proposes to extend the $250,000 expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010.

Extend temporary bonus depreciation for certain property.—Under a temporary provision of ARRA described above, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired after calendar year 2007 and before calendar year 2010, and placed in service in calendar year 2009 (through 2010 for certain longer-lived and transportation property). Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property. The Administration proposes to extend, for an additional year, the bonus depreciation provision and the election to claim additional research or AMT tax credits in lieu of the additional first-year depreciation. The proposal would apply to qualifying property acquired after calendar year 2007 and before calendar year 2011, and placed in service in calendar year 2010 (through 2011 for certain longer-lived and transportation property).

Extend option for cash assistance to States in lieu of housing tax credits.—The Administration proposes to allow States to elect cash assistance in lieu of low-income housing tax credits (LIHTC) for 2010 to finance certain low-income residential rental properties. The cash assistance for each State could not exceed an election amount equal to 85 percent of the product of ten and the sum of the State's: (1) unused housing credit ceiling for 2009; (2) returns to the State during 2010 of credit allocations (other than credit allocations derived, directly or indirectly, under section 1400N(c) of the Code) made by the State in a prior year; (3) 40 percent of the State's 2010 per capita authority: and (4) 40 percent of the State's share of the 2010 national pool allocation, if any. States would be required to use the cash assistance by December 31, 2012, to finance the construction or rehabilitation (including acquisition) of qualified low-income housing projects generally subject to the same rental requirements and recapture rules as properties financed with LIHTC. The Department of the Treasury would be provided additional authority to ensure that the cash assistance is used in compliance with LIHTC rules.

Tax Cuts for Families and Individuals

Expand EITC.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phase-out rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Three separate credit schedules apply, depending on whether the eligible taxpayer has no, one, or more than one qualifying child. Under prior law, for taxable year 2009, taxpayers with more than one qualifying child were provided a credit of 40 percent on up to $12,570 in earnings, for a maximum credit of $5,028. The credit was reduced at the rate of 21.06 percent of earnings in excess of $16,420 for single taxpayers ($19,540 for married taxpayers filing a joint return). Effective for taxable years 2009 and 2010, ARRA increased the credit percentage for families with three or more qualifying children to 45 percent, thereby creating a fourth credit schedule with a maximum credit of $5,657. ARRA also increased the income thresholds for the phaseout of the EITC for married taxpayers filing a joint return to $5,000 above the threshold for single taxpayers. Effective for taxable years beginning after December 31, 2010, the Administration proposes to permanently extend the 45-percent credit percentage for families with three or more qualifying children.[6]

Expand child and dependent care tax credit.—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are only eligible if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for up to 35 percent of up to $3,000 in eligible expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases at a rate of one percent 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 $85,000 (and thus, the end of the phasedown range to $113,000) but is otherwise unchanged. The proposal would be effective for tax years beginning after December 31, 2010.

Provide for automatic enrollment in IRAs and double 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 for taxable years beginning after December 31, 2011. Small employers (those with ten or fewer employees) and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees

[6] As described in footnote 5, the current policy baseline assumes extension of the 2001 and 2003 tax cuts as amended through June 2009. ARRA's EITC expansion for married couples is such an amendment and so its continuation is already included in the Administration's current policy baseline.