100	70	30	10	0	210
28	Credit for construction of new energy efficient homes	50	50	20	20	20	10	0	70
29	Credit for energy efficiency improvements to existing homes	4,370	1,110	0	0	0	0	0	0
30	Credit for energy efficient appliances	280	200	140	120	110	90	0	460
31	Credit for residential energy efficient property	840	950	1,030	1,090	1,160	1,220	500	5,000
32	Qualified energy conservation bonds [5]	10	20	30	30	30	30	30	150
33	Advanced energy property credit	430	460	380	270	120	–10	–60	700
34	Advanced nuclear power production credit	0	0	0	0	0	0	80	80
Natural resources and environment:									
35	Expensing of exploration and development costs, nonfuel minerals	60	60	70	80	80	90	100	420
36	Excess of percentage over cost depletion, nonfuel minerals	580	580	590	600	610	620	620	3,040
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	420	470	580	690	750	790	830	3,640
38	Capital gains treatment of certain timber income	60	90	80	60	80	100	110	430
39	Expensing of multiperiod timber growing costs	250	270	280	290	310	320	320	1,520
40	Tax incentives for preservation of historic structures	510	540	570	610	630	660	700	3,170
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	60	40	30	10	0	0	0	40
42	Industrial CO2 capture and sequestration tax credit	60	60	60	70	90	220	400	840
43	Deduction for endangered species recovery expenditures	20	20	20	20	20	30	30	120
Agriculture:									
44	Expensing of certain capital outlays	70	70	110	130	130	140	150	660
45	Expensing of certain multiperiod production costs	130	140	170	180	180	180	190	900
46	Treatment of loans forgiven for solvent farmers	20	20	20	20	20	20	20	100

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
47	Capital gains treatment of certain income	630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers	90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
50	Expensing of reforestation expenditures	60	70	80	80	90	90	90	430
	Commerce and housing:								
	Financial institutions and insurance:								
51	Exemption of credit union income	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130
52	Exclusion of interest on life insurance savings	22,060	23,570	25,150	26,810	28,350	29,890	30,430	140,630
53	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	210	210	210	220	220	220	1,080
55	Small life insurance company deduction	30	30	30	30	30	30	30	150
56	Exclusion of interest spread of financial institutions	260	490	600	690	760	810	870	3,730
	Housing:								
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
58	Exclusion of interest on rental housing bonds	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
59	Deductibility of mortgage interest on owner-occupied homes	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales	970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales	15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income	46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for $25,000 of rental loss	11,080	12,550	15,380	18,450	20,680	21,990	23,310	99,810
65	Credit for low-income housing investments [6]	6,150	6,530	7,380	7,830	7,850	7,920	8,320	39,300
66	Accelerated depreciation on rental housing (normal tax method)	–140	–50	90	350	690	1,020	1,330	3,480
67	Discharge of mortgage indebtedness	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer [7]	2,400	–2,350	–1,150	–590	–520	–470	–410	–3,140
	Commerce:								
69	Cancellation of indebtedness	690	330	–20	–220	–290	–310	–260	–1,100
70	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
71	Treatment of qualified dividends	16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal)	47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock	60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death	3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts	1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method)	–7,290	–6,970	–7,370	–7,390	–7,220	–7,010	–6,800	–35,790
78	Accelerated depreciation of machinery and equipment (normal tax method)	118,530	76,280	33,180	48,730	77,350	98,970	116,410	374,640
79	Expensing of certain small investments (normal tax method)	–30	3,060	940	440	1,330	1,570	1,760	6,040
80	Graduated corporation income tax rate (normal tax method)	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670
81	Exclusion of interest on small issue bonds	240	270	340	400	430	460	480	2,110
82	Deduction for US production activities	13,130	13,750	14,500	15,330	16,200	17,090	17,960	81,080
83	Special rules for certain film and TV production	160	130	80	50	20	10	0	160
	Transportation:								
84	Deferral of tax on shipping companies [8]	20	20	20	20	20	20	20	100
85	Exclusion of reimbursed employee parking expenses	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks	160	130	80	50	20	10	0	160
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	250	240	230	210	200	190	170	1,000
	Community and regional development:								
89	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100
90	Exclusion of interest for airport, dock, and similar bonds	700	780	970	1,160	1,260	1,330	1,410	6,130
91	Exemption of certain mutuals' and cooperatives' income	110	110	120	120	120	130	130	620
92	Empowerment zones and renewal communities	980	670	460	470	480	480	440	2,330
93	New markets tax credit	820	900	930	930	910	830	680	4,280

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
94	Expensing of environmental remediation costs	200	–20	–170	–160	–140	–130	–130	–730
95	Credit to holders of Gulf Tax Credit Bonds.	80	70	50	50	50	50	40	240
96	Recovery Zone Bonds [9]	0	0	0	0	0	0	0	
97	Tribal Economic Development Bonds	170	380	480	580	630	660	690	3,040
	Education, training, employment, and social services:								
	Education:								
98	Exclusion of scholarship and fellowship income (normal tax method)	3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690
99	HOPE tax credit	0	0	580	5,780	5,780	5,770	5,800	23,710
100	Lifetime Learning tax credit	2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101	American Opportunity Tax Credit [10]	13,060	14,290	13,710	0	0	0	0	13,710
102	Education Individual Retirement Accounts	70	80	80	90	100	100	110	480
103	Deductibility of student-loan interest	1,400	850	900	960	1,020	1,090	1,160	5,130
104	Deduction for higher education expenses	690	470	0	0	0	0	0	0
105	Qualified tuition programs	1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106	Exclusion of interest on student-loan bonds	480	530	660	780	850	900	940	4,130
107	Exclusion of interest on bonds for private nonprofit educational facilities	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
108	Credit for holders of zone academy bonds [11]	200	200	180	160	130	120	110	700
109	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	30	30	30	130
110	Parental personal exemption for students age 19 or over	5,600	3,120	2,800	3,060	2,780	2,510	2,260	13,410
111	Deductibility of charitable contributions (education)	3,520	3,910	4,610	5,060	5,500	5,930	6,370	27,470
112	Exclusion of employer-provided educational assistance	710	750	40	0	0	0	0	40
113	Special deduction for teacher expenses	190	170	0	0	0	0	0	0
114	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
115	Qualified school construction bonds [12]	210	400	580	650	650	650	0	2,530
	Training, employment, and social services:								
116	Work opportunity tax credit	1,110	930	620	340	140	70	20	1,190
117	Welfare-to-work tax credit	0	0	0	0	0	0	0	0
118	Employer provided child care exclusion	840	1,350	1,580	1,670	1,780	1,900	2,040	8,970
119	Employer-provided child care credit	10	10	0	0	0	0	0	0
120	Assistance for adopted foster children	500	530	560	600	650	690	730	3,230
121	Adoption credit and exclusion [13]	1,200	760	380	110	80	80	80	730
122	Exclusion of employee meals and lodging (other than military)	9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123	Child credit [14]	23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124	Credit for child and dependent care expenses	4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
126	Deductibility of charitable contributions, other than education and health	29,820	33,290	39,770	43,900	47,800	51,660	55,590	238,720
127	Exclusion of certain foster care payments	410	410	400	410	400	390	380	1,980
128	Exclusion of parsonage allowances	660	710	770	830	900	970	1,050	4,520
129	Employee retention credit for employers in certain federal disaster areas	30	10	0	0	0	0	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters	20	0	0	0	0	0	0	0
131	Making work pay tax credit [15]	23,528	0	0	0	0	0	0	0
	Health:								
132	Exclusion of employer contributions for medical insurance premiums and medical care [16]	163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133	Self-employed medical insurance premiums [17]	5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134	Medical Savings Accounts / Health Savings Accounts	1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135	Deductibility of medical expenses	8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170
136	Exclusion of interest on hospital construction bonds	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
137	Refundable Premium Assistance Tax Credit [18]	0	0	0	0	–2,440	–3,610	–4,460	–10,510
138	Credit for employee health insurance expenses of small business [19]	830	1,470	1,750	2,500	2,870	2,500	2,060	11,680
139	Deductibility of charitable contributions (health)	3,370	3,760	4,490	4,960	5,400	5,840	6,280	26,970
140	Tax credit for orphan drug research	770	930	1,120	1,360	1,640	1,990	2,410	8,520
141	Special Blue Cross/Blue Shield deduction	715	680	590	530	610	710	690	3,130
142	Tax credit for health insurance purchased by certain displaced and retired individuals [20]	10	10	10	0	0	0	0	10

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
143	Distributions from retirement plans for premiums for health and long-term care insurance	300	330	360	400	440	490	510	2,200
	Income security:								
144	Exclusion of railroad retirement system benefits	360	340	290	260	250	240	220	1,260
145	Exclusion of workers' compensation benefits	7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970
146	Exclusion of public assistance benefits (normal tax method)	670	710	750	770	800	840	850	4,010
147	Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
148	Exclusion of military disability pensions	120	120	130	130	130	130	140	660
	Net exclusion of pension contributions and earnings:								
149	Employer plans	36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040
150	401(k)-type plans	53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760
151	Individual Retirement Accounts	12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080
152	Low and moderate income savers credit	1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510
153	Self-Employed plans	15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200
	Exclusion of other employee benefits:								
154	Premiums on group term life insurance	1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020
155	Premiums on accident and disability insurance	340	350	360	360	370	370	370	1,830
156	Income of trusts to finance supplementary unemployment benefits	30	30	40	50	60	70	80	300
157	Special ESOP rules	1,500	1,600	1,700	1,700	1,800	1,900	2,000	9,100
158	Additional deduction for the blind	40	30	40	50	50	50	50	240
159	Additional deduction for the elderly	2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600
160	Tax credit for the elderly and disabled	10	10	10	10	10	10	0	40
161	Deductibility of casualty losses	270	300	350	380	390	420	440	1,980
162	Earned income tax credit [21]	1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162
	Social Security:								
	Exclusion of social security benefits:								
163	Social Security benefits for retired workers	25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280
164	Social Security benefits for disabled workers	7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110
165	Social Security benefits for spouses, dependents and survivors	4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190
	Veterans benefits and services:								
166	Exclusion of veterans death benefits and disability compensation	5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210
167	Exclusion of veterans pensions	240	300	340	370	390	420	440	1,960
168	Exclusion of GI bill benefits	810	1,030	1,190	1,280	1,350	1,420	1,470	6,710
169	Exclusion of interest on veterans housing bonds	10	10	20	30	30	30	30	140
	General purpose fiscal assistance:								
170	Exclusion of interest on public purpose State and local bonds	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
171	Build America Bonds [22]	0	0	0	0	0	0	0	0
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
	Interest:								
173	Deferral of interest on U.S. savings bonds	1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
	Addendum: Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
	Nonbusiness State and local taxes other than on owner-occupied homes	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
	Exclusion of interest on State and local bonds for:								
	Public purposes	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
	Energy facilities	20	30	30	30	40	40	60	200
	Water, sewage, and hazardous waste disposal facilities	420	470	580	690	750	790	830	3,640
	Small-issues	240	270	340	400	430	460	480	2,110
	Owner-occupied mortgage subsidies	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
	Rental housing	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
	Airports, docks, and similar facilities	700	780	970	1,160	1,260	1,330	1,410	6,130

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2011	2012	2013	2014	2015	2016	2017	2013–17
Student loans	480	530	660	780	850	900	940	4,130
Private nonprofit educational facilities	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
Hospital construction	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
Veterans' housing	10	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage	80	70	50	50	50	50	40	240
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700

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

The effect of the grant on outlays (in millions of dollars) is as follows: 2011 $3,510; 2012 $4,130; 2013 $3,850; 2014 $3,210; 2015 $1,230; 2016 $290; 2017 $110;

[2] In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 $6,520; 2012 $3,590; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 $160; 2012 $170; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 $760; 2012 $210; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2011 $20 ; 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2011 $30 ; 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60.

[6] In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2010 $1940; 2011 $3480; 2012 $180.

[7] The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows: 2010 $8,670; 2011 $2,760; 2012 $310; 2013 $0; 2014 $0; 2015 $0; 2016 $0; and 2017 $0.

[8] These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.

The tonnage tax reduces the cost of this tax expenditure by $20 per year in each year of the budget.

[9] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2011 $160, 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160.

[10] The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $5,770: 2012 $6,560: 2013 $7,850.

[11] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2011 $10 ; 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30.

[12] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2011 $430 ; 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940.

[13] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $1,150 and 2012 $540.

[14] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $22,890; 2012 $22,660; 2013 $22,390; 2014 $1,670; 2015 $1,680; 2016 $1,420; and 2017 $1,650.

[15] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $13,876.

[16] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2011 $104,800; 2012 $108,850; 2013 $113,690; 2014 $117,160; 2015 $122,260; 2016 $129,280; and 2017 $136,760.

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

[18] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $21,550; 2015 $43,260; 2016 $55,900; and 2017 $61,800.

[19] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $30; 2012 $110; 2013 $130; 2014 $180; 2015 $210; 2016 $180; and 2017 $150.

[20] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $190; 2012 $150; 2013 $140; 2014 $40; 2015 $0; 2016 $0; and 2017 $0.

[21] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 $55,670; 2012 $52,120; 2013 $52,500; 2014 $46,570; 2015 $47,270; 2016 $47,900; and 2017 $48,790.

[22] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2011 $3,190; 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; and 2017 $3,190.

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

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

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017

(In millions of dollars)

		Corporations								Individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
	National Defense																
1	Exclusion of benefits and allowances to armed forces personnel									13,250	14,270	14,900	15,380	12,960	12,710	13,030	68,980
	International affairs:																
2	Exclusion of income earned abroad by U.S. citizens									5,550	5,400	5,800	6,140	6,430	6,740	7050	32,160
3	Exclusion of certain allowances for Federal employees abroad									1020	1070	1120	1180	1240	1300	1370	6,210
4	Inventory property sales source rules exception	3,160	3,430	3,730	4,050	4,400	4,780	5,180	22,140								
5	Deferral of income from controlled foreign corporations (normal tax method)	41,410	42,000	41,810	41,770	43,020	44,240	45,180	216,020								
6	Deferred taxes for financial firms on certain income earned overseas	6,180	2,510	0	0	0	0	0	0								
	General science, space, and technology:																
7	Expensing of research and	960	3,060	4,950	6,000	6,700	7,190	7,430	32,270	–160	0	120	190	210	230	250	1,000
8	Credit for increasing research activities	8,300	6,280	4,230	3,380	2,700	2,160	1,720	14,190	460	140	0	0	0	0	0	0
	Energy:																
9	Expensing of exploration and development costs, fuels	440	410	690	770	550	340	230	2,580	60	60	100	110	80	50	30	370
10	Excess of percentage over cost depletion, fuels	1,010	1,040	1,070	1,110	1,160	1,210	1,260	5,810	180	180	190	200	210	220	230	1,050
11	Alternative fuel production credit	10	10	10	0	0	0	0	10	0	0	0	0	0	0	0	0
12	Exception from passive loss limitation for working interests in oil and gas properties									30	20	30	30	30	20	20	130
13	Capital gains treatment of royalties on coal									60	90	80	60	80	100	110	430
14	Exclusion of interest on energy facility bonds	10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	130
15	Energy production credit [1]	1,410	1,540	1,710	1,770	1,750	1,670	1,510	8,410	150	170	190	190	190	180	170	920
16	Energy investment credit [1]	560	740	1210	1830	2320	2600	1810	9,770	140	180	300	460	580	650	450	2,440
17	Alcohol fuel credits [2]	480	110	80	40	20	10	10	160	20	30	30	10	10	0	0	50
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	40	20	20	30	50	60	60	220	50	80	160	210	340	560	620	1,890
20	Exclusion of utility conservation subsidies	10	10	10	10	10	10	0	40	210	200	200	200	200	190	190	980
21	Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	120	–70	–180	–190	–180	–150	–120	–820								
23	Credit for investment in clean coal facilities	370	400	410	470	510	280	40	1,710	0	0	0	0	0	0	0	
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	670	580	530	–560	–1170	–990	–830	–3,020	0	0	0	0	0	0	0	
25	Natural gas distribution pipelines treated as 15-year property	120	110	90	80	80	90	100	440	0	0	0	0	0	0	0	0
26	Amortize all geological and geophysical expenditures over 2 years	100	120	130	110	70	50	20	380	20	30	30	30	20	10	10	100
27	Allowance of deduction for certain energy efficient commercial building property	60	70	80	50	20	10	0	160	20	20	20	20	10	0	0	50
28	Credit for construction of new energy efficient homes	20	20	10	10	10	10	0	40	30	30	10	10	10	0	0	30
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	4,370	1,110	0	0	0	0	0	0
30	Credit for energy efficient appliances	280	200	140	120	110	90	0	460	0	0	0	0	0	0	0	0
31	Credit for residential energy efficient property	0	0	0	0	0	0	0	0	840	950	1030	1090	1160	1220	500	5,000
32	Qualified energy conservation bonds [5]	0	10	10	10	10	10	10	50	10	10	20	20	20	20	20	100
33	Advanced Energy Property Credit	390	410	340	240	110	–10	–50	630	40	50	40	30	10	0	–10	70

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued

(In millions of dollars)

		Corporations								Individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
34	Advanced nuclear power production credit	0	0	0	0	0	0	80	80	0	0	0	0	0	0	0	0
	Natural resources and environment:																
35	Expensing of exploration and development costs, nonfuel minerals	60	60	70	80	80	90	100	420	0	0	0	0	0	0	0	0
36	Excess of percentage over cost depletion, nonfuel minerals	550	550	560	560	570	580	580	2,850	30	30	30	40	40	40	40	190
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
38	Capital gains treatment of certain timber income									60	90	80	60	80	100	110	430
39	Expensing of multiperiod timber growing costs	160	170	170	180	190	200	200	940	90	100	110	110	120	120	120	580
40	Tax incentives for preservation of historic structures	470	500	530	560	580	610	640	2,920	40	40	40	50	50	50	60	250
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	30	20	10	0	0	0	30	20	10	10	0	0	0	0	10
42	Industrial CO_2 capture and sequestration tax credit	60	60	60	70	90	220	400	840	0	0	0	0	0	0	0	0
43	Deduction for endangered species recovery expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	20	20	70
	Agriculture:																
44	Expensing of certain capital outlays	0	0	10	10	10	10	10	50	70	70	100	120	120	130	140	610
45	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	120	130	160	170	170	170	180	850
46	Treatment of loans forgiven for solvent farmers									20	20	20	20	20	20	20	100
47	Capital gains treatment of certain income									630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers									90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
50	Expensing of reforestation expenditures	10	10	10	10	10	10	10	50	50	60	70	70	80	80	80	380
	Commerce and housing:																
	Financial institutions and insurance:																
51	Exemption of credit union income	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130								
52	Exclusion of interest on life insurance savings	2,420	2,560	2,670	2,820	2,910	2,970	3,080	14,450	19,640	21,010	22,480	23,990	25,440	26,920	27,350	126,180
53	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200								
54	Tax exemption of certain insurance companies owned by	200	210	210	210	220	220	220	1,080								
55	Small life insurance company deduction	30	30	30	30	30	30	30	150								
56	Exclusion of interest spread of financial institutions									260	490	600	690	760	810	870	3,730
	Housing:																
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
58	Exclusion of interest on rental housing bonds	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
59	Deductibility of mortgage interest on owner-occupied homes	0	0	0	0	0	0	0	0	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes	0	0	0	0	0	0	0	0	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales									970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales									15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income									46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for $25,000 of rental loss									11,080	12,550	15,380	18,450	20,680	21,990	23310	99,810
65	Credit for low-income housing investments [6]	5,840	6,200	7,010	7,440	7,460	7,520	7,900	37,330	310	330	370	390	390	400	420	1,970

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued

(In millions of dollars)

		Corporations								Individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
66	Accelerated depreciation on rental housing (normal tax method)	–20	–10	10	50	100	150	200	510	–120	–40	80	300	590	870	1,130	2,970
67	Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer [7]									2,400	–2,350	–1,150	–590	–520	–470	–410	–3,140
	Commerce:																
69	Cancellation of indebtedness									690	330	–20	–220	–290	–310	–260	–1,100
70	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
71	Treatment of qualified dividends									16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal)									47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock									60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death									3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts									1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method)	–3,300	–3,140	–3,100	–3,000	–2,950	–2,890	–2,820	–14,760	–3,990	–3,830	–4,270	–4,390	–4,270	–4,120	–3,980	–21,030
78	Accelerated depreciation of machinery and equipment (normal tax method)	76,140	46,650	13,750	23,170	43,080	58,140	70,450	208,590	42,390	29,630	19,430	25,560	34,270	40,830	45,960	166,050
79	Expensing of certain small investments (normal tax method)	–40	460	50	–60	90	130	170	380	10	2,600	890	500	1,240	1,440	1,590	5,660
80	Graduated corporation income tax rate (normal tax method)	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670	0	0	0	0	0	0	0	0
81	Exclusion of interest on small issue bonds	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
82	Deduction for US production activities	9840	10310	10870	11490	12140	12810	13460	60,770	3,290	3,440	3,630	3,840	4,060	4,280	4500	20,310
83	Special rules for certain film and TV production	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
	Transportation																
84	Deferral of tax on shipping companies [8]	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
85	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities ...	60	60	60	50	50	50	40	250	190	180	170	160	150	140	130	750
	Community and regional development:																
89	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
90	Exclusion of interest for airport, dock, and similar bonds	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
91	Exemption of certain mutuals' and cooperatives' income	110	110	120	120	120	130	130	620								
92	Empowerment zones, the DC enterprise zone, and renewal communities	450	230	140	140	140	130	120	670	530	440	320	330	340	350	320	1,660
93	New markets tax credit	800	880	910	910	890	810	660	4,180	20	20	20	20	20	20	20	100
94	Expensing of environmental remediation costs	170	–20	–140	–130	–120	–110	–110	–610	30	0	–30	–30	–20	–20	–20	–120
95	Credit to holders of Gulf Tax Credit Bonds.	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
96	Recovery Zone Bonds [9]	0	0	0	0	0	0		0	0	0	0	0	0	0		0
97	Tribal Economic Development Bonds	60	100	140	170	180	180	190	860	110	280	340	410	450	480	500	2,180
	Education, training, employment, and social services:																
	Education:																
98	Exclusion of scholarship and fellowship income (normal tax method)									3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued

(In millions of dollars)

		Corporations								Individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
99	HOPE tax credit									0	0	580	5,780	5,780	5,770	5,800	23,710
100	Lifetime Learning tax credit									2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101	American Opportunity Tax Credit [10]									13,060	14,290	13,710	0	0	0	0	13,710
102	Education Individual Retirement Accounts									70	80	80	90	100	100	110	480
103	Deductibility of student-loan interest									1,400	850	900	960	1,020	1,090	1,160	5,130
104	Deduction for higher education expenses									690	470	0	0	0	0	0	0
105	Qualified tuition programs									1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106	Exclusion of interest on student-loan bonds	140	140	190	230	240	250	260	1,170	340	390	470	550	610	650	680	2,960
107	Exclusion of interest on bonds for private nonprofit educational facilities	610	620	840	1,000	1,070	1,110	1,150	5,170	1490	1700	2060	2430	2690	2860	3,020	13,060
108	Credit for holders of zone academy bonds [11]	200	200	180	160	130	120	110	700								
109	Exclusion of interest on savings bonds redeemed to finance educational expenses								0	20	20	20	20	30	30	30	130
110	Parental personal exemption for students age 19 or over								0	5,600	3,120	2,800	3,060	2,780	2,510	2,260	13,410
111	Deductibility of charitable contributions (education)	650	690	740	790	840	890	940	4,200	2,870	3,220	3,870	4,270	4,660	5,040	5,430	23,270
112	Exclusion of employer-provided educational assistance								0	710	750	40	0	0	0	0	40
113	Special deduction for teacher expenses								0	190	170	0	0	0	0	0	0
114	Discharge of student loan indebtedness								0	20	20	20	20	20	20	20	100
115	Qualified school construction bonds [12]	60	110	150	160	160	160		630	150	290	430	490	490	490		1,900
	Training, employment, and social services:																
116	Work opportunity tax credit	860	790	570	310	130	60	20	1,090	250	140	50	30	10	10	0	100
117	Welfare-to-work tax credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
118	Employer provided child care exclusion									840	1350	1580	1670	1780	1900	2040	8,970
119	Employer-provided child care credit	10	10	0	0	0	0	0	0								0
120	Assistance for adopted foster children									500	530	560	600	650	690	730	3,230
121	Adoption credit and exclusion [13]									1,200	760	380	110	80	80	80	730
122	Exclusion of employee meals and lodging (other than military)									9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123	Child credit [14]									23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124	Credit for child and dependent care expenses									4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
126	Deductibility of charitable contributions, other than education and health	1,430	1,510	1,600	1,690	1,770	1,860	1940	8,860	28,390	31,780	38,170	42,210	46,030	49,800	53,650	229,860
127	Exclusion of certain foster care payments									410	410	400	410	400	390	380	1,980
128	Exclusion of parsonage allowances									660	710	770	830	900	970	1,050	4,520
129	Employee retention credit for employers in certain federal disaster areas	20	10	0	0	0	0	0	0	10	0	0	0	0	0	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters									20	0	0	0	0	0	0	0
131	Making work pay tax credit [15]									23,528	0	0	0	0	0	0	0
	Health:																
132	Exclusion of employer contributions for medical insurance premiums and medical care [16]									163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133	Self-employed medical insurance premiums [17]									5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134	Medical Savings Accounts / Health Savings Accounts									1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135	Deductibility of medical expenses									8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
136 Exclusion of interest on hospital construction bonds	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270
137 Refundable Premium Assistance Tax Credit [18]									0	0	0	0	–2,440	–3,610	–4,460	–10,510
138 Credit for employee health insurance expenses of small business [19]	270	480	570	820	940	820	670	3,820	560	990	1,180	1,680	1,930	1,680	1,390	7,860
139 Deductibility of charitable contributions (health)	190	200	210	230	240	250	260	1,190	3,180	3,560	4,280	4,730	5,160	5,590	6020	25,780
140 Tax credit for orphan drug research	770	930	1120	1360	1640	1,990	2,410	8,520								
141 Special Blue Cross/Blue Shield deduction	715	680	590	530	610	710	690	3,130								
142 Tax credit for health insurance purchased by certain displaced and retired individuals [20]									10	10	10	0	0	0	0	10
143 Distributions from retirement plans for premiums for health and long-term care insurance									300	330	360	400	440	490	510	2,200
Income security:																
144 Exclusion of railroad retirement system benefits									360	340	290	260	250	240	220	1,260
145 Exclusion of workers' compensation benefits									7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970
146 Exclusion of public assistance benefits (normal tax method)									670	710	750	770	800	840	850	4,010
147 Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
148 Exclusion of military disability pensions									120	120	130	130	130	130	140	660
Net exclusion of pension contributions and earnings:																
149 Employer plans									36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040
150 401(k)-type plans									53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760
151 Individual Retirement Accounts									12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080
152 Low and moderate income savers credit									1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510
153 Self-Employed plans									15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200
Exclusion of other employee benefits:																
154 Premiums on group term life insurance									1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020
155 Premiums on accident and disability insurance									340	350	360	360	370	370	370	1,830
156 Income of trusts to finance supplementary unemployment benefits									30	30	40	50	60	70	80	300
157 Special ESOP rules	1,030	1,110	1,180	1,150	1,220	1,290	1,370	6,210	470	490	520	550	580	610	630	2,890
158 Additional deduction for the blind									40	30	40	50	50	50	50	240
159 Additional deduction for the elderly									2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600
160 Tax credit for the elderly and disabled									10	10	10	10	10	10	0	40
161 Deductibility of casualty losses									270	300	350	380	390	420	440	1,980
162 Earned income tax credit [21]									1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162
Social Security:																
Exclusion of social security benefits:																
163 Social Security benefits for retired workers									25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280
164 Social Security benefits for disabled workers									7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110
165 Social Security benefits for spouses, dependents and survivors									4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190
Veterans benefits and services:																
166 Exclusion of veterans death benefits and disability compensation									5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210
167 Exclusion of veterans pensions									240	300	340	370	390	420	440	1,960
168 Exclusion of GI bill benefits									810	1,030	1,190	1,280	1,350	1,420	1,470	6,710

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17
169 Exclusion of interest on veterans housing bonds	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
General purpose fiscal assistance:																
170 Exclusion of interest on public purpose State and local bonds	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
171 Build America Bonds [22]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Interest:																
173 Deferral of interest on U.S. savings bonds									1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
Nonbusiness State and local taxes other than on owner-occupied homes									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Exclusion of interest on State and local bonds for:																
Public purposes	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
Energy facilities	10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	130
Water, sewage, and hazardous waste disposal facilities	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
Small-issues	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
Owner-occupied mortgage subsidies	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
Rental housing	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
Airports, docks, and similar facilities	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
Student loans	140	140	190	230	240	250	260	1,170	340	390	470	550	610	650	680	2,960
Private nonprofit educational facilities	610	620	840	1,000	1,070	1,110	1,150	5,170	1,490	1,700	2,060	2,430	2,690	2,860	3,020	13,060
Hospital construction	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270
Veterans' housing	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700								

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

The effect of the grant on outlays (in millions of dollars) is as follows: 2011 $3,510; 2012 $4,130; 2013 $3,850; 2014 $3,210; 2015 $1,230; 2016 $290; 2017 $110.

[2] In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2011 $6,520; 2012 $3,590; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0.
The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2011 $160; 2012 $170; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2011 $760; 2012 $210; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0.

[4] In addition, the provision has outlay effects of (in millions of dollars):
2011 $20 ; 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50.

[5] In addition, the provision has outlay effects of (in millions of dollars):
2011 $30 ; 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60.

[6] In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows:
2010 $1940; 2011 $3480; 2012 $180.

[7] The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows:
2010 $8,670; 2011 $2,760; 2012 $310; 2013 $0; 2014 $0; 2015 $0; 2016 $0; and 2017 $0.

[8] These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.
The tonnage tax reduces the cost of this tax expenditure by $20 per year in each year of the budget.

[9] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:
2011 $160, 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160.
[10] The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $5,770: 2012 $6,560: 2013 $7,850.
[11] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):
2011 $10 ; 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30.
[12] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars):
2011 $430 ; 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940.
[13] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $1,150 and 2012 $540.
[14] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $22,890; 2012 $22,660; 2013 $22,390; 2014 $1,670; 2015 $1,680; 2016 $1,420; and 2017 $1,650.
[15] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $13,876.
[16] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows:
2011 $104,800; 2012 $108,850; 2013 $113,690; 2014 $117,160; 2015 $122,260; 2016 $129,280; and 2017 $136,760.
[17] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.
[18] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows:
2014 $21,550; 2015 $43,260; 2016 $55,900; and 2017 $61,800.
[19] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows:
2011 $30; 2012 $110; 2013 $130; 2014 $180; 2015 $210; 2016 $180; and 2017 $150.
[20] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $190; 2012 $150; 2013 $140; 2014 $40; 2015 $0; 2016 $0; and 2017 $0.
[21] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2011 $55,670; 2012 $52,120; 2013 $52,500; 2014 $46,570; 2015 $47,270; 2016 $47,900; and 2017 $48,790.
[22] In addition, Build America Bonds have outlay effects of (in millions of dollars):
2011 $3,190; 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; and 2017 $3,190.
Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.
All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2013	2013–17
132	Exclusion of employer contributions for medical insurance premiums and medical care	180,580	1,012,320
59	Deductibility of mortgage interest on owner-occupied homes	100,910	606,420
150	401(k)-type plans	72,740	428,760
78	Accelerated depreciation of machinery and equipment (normal tax method)	33,180	374,640
63	Exclusion of net imputed rental income	51,080	337,380
72	Capital gains (except agriculture, timber, iron ore, and coal)	62,040	321,470
149	Employer plans	52,330	298,040
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	46,260	295,050
126	Deductibility of charitable contributions, other than education and health	39,770	238,720
170	Exclusion of interest on public purpose State and local bonds	36,210	227,500
5	Deferral of income from controlled foreign corporations (normal tax method)	41,810	216,020
74	Step-up basis of capital gains at death	23,860	182,210
62	Capital gains exclusion on home sales	23,440	171,110
163	Social Security benefits for retired workers	25,620	149,280
52	Exclusion of interest on life insurance savings	25,150	140,630
60	Deductibility of State and local property tax on owner-occupied homes	22,320	140,630
153	Self-Employed plans	19,580	112,200
151	Individual Retirement Accounts	19,650	100,080
64	Exception from passive loss rules for $25,000 of rental loss	15,380	99,810
82	Deduction for US production activities	14,500	81,080
1	Exclusion of benefits and allowances to armed forces personnel	14,900	68,980
135	Deductibility of medical expenses	9,910	63,170
122	Exclusion of employee meals and lodging (other than military)	10,290	53,240
123	Child credit	18,390	53,130
164	Social Security benefits for disabled workers	8,230	45,110
145	Exclusion of workers' compensation benefits	7,790	42,970
65	Credit for low-income housing investments	7,380	39,300
133	Self-employed medical insurance premiums	5,970	37,760
7	Expensing of research and experimentation expenditures (normal tax method)	5,070	33,270
2	Exclusion of income earned abroad by U.S. citizens	5,800	32,160
166	Exclusion of veterans death benefits and disability compensation	5,650	31,210
111	Deductibility of charitable contributions (education)	4,610	27,470
100	Lifetime Learning tax credit	3,920	27,210
139	Deductibility of charitable contributions (health)	4,490	26,970
136	Exclusion of interest on hospital construction bonds	4,280	26,890
99	HOPE tax credit	580	23,710
4	Inventory property sales source rules exception	3,730	22,140
71	Treatment of qualified dividends	21,900	21,900
165	Social Security benefits for spouses, dependents and survivors	3,890	20,190
80	Graduated corporation income tax rate (normal tax method)	3,300	18,670
107	Exclusion of interest on bonds for private nonprofit educational facilities	2,900	18,230
85	Exclusion of reimbursed employee parking expenses	3,290	17,970
98	Exclusion of scholarship and fellowship income (normal tax method)	3,290	17,690
162	Earned income tax credit	3,155	17,162
159	Additional deduction for the elderly	2,780	16,600
75	Carryover basis of capital gains on gifts	2,070	16,440
8	Credit for increasing research activities	4,230	14,190
101	Lifetime Learning tax credit	13,710	13,710
110	Parental personal exemption for students age 19 or over	2,800	13,410
16	Energy investment credit	1,510	12,210
134	Medical Savings Accounts / Health Savings Accounts	2,070	11,820
138	Credit for employee health insurance expenses of small business.	1,750	11,680
154	Premiums on group term life insurance	2,120	11,020
105	Qualified Tuition Programs	1,890	10,390
15	New technology credit	1,900	9,330
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,460	9,170

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2013	2013–17
157	Special ESOP rules	1,700	9,100
118	Employer provided child care exclusion	1,580	8,970
140	Tax credit for orphan drug research	1,120	8,520
58	Exclusion of interest on rental housing bonds	1,240	7,790
61	Deferral of income from installment sales	1,350	7,300
124	Credit for child and dependent care expenses	1,620	7,040
10	Excess of percentage over cost depletion, fuels	1,260	6,860
168	Exclusion of GI bill benefits	1,190	6,710
173	Deferral of interest on U.S. savings bonds	1,250	6,650
3	Exclusion of certain allowances for Federal employees abroad	1,120	6,210
51	Exemption of credit union income	1,160	6,130
90	Exclusion of interest for airport, dock, and similar bonds	970	6,130
79	Expensing of certain small investments (normal tax method)	940	6,040
152	Low and moderate income savers credit	1,130	5,510
103	Deductibility of student-loan interest	900	5,130
31	30% credit for residential purchases/installations of solar and fuel cells	1,030	5,000
128	Exclusion of parsonage allowances	770	4,520
47	Capital gains treatment of certain income	830	4,310
93	New markets tax credit	930	4,280
106	Exclusion of interest on student-loan bonds	660	4,130
146	Exclusion of public assistance benefits (normal tax method)	750	4,010
73	Capital gains exclusion of small corporation stock	280	3,850
56	Exclusion of interest spread of financial institutions	600	3,730
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	580	3,640
66	Accelerated depreciation on rental housing (normal tax method)	90	3,480
120	Assistance for adopted foster children	560	3,230
40	Tax incentives for preservation of historic structures	570	3,170
86	Exclusion for employer-provided transit passes	560	3,170
141	Special Blue Cross/Blue Shield deduction	590	3,130
36	Excess of percentage over cost depletion, nonfuel minerals	590	3,040
97	Tribal Economic Development Bonds	480	3,040
9	Expensing of exploration and development costs, fuels	790	2,950
115	Qualified school construction bonds	580	2,530
92	Empowerment zones, Enterprise communities, and Renewal communities	460	2,330
143	Distributions from retirement plans for premiums for health and long-term care insurance	360	2,200
19	Tax credit and deduction for clean-fuel burning vehicles	180	2,110
81	Exclusion of interest on small issue bonds	340	2,110
127	Exclusion of certain foster care payments	400	1,980
161	Deductibility of casualty losses	350	1,980
167	Exclusion of veterans pensions	340	1,960
155	Premiums on accident and disability insurance	360	1,830
23	Credit for investment in clean coal facilities	410	1,710
39	Expensing of multiperiod timber growing costs	280	1,520
144	Exclusion of railroad retirement system benefits	290	1,260
116	Work opportunity tax credit	620	1,190
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	210	1,080
20	Exclusion of utility conservation subsidies	210	1,020
88	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	230	1,000
45	Expensing of certain multiperiod production costs	170	900
42	Industrial CO2 capture and sequestration tax credit	60	840
121	Adoption credit and exclusion	380	730
33	Advanced Energy Property Credit	380	700
108	Credit for holders of zone academy bonds	180	700
44	Expensing of certain capital outlays	110	660
148	Exclusion of military disability pensions	130	660
91	Exemption of certain mutuals' and cooperatives' income	120	620
26	Amortize all geological and geophysical expenditures over 2 years	160	480

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2013	2013–17
48	Income averaging for farmers	90	480
102	Education Individual Retirement Accounts	80	480
30	Credit for energy efficient appliances	140	460
25	Natural gas distribution pipelines treated as 15-year property	90	440
13	Capital gains treatment of royalties on coal	80	430
38	Capital gains treatment of certain timber income	80	430
50	Expensing of reforestation expenditures	80	430
35	Expensing of exploration and development costs, nonfuel minerals	70	420
21	Credit for holding clean renewable energy bonds	70	350
76	Ordinary income treatment of loss from small business corporation stock sale	60	300
156	Income of trusts to finance supplementary unemployment benefits	40	300
67	Discharge of mortgage indebtedness	250	250
70	Exceptions from imputed interest rules	50	250
95	Credit to holders of Gulf Tax Credit Bonds.	50	240
158	Additional deduction for the blind	40	240
17	Alcohol fuel credits	110	210
27	Allowance of deduction for certain energy efficient commercial building property	100	210
14	Exclusion of interest on energy facility bonds	30	200
53	Special alternative tax on small property and casualty insurance companies	40	200
147	Exclusion of special benefits for disabled coal miners	40	200
83	Special rules for certain film and TV production	80	160
87	Tax credit for certain expenditures for maintaining railroad tracks	80	160
32	Qualified energy conservation bonds	30	150
55	Small life insurance company deduction	30	150
169	Exclusion of interest on veterans housing bonds	20	140
12	Exception from passive loss limitation for working interests in oil and gas properties	30	130
109	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	130
43	Deduction for endangered species recovery expenditures	20	120
46	Treatment of loans forgiven for solvent farmers	20	100
49	Deferral of gain on sale of farm refiners	20	100
84	Deferral of tax on shipping companies	20	100
89	Investment credit for rehabilitation of structures (other than historic)	20	100
114	Discharge of student loan indebtedness	20	100
125	Credit for disabled access expenditures	20	100
34	Advanced nuclear power production credit	0	80
28	Credit for construction of new energy efficient homes	20	70
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	30	40
112	Exclusion of employer-provided educational assistance	40	40
160	Tax credit for the elderly and disabled	10	40
11	Alternative fuel production credit	10	10
142	Tax credit for health insurance purchased by certain displaced and retired individuals	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
29	Credit for energy efficiency improvements to existing homes	0	0
96	Recovery Zone Bonds	0	0
104	Deduction for higher education expenses	0	0
113	Special deduction for teacher expenses	0	0
117	Welfare-to-work tax credit	0	0
119	Employer-provided child care credit	0	0
129	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters	0	0
131	Making work pay tax credit	0	0
171	Build America Bonds	0	0
94	Expensing of environmental remediation costs	–170	–730
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–180	–820
69	Cancellation of indebtedness	–20	–1,100

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2013	2013–17
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	530	–3,020
67	Credit for homebuyer	–1,150	–3,140
137	Refundable Premium Assistance Tax Credit	0	–10,510
77	Accelerated depreciation of buildings other than rental housing (normal tax method)	–7,370	–35,790

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

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

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that in-

Table 17–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2011

(In millions of dollars)

	Provision	2011 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	24,420
7	Expensing of research and experimentation expenditures (normal tax method)	3,400
21	Credit for holding clean renewable energy bonds	310
9	Expensing of exploration and development costs - fuels	280
35	Expensing of exploration and development costs - nonfuels	60
39	Expensing of multiperiod timber growing costs	120
45	Expensing of certain multiperiod production costs - agriculture	230
44	Expensing of certain capital outlays - agriculture	150
50	Expensing of reforestation expenditures	30
52	Deferral of income on life insurance and annuity contracts	19,240
66	Accelerated depreciation on rental housing	8,100
77	Accelerated depreciation of buildings other than rental	–10,990
78	Accelerated depreciation of machinery and equipment	27,085
79	Expensing of certain small investments (normal tax method)	190
108	Credit for holders of zone academy bonds	160
65	Credit for low-income housing investments	6,580
105	Deferral for state prepaid tuition plans	4,300
149	Exclusion of pension contributions - employer plans	82,920
150	Exclusion of 401(k) contributions	89,190
151	Exclusion of IRA contributions and earnings	1,290
151	Exclusion of Roth earnings and distributions	3,570
151	Exclusion of non-deductible IRA earnings	140
153	Exclusion of contributions and earnings for Self-Employed plans	3,380
170	Exclusion of interest on public-purpose bonds	18,720
	Exclusion of interest on non-public purpose bonds	6,320
173	Deferral of interest on U.S. savings bonds	260

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

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

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

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2011. Legislation enacted in 2011 extended and expanded the work opportunity credit to employers for hiring unemployed veterans, as well as changed the calculation of modified Adjusted Gross Income (AGI) in determining certain federal health care program eligibility.

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

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

National Defense

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

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude such expenses to the extent that they do not exceed 30 percent of the earned income inclusion, with geographical adjustments, over 16 percent of the earned income limit. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

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

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

5. ***Income of U.S.-controlled foreign corporations.***—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast,

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

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

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

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

The base amount is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. The research credit expired on December 31, 2011.

Energy

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

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

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

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

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. With the exception of liquefied hydrogen, these facilities must be placed in service before January 1, 2011.

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

Passive losses that are unused may be carried forward and applied against future passive income.

An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

13. ***Capital gains treatment of royalties on coal.***—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

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

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

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

17. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production. With the exception of the cellulosic biofuel credit, these provisions expired on December 31, 2011.

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for biodiesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2011.

19. ***Credit for alternative motor vehicles and refueling property.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative fuel vehicle refueling property, fuel cell vehicles and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). The credits for advanced lean burn technology, and for hybrid and alternative motor vehicles, expired on December 31, 2010, while the credit for non-hydrogen refueling stations expired on December 31, 2011.

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

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

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax

gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must be made prior to January 1, 2012.

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

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

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

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

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

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals $1,000 in the case of a new manufactured home that meets a 30 percent standard. This provision expired on December 31, 2011.

29. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property. This provision expired on December 31, 2011.

30. ***Credit for energy efficient appliances.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance. This provision expired on December 31, 2011.

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

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

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

34. ***Advanced nuclear power facilities production credit.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than $125 million per 1,000 MW of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.

Natural Resources and Environment

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

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

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

38. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

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

40. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit. Qualified GO (Gulf Opportunity) Zone expenditures qualify for a 26 percent credit.

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

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

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

Agriculture

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

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

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

47. ***Capital gains treatment of certain income.***—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's

income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. . Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

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

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

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

Commerce and Housing

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

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

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

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

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

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

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

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

to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

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

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

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

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

62. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to $250,000 ($500,000 in the case of a married couple filing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale, In addition, the exclusion may not be used more than once every two years.

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

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

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

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

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

under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

67. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million ($1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after January 1, 2007, and before January 1, 2013.

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

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

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

71. ***Treatment of qualified dividends.***—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, in 2011 qualified dividends were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, dividends will be taxed as ordinary income.

72. ***Capital gains (other than agriculture, timber, and coal).***—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, in 2011 capital gains on assets held for more than one year were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

73. ***Capital gains exclusion for small business stock.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2012. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

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

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

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

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

78. ***Accelerated depreciation of machinery and equipment.***—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the

reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

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

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

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

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

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

Transportation

84. ***Deferral of tax on U.S. shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

85. ***Exclusion of employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2012, the maximum amount of the parking exclusion will be $240 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

86. ***Exclusion of employee transit pass expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The American Recovery and Reinvestment Act of 2009 ("ARRA," Pub. L. 111-5) included a provision that equalized the maximum exclusion amount for these expenses with the maximum exclusion amount for employee parking expenses. This parity provision was to sunset on December 31, 2010, but was extended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("TRUIRJCA," Pub. L. 111-312) through December 31, 2011. The maximum amount of the exclusion in 2012 is set at $125 per month.

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

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

Community and Regional Development

89. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to invest-

ments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit. Qualified GO Zone expenditures qualify for a 13 percent credit.

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

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

92. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for Empowerment Zones and the DC Enterprise Zone expired December 31, 2011. A taxpayer's ability to accrue new tax benefits for Renewal Communities expired December 31, 2009.

93. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. A CDE must first receive an allocation of tax credit from Treasury before it can sell the tax credit to the investor in exchange for the equity investment. The total equity investment available for the credit across all CDEs is $5 billion in 2011, the last year for which allocations can be made.

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

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

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

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

Education, Training, Employment, and Social Services

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

99. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees (dollar amounts are for 2011). The credit only covers tuition and fees paid during the first two years of a student's

post-secondary education. In 2011, the credit is phased out ratably for taxpayers with modified AGI between $102,000 and $122,000 if married filing jointly ($51,000 and $61,000 for other taxpayers), indexed.

100. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. In 2011, the credit is phased out ratably for taxpayers with modified AGI between $102,000 and $122,000 if married filing jointly ($51,000 and $61,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

101. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the American Opportunity tax credit allows a partially refundable credit of up to $2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). The credit is available for qualified expenses incurred in tax years beginning on or after January 1, 2009 and on or before December 31, 2012.

102. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2011 is $2,000 per beneficiary. In 2011, the maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 if married filing jointly ($95,000 and $110,000 for other taxpayers).

103. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In general, interest may only be deducted for the first five years in which interest payments are required, and the maximum deduction is phased down ratably for taxpayers with modified AGI between $60,000 and $75,000 if married filing jointly ($40,000 to $55,000 for other taxpayers), indexed from 2001. However, for tax years beginning on January 1, 2001 and before December 31, 2011, the first five year requirement is suspended, and the phase down range for the deduction is raised. In 2011, the maximum deduction is phased down ratably for taxpayers with modified AGI between $120,000 and $150,000 if married filing jointly ($60,000 and $75,000 for other taxpayers).

104. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2011 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for other taxpayers). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for other taxpayers) may deduct up to $2,000. This provision expired on December 31, 2011.

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

106. ***Student-loan bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

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

108. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. Under current law, the total amount of zone academy bonds that may be issued is limited to $1.4 billion in 2009 and 2010 as of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2011.

109. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses.

The tax exemption is phased out for taxpayers with AGI between $106,650 and $136,650 if married filing jointly ($71,000 and $86,100 for other taxpayers) in 2011.

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

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

112. ***Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is $5,250 per taxpayer.

113. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2011.

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

115. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

116. ***Work opportunity tax credit (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before December 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit was extended to certain recently discharged unemployed veterans through December 31, 2012 with a maximum credit of $9,600 for hiring eligible veterans.

117. ***Welfare-to-work tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law an employer is eligible for a tax credit on the first $20,000 of eligible wages paid to qualified long-term family assistance recipients during the first two years of employment. The welfare-to-work credit expired on December 31, 2006. After this date, long-term welfare recipients became a WOTC target group.

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

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

120. ***Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and var-

ied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount not spent. These payments are excluded from gross income under current law.

121. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a refundable tax credit for qualified adoption expenses under current law. The maximum credit is $13,360 per child for 2011, and is phased-out ratably for taxpayers with modified AGI between $182,520 and $222,520. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

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

123. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. Any unclaimed credit due to insufficient tax liability may be refundable – taxpayers may claim a refund for 15 percent of earnings in excess of a $3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of EITC received (up to the amount of unused credit) if this results in a larger refund. The maximum credit declines to $500 in 2013 and later years and refundability is restricted to taxpayers who are eligible for the credit under the alternative calculation. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for single or head of household filers and $55,000 for married taxpayers filing separately).

124. ***Child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides parents who work or attend school and who have child and dependent care expenses a tax credit. In 2011, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

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

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

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

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

129. ***Provide an employee retention credit to employers affected by certain natural disasters. --*** The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in selected areas affected by natural disasters such as hurricanes Katrina, Rita, Wilma, and Ike. This provision expired on December 31, 2009.

130. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income of certain rebates or reductions of state and local income and property taxes provided by states or localities if the taxpayer is a member of a volunteer emergency response organization. The Tax Code also allows an exclusion from taxable income of certain payments such as reimbursements for expenses or equipment allowances of up to $360 per year provided by states or localities on account of performance of services as a member of a volunteer emergency response organization. This provision expired on December 31, 2010.

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

Health

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

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

134. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2011, $3050 for taxpayers with individual coverage and $6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

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

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

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

138. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

139. ***Charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to

other charitable institutions are listed under the education, training, employment, and social services function.

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

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

142. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act and a subsequent extension increased the credit to 80 percent in coverage months preceding March 2011. The Trade Adjustment Assistance Extension Act of 2011 extended an enhanced credit of 72.5% through December 2013, but eliminated the credit entirely beginning January 1, 2014.

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

Income Security

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

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

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

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

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

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

150. ***401(k) type plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2011, an employee could exclude up to $16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,000 in contributions (indexed). The 401(k)-type plan contribution limit including both employee and employer contributions is $49,000 in 2011 (indexed). The tax on contributions made by both employees and employers and the investment income earned by 401(k)-type plans is deferred until withdrawn.

151. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,000 in 2011 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for

workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Individuals who make nondeductible contributions to a traditional IRA can still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions; however, taxpayers at any income level may roll account balances from traditional IRAs into Roth IRAs, after paying income tax on any deduction and accrued income.

152. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $56,500 for joint filers, $42,375 for head of household filers, and $28,250 for other filers in 2011.

153. ***Self-Employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of $49,000 in 2011. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

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

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

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

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

158. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,450 standard deduction if single, or $1,150 if married in 2011.

159. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,450 standard deduction if single, or $1,150 if married in 2011.

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

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

162. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $9,100 of earned income in 2011. The credit is 40 percent of the first $12,780 of income for a family with two or more qualifying children. The credit is 45 percent of the first $12,780 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $5,980 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

Social Security

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

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

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

Veterans Benefits and Services

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

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

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

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

General Government

170. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

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

the private lenders receive the 35 percent credit which is included in taxable income.

172. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. The election to deduct sales taxes instead of income taxes expires at the end of 2011.

Interest

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

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

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

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

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

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

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the

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

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

A Framework for Evaluating the Effectiveness of Tax Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform submitted a report in 2010 in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures' —another name for spending through the tax code."

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

Reduce the value of certain tax expenditures. The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over $250,000 (at 2009 levels) and single taxpayers with income over $200,000 (at 2009 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2012. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

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

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

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

Extend the EITC for larger families, expand the child and dependent care tax credit, and provide for automatic enrollment in individual retirement accounts. Although these reforms would increase the cost of these tax expenditures, they would increase the equity of the overall tax system and provide benefits to low and middle income families.

Allow a range of tax expenditures to expire. The Tax Reconciliation, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended many provisions of the tax code for up to two years, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures were not extended. For instance, the Making Work Pay Credit, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to $500 for taxpayers who to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.