Table 14–2. ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
BBEDCA baseline receipts	**2,712.2**	**3,000.3**	**3,276.8**	**3,476.0**	**3,660.2**	**3,866.4**	**4,107.5**	**4,335.8**	**4,570.3**	**4,797.5**	**5,057.6**	**17,279.6**	**40,148.2**
Adjustments to BBEDCA baseline:													
Extend increased refundability of the child tax credit [1]	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend EITC marriage penalty relief [1]	....	....	....	....	....	–0.1	–1.5	–1.5	–1.5	–1.6	–1.6	–0.1	–7.8
Extend EITC for larger families [1]	....	....	....	....	....	–*	–*	–*	–*	–*	–*	–*	–*
Extend AOTC [1]	....	....	....	....	....	–0.9	–9.3	–9.7	–10.1	–10.7	–11.0	–0.9	–51.7
Total, adjustments to BBEDCA baseline	**.........**	**.........**	**.........**	**.........**	**.........**	**–1.0**	**–10.8**	**–11.2**	**–11.7**	**–12.2**	**–12.6**	**–1.0**	**–59.6**
Adjusted baseline receipts	**2,712.2**	**3,000.3**	**3,276.8**	**3,476.0**	**3,660.2**	**3,865.3**	**4,096.7**	**4,324.6**	**4,558.6**	**4,785.2**	**5,045.0**	**17,278.6**	**40,088.7**

* $50 million or less.

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Extend increased refundability of the child tax credit	....	....	....	....	....	0.5	10.1	10.2	10.2	10.2	10.3	0.5	51.5
Extend EITC marriage penalty relief	....	....	....	....	....	*	0.1	0.1	0.1	0.1	0.1	*	0.4
Extend EITC for larger families	....	....	....	....	....	0.1	1.6	1.7	1.7	1.7	1.8	0.1	8.6
Extend AOTC	....	....	....	....	....	....	7.3	8.1	8.3	8.5	8.7	....	40.8
Total, outlay effects of adjustments to BBEDCA baseline	....	....	....	....	....	0.6	19.0	20.0	20.2	20.5	20.8	0.6	101.2

RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM

The number of special deductions, credits, and other tax preferences provided to businesses in the Internal Revenue Code has expanded significantly since the last comprehensive tax reform effort nearly three decades ago. Such tax preferences help well-connected special interests, but do little for economic growth. To be successful in an increasingly competitive global economy, the Nation cannot afford a tax code burdened with such special interest tax breaks; instead, the tax code needs to ensure that the United States is the most attractive place for entrepreneurship and business growth. The President is therefore calling on the Congress to immediately begin work on business tax reform and has laid out a framework that contains the following five elements: (1) Eliminate loopholes and subsides, broaden the base and cut the corporate tax rate; (2) Strengthen American manufacturing and innovation; (3) Strengthen the international tax system; (4) Simplify and cut taxes for small businesses; and (5) Restore fiscal responsibility and not add a dime to the deficit. Consistent with this framework, the Administration is offering a detailed set of business proposals that close loopholes and provide incentives for growth in a fiscally responsible manner. The Administration proposes that these proposals be enacted as part of revenue-neutral business tax reform. As a result, the net savings from these proposals, which are described below, are not reflected in the budget estimates of receipts and are not counted toward meeting the Administration's deficit reduction goals.

Incentives for Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs

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

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, 2014 through 2016.

Enhance and make permanent the R&E tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. These tax credits will expire with respect to expenditures paid or incurred after December 31, 2013. The Administration proposes to permanently extend these tax credits and to raise the rate of the alternative simplified credit to 17 percent.

Extend certain employment tax credits, including incentives for hiring veterans.—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups and the Indian employment tax credit provides incentives to employers for hiring individuals who are members of an Indian tribe. The Indian employment tax credit applies to increases in qualified wages and health insurance costs over qualified wages and health insurance costs incurred in calendar year 1993 (the base year). The Administration proposes to permanently extend both credits, which include the Returning Heroes and Wounded Warrior credits enacted in 2011. In addition, the Administration proposes to modify the Indian employment tax credit by changing the base year wages and health insurance costs to the average of those costs in the two years prior to the year for which the credit is being claimed.

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, 2013, 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). 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 December 31, 2013, and before January 1, 2021. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2018, to 50 percent of such amount for vehicles placed in service in 2019, and to 25 percent of such amount for vehicles placed in service in 2020. 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 alternative-fuel vehicles (other than fuel-cell vehicles) weighing more than 14,000 pounds. The Administration proposes to provide a tax credit for dedicated alternative-fuel commercial vehicles weighing more than 14,000 pounds. The credit would be 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, 2013, and before January 1, 2020. 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.

Modify and permanently extend renewable electricity production tax credit.—Current law provides production tax credits for renewable energy facilities the construction of which begins before the end of 2013. 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 permanently extend the production tax credit for renewable energy property and to make it refundable. The refundable credit would be allowed with respect to property the construction of which begins in 2014 or thereafter for property that is part of a facility otherwise eligible for the renewable electricity production tax credit and for solar property.

Modify and permanently extend the deduction for energy-efficient commercial building property.—The Administration proposes to increase both the maximum deduction and the partial deduction available for the installation of energy-efficient commercial building property. In addition, the proposal would enable existing buildings to qualify for a deduction, by reference to measured and verified energy savings over the baseline for that structure's energy performance prior to the retrofit project. The new deductions would be permanent and would be available for property placed in service after calendar year 2013.

Tax Relief for Small Business

Extend increased expensing for small business.— Business taxpayers are allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 through 2013. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $2,000,000. The Administration proposes to permanently extend these expensing and investment limits, effective for qualifying property placed in service in taxable years beginning after December 31, 2013. These limits would be indexed for inflation in taxable years beginning after 2013. Qualifying property would permanently include off-the-shelf computer software, but would not include certain real property.

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, 2014, 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 roll over capital gain from the sale of qualified small business stock held for more than six months if other qualified small business stock is purchased during the 60-day period beginning on the date of sale. The exclusion is limited to individual investments and not the investments of a corporation. The Administration proposes to permanently extend the 100-percent exclusion, extend the rollover period from 60 days to six months for stock held at least three years, and 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, 2013.

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 have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent employee wages that average less than $50,000 and make non-elective uniform contributions of at least 50 percent of the premium. 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. The maximum credit, which is a specified percentage of premiums the employer pays during the taxable year, is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between average annual wages of $25,000 and $50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying average wages of less than $50,000 might not be eligible for any tax credit. For taxable years beginning in 2010 through 2013, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the State average premium. For taxable years beginning after 2013, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the average premium for the small group market in the rating areas in which the employee enrolls for coverage.

The Administration proposes to expand the credit to employers with up to 50 (rather than 25) full-time equivalent employees and to begin the phaseout of the maximum credit at 20 full-time equivalent employees (the credit would be reduced on a sliding scale between 20 and 50, rather than between 10 and 25, full-time equivalent employees). In addition, there would be a change to the coordination of the phaseouts of the credit that apply as the number of employees and average wages increase (using a formula that is multiplicative rather than additive) so as to provide a more gradual combined phaseout and to ensure that employers with fewer than 50 employees and an average wage less than $50,000 may be eligible for the credit, even if they are nearing the end of both phaseouts. The Administration also proposes to reduce taxpayer complexity by eliminating the requirement that an employer make a uniform contribution on behalf of each employee (although applicable nondiscrimination laws will still apply), and eliminating the reduction in the qualifying contribution for premiums that exceed the average premium in the State or rating area. The proposal would be effective for taxable years beginning after December 31, 2012.

Incentives to Promote Regional Growth

Extend and modify the 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 expire at the end of 2013. The Administration proposes to permanently extend the NMTC. Up to $5 billion in qualifying investment would be allowed in each year beginning in 2014. The proposal would also permit the NMTC to permanently offset AMT liability.

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 2014 to 2023, 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 2023. 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 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.

Reform and expand the LIHTC.—The Administration proposes several changes to the rules governing LIHTCs. First, States would be empowered to convert some private-activity-bond volume cap into authority to allocate additional LIHTCs. This proposal would give each State more flexibility to address its highest affordable housing priorities.

Second, to serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with an income-averaging 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. 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 the current income limit for the building and if, when the tenant's income is measured for purposes of LIHTC qualification, the income is greater than the current income limit for the building 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.

Third, the Administration proposes to change the formulas that produce the rates for the 70-percent-present-value credits and for those 30-percent-present-value credits that are subject to the LIHTC allocation cap. In lieu

of the nine-percent floor that is scheduled to sunset for allocations made after 2013, the revised formulas would produce annual allocated-credit rates that are somewhat higher than the rates that today's present-value formulas produce and would result in a more consistent benefit over the interest rate spectrum than under current law. The proposal would apply to allocations made after December 31, 2013.

Fourth, the Administration proposes to add preservation of federally assisted affordable housing to the selection criteria for LIHTC allocation. This factor would join the ten criteria that State housing agencies must include in the qualified allocation plans that they follow in deciding which applicants receive LIHTCs. The proposal would apply to allocations made in calendar years beginning after the date of enactment.

Finally, to increase the demand for LIHTCs, the Administration proposes to make them beneficial to real estate investment trusts (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 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.

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 current law, a taxpayer may choose to claim a credit against its U.S. income tax liability for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or any possession of the United States, subject to certain limitations. The reduction to two foreign tax credit limitation categories, for passive category income and general category income under the American Jobs Creation Act of 2004, enhanced U.S. taxpayers' ability to reduce the residual U.S. tax on foreign-source income through "cross-crediting." 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 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 foreign affiliates.—Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to foreign affiliates, offset by an exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such 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 pur-

chaser 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 for U.S. tax purposes if a redemption transaction results in the elimination of earnings and profits of the foreign corporation. The foreign income taxes reduced under the proposal would be the foreign income taxes that are associated with the eliminated earnings and profits.

Reform Treatment of Financial and Insurance Industry Institutions and Products

Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary.—Under current law, derivative contracts are subject to various rules on timing and character. The Administration's proposal would require that gain or loss from a derivative contract be reported on an annual basis as if the contract were sold for its fair market value no later than the last business day of the taxpayer's taxable year. Gain or loss resulting from the contract would be treated as ordinary and as attributable to a trade or business of the taxpayer. A derivative contract would be broadly defined to include (1) any contract the value of which is determined, directly or indirectly, in whole or in part, by actively traded property; and (2) any contract with respect to a contract described in (1). A derivative contract that is embedded in another financial instrument or contract is subject to mark to market if the derivative by itself would be marked. In addition, a financial instrument (e.g., stock) that is not otherwise marked to market that is part of (or becomes part of) a straddle transaction with a derivative contract would be marked to market, with preexisting gain recognized at that time and loss recognized when the financial instrument is otherwise disposed of. An exception from mark-to-market treatment would be provided for business hedging transactions. The proposal would apply to contracts entered into after December 31, 2013.

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, 2013.

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, 2013.

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, 2013, 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 2014: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and gas; and (8) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2014: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; (3) capital gains treatment for royalties; and (4) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels.

Other Revenue Changes and Loophole Closers

Repeal the excise tax credit for distilled spirits with flavor and wine additives.—Distilled spirits are taxed at a rate of $13.50 per proof-gallon. Some distilled spirits are flavored with wine or other additives. Current law allows a credit against the $13.50 per proof gallon excise tax on distilled spirits for flavor and wine additives. As a result of the credit, flavorings of up to 2.5 percent of the distilled spirit mixture are tax exempt, and wine in a distilled spirits mixture is taxed at the lower rate on wine. Thus, the credit reduces the effective excise tax rate paid on distilled spirits with such content. The proposal would repeal this credit effective for all spirits produced in or imported into the United States after December 31, 2013.

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 change their method of accounting for inventory and report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change. Taxpayers would recognize any resulting income 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.

Modify depreciation rules for purchases of general aviation passenger aircraft.—Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Administration proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years, effective for such airplanes placed in service after December 31, 2013.

Repeal gain limitation for dividends received in reorganization exchanges.—If, as part of a corporate reorganization, a taxpayer receives both stock and other property that cannot be received without the recognition of gain (often referred to as "boot"), the exchanging shareholder recognizes gain but it is limited to the lesser of the gain realized or the amount of boot received. This limit 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. The proposal would be effective for taxable years beginning after December 31, 2013.

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM
(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Incentives for manufacturing, research, clean energy, and insourcing and creating jobs:													
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	....	–5	–10	–10	–10	–12	–12	–12	–13	–14	–14	–47	–112
Provide new Manufacturing Communities tax credit	....	–19	–103	–240	–392	–516	–618	–701	–729	–641	–452	–1,270	–4,411
Enhance and make permanent the R&E tax credit	....	–3,893	–7,282	–8,121	–8,975	–9,832	–10,669	–11,439	–12,225	–13,052	–13,890	–38,103	–99,378
Extend certain employment tax credits, including incentives for hiring veterans	....	–359	–817	–1,006	–1,060	–1,049	–1,009	–968	–943	–936	–939	–4,291	–9,086
Provide a tax credit for the production of advanced technology vehicles	....	–50	–283	–461	–784	–1,079	–1,175	–933	–144	352	345	–2,657	–4,212
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	....	–71	–362	–411	–488	–471	–247	–217	108	66	37	–1,803	–2,056
Modify and permanently extend renewable electricity production tax credit [1]	....	–43	–177	–664	–1,160	–1,543	–1,915	–2,320	–2,778	–3,192	–3,651	–3,587	–17,443
Modify and permanently extend the deduction for energy-efficient commercial building property	....	–83	–217	–350	–489	–575	–624	–701	–736	–729	–718	–1,714	–5,222
Total, incentives for manufacturing, research, clean energy, and insourcing and creating jobs	....	–4,523	–9,251	–11,263	–13,358	–15,077	–16,269	–17,291	–17,460	–18,146	–19,282	–53,472	–141,920
Tax relief for small business:													
Extend increased expensing for small business	....	–6,839	–9,626	–7,732	–6,974	–6,543	–6,344	–6,182	–6,064	–6,130	–6,227	–37,714	–68,661
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	....	–262	–730	–1,163	–1,615	–2,040	....	–5,810
Double the amount of expensed start-up expenditures	–223	–251	–311	–310	–308	–304	–300	–297	–296	–294	–292	–1,484	–2,963
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance [1]	....	–720	–1,386	–1,453	–1,299	–1,167	–1,044	–972	–857	–796	–802	–6,025	–10,496
Total, tax relief for small business	–223	–7,810	–11,323	–9,495	–8,581	–8,014	–7,950	–8,181	–8,380	–8,835	–9,361	–45,223	–87,930
Incentives to promote regional growth:													
Extend and modify the NMTC	–20	–47	–109	–231	–393	–588	–809	–1,023	–1,240	–1,416	–1,507	–1,368	–7,363
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	–4	–12	–12	–12	–12	–12	–12	–12	–12	–12	–12	–60	–120
Reform and expand the LIHTC	....	–12	–38	–67	–96	–127	–157	–188	–208	–238	–256	–340	–1,387
Total, incentives to promote regional growth	–24	–271	–359	–510	–701	–927	–1,178	–1,423	–1,660	–1,866	–1,975	–2,768	–10,870
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income of foreign subsidiaries	....	2,612	4,466	4,653	4,840	5,025	5,196	5,361	2,662	836	869	21,596	36,520
Determine the foreign tax credit on a pooling basis	....	3,478	5,948	6,197	6,447	6,693	6,920	7,140	7,373	7,630	7,926	28,763	65,752
Tax currently excess returns associated with transfers of intangibles offshore	....	1,552	2,612	2,659	2,667	2,605	2,512	2,433	2,358	2,315	2,292	12,095	24,005
Limit shifting of income through intangible property transfers	....	47	96	126	157	189	222	257	295	336	383	615	2,108
Disallow the deduction for non-taxed reinsurance premiums paid to foreign affiliates	....	312	532	556	591	630	650	681	717	752	788	2,621	6,209
Limit earnings stripping by expatriated entities	....	234	401	421	442	464	488	512	538	565	593	1,962	4,658
Modify tax rules for dual capacity taxpayers	....	552	946	998	1,054	1,109	1,162	1,214	1,268	1,302	1,359	4,659	10,964

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Tax gain from the sale of a partnership interest on look-through basis	....	133	229	240	252	265	278	292	307	322	338	1,119	2,656
Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment	....	172	293	306	318	330	341	352	364	376	391	1,419	3,243
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	....	9,162	15,643	16,283	16,904	17,456	17,919	18,392	16,032	14,584	15,089	75,448	157,464
Reform treatment of financial and insurance industry institutions and products:													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary	....	2,419	4,576	4,148	2,614	1,682	1,148	705	510	532	555	15,439	18,889
Modify rules that apply to sales of life insurance contracts	....	17	54	58	62	66	70	73	77	80	84	257	641
Modify proration rules for life insurance company general and separate accounts	....	294	515	532	552	566	549	526	500	465	602	2,459	5,101
Extend pro rata interest expense disallowance for corporate-owned life insurance	....	26	60	131	278	478	651	817	986	1,158	1,334	973	5,919
Total, reform treatment of financial and insurance industy institutions and products	....	2,756	5,205	4,869	3,506	2,792	2,418	2,121	2,073	2,235	2,575	19,128	30,550
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	....	1,663	2,460	2,125	1,639	1,099	748	514	366	289	90	8,986	10,993
Repeal deduction for tertiary injectants	....	8	12	12	11	11	11	11	11	10	10	54	107
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	7	10	9	8	8	7	7	6	6	6	42	74
Repeal percentage depletion for oil and natural gas wells	....	1,039	1,044	1,042	1,041	1,045	1,052	1,067	1,091	1,121	1,181	5,211	10,723
Repeal domestic manufacturing deduction for oil and natural gas production	....	1,119	1,926	1,951	1,944	1,884	1,783	1,717	1,703	1,705	1,715	8,824	17,447
Increase geological and geophysical amortization period for independent producers to seven years	....	60	220	333	304	221	141	64	11	2	7	1,138	1,363
Subtotal, eliminate oil and gas preferences	....	3,896	5,672	5,472	4,947	4,268	3,742	3,380	3,188	3,133	3,009	24,255	40,707
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	25	43	45	47	49	48	47	44	44	40	209	432
Repeal percentage depletion for hard mineral fossil fuels	....	113	193	196	198	201	206	209	216	222	228	901	1,982
Repeal capital gains treatment for royalties	....	14	31	37	42	45	48	50	53	55	57	169	432
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels	....	33	34	36	39	40	41	44	45	48	49	182	409
Subtotal, eliminate coal preferences	....	185	301	314	326	335	343	350	358	369	374	1,461	3,255
Total, eliminate fossil fuel tax preferences	....	4,081	5,973	5,786	5,273	4,603	4,085	3,730	3,546	3,502	3,383	25,716	43,962

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Other revenue changes and loophole closers:													
Repeal the excise tax credit for distilled spirits with flavor and wine additives [2]	....	85	112	112	112	112	112	112	112	112	112	533	1,093
Repeal LIFO method of accounting for inventories	....	3,493	7,595	8,538	8,287	8,290	8,732	8,739	8,402	9,045	9,701	36,203	80,822
Repeal lower-of-cost-or-market inventory accounting method	....	617	1,344	1,460	1,470	864	259	270	283	296	309	5,755	7,172
Modify depreciation rules for purchases of general aviation passenger aircraft	....	65	201	299	334	404	437	341	231	197	193	1,303	2,702
Repeal gain limitation for dividends received in reorganization exchanges	....	146	252	259	267	275	283	292	300	309	319	1,199	2,702
Expand the definition of built-in loss for purposes of partnership loss transfers	....	5	6	7	7	7	7	8	8	8	10	32	73
Extend partnership basis limitation rules to nondeductible expenditures	....	56	77	85	91	95	98	102	107	114	123	404	948
Limit the importation of losses under related party loss limitation rules	....	53	71	79	84	88	92	95	99	105	113	375	879
Deny deduction for punitive damages	....	25	35	36	36	38	39	39	41	41	42	170	372
Eliminate section 404(k) ESOP dividend deduction for large C corporations	....	407	614	665	674	682	691	699	707	716	722	3,042	6,577
Total, other revenue changes and loophole closers	....	4,952	10,307	11,540	11,362	10,855	10,750	10,697	10,290	10,943	11,644	49,016	103,340
Total, reserve for revenue-neutral business tax reform	**–247**	**8,347**	**16,195**	**17,210**	**14,405**	**11,688**	**9,775**	**8,045**	**4,441**	**2,417**	**2,073**	**67,845**	**94,596**

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Modify and permanently extend renewable electricity production tax credit	....	21	88	332	580	771	957	1,159	1,388	1,595	1,825	1,792	8,716
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	....	92	177	186	166	149	134	124	109	102	103	770	1,342
Total, outlay effects of reserve for revenue-neutral business tax reform	....	113	265	518	746	920	1,091	1,283	1,497	1,697	1,928	2,562	10,058

[2] Net of income offsets.

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

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

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

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

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, 2014.

Eliminate section 404(k) employee stock ownership plan (ESOP) dividend deduction for large C corporations.—Generally, corporations do not receive a corporate income tax deduction for dividends paid to their shareholders. However, a deduction for dividends paid on employer securities is allowed under a special rule for ESOPs, including, for example, on employer stock held in an "ESOP account" that is one of the investment options available to employees under a typical 401(k) plan. Dividends on stock of corporations other than the employer that are held in retirement plans are not deductible by the paying corporation. This difference in treatment creates an artificial preference for investment in employer stock that is at best difficult to justify. The Administration's proposal would repeal the special 404(k) dividend deduction for employer stock held in an ESOP that is sponsored by a C corporation with annual receipts of more than $5 million. This proposal would be effective with respect to dividends paid after the date of enactment.

BUDGET PROPOSALS

The Administration's proposals, which begin the process of reducing the deficit and reforming the Internal Revenue Code, will strengthen the economy and provide support to middle-income families. These proposals provide support for job creation and incentives for investment in infrastructure, and help families save for retirement and pay for college and child care. They also reduce the deficit and make the tax system fairer by eliminating a number of tax loopholes and reducing tax benefits for higher-income taxpayers. The Administration's proposals that affect receipts are described below.

Tax Relief to Create Jobs and Jumpstart Growth

Provide small businesses 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 a temporary income tax credit for small 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 eligible wages paid over the eligible wages paid in the comparable period. Eligible wag-

es are the employer's Old Age, Survivors, and Disability Insurance (OASDI) wages paid in the relevant period. 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 the comparable period, eligible wages would be deemed to be 80 percent of their OASDI wages. The credit also would be available to tax exempt organizations and public institutions of higher education. This credit will be available to small employers with eligible wages in 2012 of less than $20 million.

Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.—ARRA provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualified advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy); the total amount of credits certified may not exceed $2.3 billion. The Administration proposes to provide an additional $2.5 billion in credits, thereby increasing the amount of credits certified by the Department of the Treasury to $4.8 billion.

Designate Promise Zones.—The Administration proposes to designate 20 Promise Zones (14 in urban areas and 6 in rural areas). The zones would be designated in four rounds of five zones each, which would become effective at the beginning of 2015, 2016, 2017, and 2018. Zone designations would last for 10 years. The zones would be chosen through a competitive application process based on the strength of the applicant's "competitiveness plan," economic indicators, and other criteria. Two tax incentives would be applicable to promise zones designated after the incentives' enactment. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first $15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

Incentives for Investment in Infrastructure

Provide America Fast Forward 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 create a new permanent America Fast Forward Bond program, which would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would be conventional taxable bonds issued by State and local governments in which the Federal government makes direct payments to State and local governmental issuers (refundable tax credits). The subsidy rate would be 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The proposal would be effective for bonds issued beginning in 2014.

Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories.— The Administration proposes to include as an eligible use for America Fast Forward Bonds, financing for governmental capital projects, current refundings of prior public capital project financings, short-term governmental working capital financings for governmental operating expenses subject to a 13-month maturity limitation, and financing for the types of projects and programs that can be financed with qualified private activity bonds (including financing for section 501(c)(3) nonprofit entities), subject to applicable State bond volume caps for the qualified private activity bond category. The subsidy rate would be set at 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The proposed program would be effective for bonds issued beginning in 2014.

Increase the Federal subsidy rate for America Fast Forward Bonds for school construction.— The Administration proposes to provide a 50 percent Federal subsidy rate for America Fast Forward Bonds issued for original financings of governmental capital projects for public schools and State universities and new money financings for Section 501(c)(3) nonprofit educational entities, such as nonprofit schools and universities that could be financed with qualified 501(c)(3) bonds. The 50 percent Federal subsidy rate would not apply to current refundings of prior public capital projects for public schools and

State universities or current refundings of prior financings of section 501(c)(3) educational entities. The proposal would be effective for bonds issued in 2014 and 2015.

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

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

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

Eliminate the volume cap for private activity bonds for water infrastructure.—Under current law, private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements for qualified private activity bonds. Most qualified private activity bonds are subject to an annual unified State volume cap. The Administration proposes to provide an exception to the annual unified State volume cap on tax-exempt qualified private activity bonds for exempt water or sewage facilities. The proposal would be effective for bonds issued after the date of enactment.

Increase the 25-percent limit on land acquisition restriction on private activity bonds.— Under current law, for qualified private activity bonds, only an amount equal to less than 25 percent of the net proceeds may be used for the acquisition of land or an interest in land (other than certain exceptions such as the exception for first-time farmers). The Administration proposes to increase the 25-percent land acquisition restriction to 35 percent. The proposal would be effective for bonds issued after the date of enactment.

Allow more flexible research arrangements for purposes of private business use limits.—Under current law, the IRS provides safe harbors that allow certain research arrangements with private businesses at tax-exempt bond financed research facilities. The existing safe harbors generally impose constraints on these research arrangements. The Administration proposes to remove certain of these constraints to provide additional flexibility for these research arrangements relating to basic research entered into after the date of enactment.

Repeal the government ownership requirement for certain types of exempt facility bonds.—Current law permits tax-exempt financing with respect to certain categories of exempt facilities, including airports, docks and wharves, and mass commuting facilities. Airports, docks and wharves, and mass commuting facilities are treated as exempt facilities only if all of the property to be financed with the net proceeds of the issue is to be owned by a governmental unit. Existing rules provide a safe harbor for ownership by a governmental unit where such facilities are leased or subject to management contracts with nongovernmental units. The Administration proposes to repeal the requirement under the tax-exempt bond rules that airports, docks and wharves, and mass commuting facilities must be owned by a governmental unit. The proposal would be effective for bonds issued after the date of enactment.

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

Tax Cuts for Families and Individuals

Provide for automatic enrollment in IRAs, including a small employer tax credit, 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 their employees to provide automatic enrollment in an IRA, effective after December 31, 2014. 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 SEP 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 SEP 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, 2014) and to extend it to four years (rather than three) for any small employer that adopts a new qualified retirement SEP or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

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. 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). 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, 2013.

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 be extended for two years, to apply to amounts that are discharged after December 31, 2013, and before January 1, 2016, or that are discharged pursuant to an agreement entered into before that date.

Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with various options for making payments that are related to their income and student loan debt levels after college. Under 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 terms of their plan. For those who reach this 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 these 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 certain borrowers using these methods of repayment. The provision would be effective for discharges of loans after December 31, 2013.

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, 2013, and for qualifying scholarship amounts received after December 31, 2013.

Upper-Income Tax Provisions

Reduce the value of certain tax expenditures.— The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would reduce the value of the specified exclusions and deductions that would otherwise reduce taxable income in the top three individual income tax rate brackets of 33, 35, and 39.6 percent to 28 percent. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions. If a deduction or exclusion for contributions to retirement plans or individual retirement arrangements is limited by this proposal, the taxpayer's basis would be adjusted to reflect the additional tax paid. The limit would be effective for taxable years beginning after December 31, 2013.

Implement the Buffett Rule by imposing a new "Fair Share Tax".—The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high-income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit equals 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over regular income tax (after certain credits, including the AMT and the 3.8 percent surtax on investment income) and the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax excludes the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The tax is phased in linearly starting at $1 million of AGI ($500,000 in the case of a married individual filing a separate return). The tax is fully phased in at $2 million of AGI ($1 million in the case of a married individual filing a separate return). The threshold is indexed for inflation beginning after 2014. The proposal would be effective for taxable years beginning after December 31, 2013.

Modify Estate and Gift Tax Provisions

Restore the estate, gift, and GST tax parameters in effect in 2009.—Under current law, estates, gifts, and GSTs are taxed at a maximum tax rate of 40 percent with a lifetime exclusion of $5 million, indexed for inflation after 2011. The Administration proposes to restore and permanently extend estate, gift, and GST tax parameters as they applied for calendar year 2009. Under those parameters, estates and GSTs would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $3.5 million. Gifts would be taxed at a maximum tax rate of 45 percent with a lifetime exclusion of $1 million. These parameters would be effective for the estates of decedents dying and transfers made after December 31, 2017, and would not be indexed for inflation.

Require consistency in value for transfer and income tax purposes.—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. A special limitation based on fair market value at the time of the gift applies if the property subsequently is sold by the donee at a loss. 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.

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 ($5,250,000 in 2013) 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 $5,250,000 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. If a person who is a deemed owner of all or a portion of a trust engages in a transaction with that trust that constitutes a sale, exchange, or comparable transaction that is disregarded for income tax purposes by reason of the person's treatment as a deemed owner of the trust under the grantor trust rules, then the portion of the trust attributable to the property received by the trust in that transaction, net of the consideration received by the person in the transaction, will be (1) subject to estate tax as part of the deemed owner's gross estate, (2) subject to gift tax at any time during the deemed owner's life when his or her treatment as a deemed owner of the trust is terminated, and (3) treated as a gift by the deemed owner to the extent any distribution is made to another (except in discharge of the deemed owner's obligation to the distributee) during the deemed owner's life. The transfer taxes would be payable from the trust.

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 most cases in a manner that is economical and efficient for both taxpayers and the Federal government.

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

Reform Treatment of Financial 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, and 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 and would be effective on January 1, 2015.

Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt.—Much as original issue discount (OID) is part of the yield of a debt instrument purchased at original issuance, market discount generally enhances the yield to a purchaser of debt in the secondary market. Unlike OID, however, market discount is deferred until a debt instrument matures or is otherwise sold or transferred. The Administration's proposal would require taxpayers to accrue market discount into income currently, in the same manner as original issue discount. To prevent over-accrual of market discount on distressed debt, the accrual would be limited to the greater of (1) an amount equal to the bond's yield to maturity at issuance plus five percentage points, or (2) an amount equal to the Applicable Federal Rate plus 10 percentage points. The proposal would apply to debt securities acquired after December 31, 2013.

Require that the cost basis of stock that is a covered security must be determined using an average cost basis method.—Current regulations permit taxpayers to use "specific identification" when they sell or otherwise dispose of stock. Specific identification allows taxpayers who hold identical shares of stock that have different tax basis to select the amount of gain or loss to recognize on the disposition. The Administration's proposal would require the use of average cost basis for all identical securities held by a taxpayer that have a long-term holding period. The proposal would apply to covered securities acquired after December 31, 2013.

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 December 31, 2014, and the receipts would be distributed through a set allocation between Federal and non-Federal lands. Funds would be used to restore the most hazardous hardrock AML sites, on both public and private lands. The receipts allocated to restoration of non-Federal lands would be distributed to States and Tribes based on need, with each State and Tribe selecting its own priority projects within certain national criteria.

Return fees on the production of coal to pre-2006 levels to restore abandoned mines.—Since October 1, 1977, the Department of the Interior has collected fees on every ton of coal produced in the United States to finance the reclamation of abandoned coal mines. The fees levied on mine operators were originally $0.35 per ton for surfaced mined coal and $0.15 per ton for underground mined coal. The 2006 amendments to the Surface Mining Control and Reclamation Act instituted a phased reduction in these fees beginning in 2006. However, nearly $4 billion worth of abandoned coal mine hazards remain today. The Administration proposes to restore the fees to their original level, effective for coal mined after September 30, 2013, to provide additional resources to continue addressing the legacy of abandoned coal mines.

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 for periods after December 31, 2013, and to 10 cents per barrel for periods after December 31, 2016. In addition, the Administration proposes to update the law to include other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax would cover, at the applicable rate, other sources of crudes received at a U.S. refinery, entered into the United State, or used or exported as described above after December 31, 2013.

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 2013, with expiration for periods and tax years after 2023. The proposed taxes include the following: (1) an excise tax of 9.7 cents per barrel on crude oil and imported petroleum products; (2) an excise tax on specified hazardous chemicals at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use the specified hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income

of a corporation exceeds $2 million. Consistent with the Administration's proposal regarding taxes deposited in the Oil Spill Liability Trust Fund, the Superfund excise tax on crude oil and petroleum products would cover other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock.

Increase tobacco taxes and index for inflation.—Under current law, cigarettes are taxed at a rate of $50.33 per 1,000 cigarettes. This is equivalent to just under $1.01 per pack, or approximately $22.88 per pound of tobacco. Taxes on other tobacco products range from $0.5033 per pound for chewing tobacco to $24.78 per pound of roll-your-own tobacco. The Administration proposes to increase the tax on cigarettes to $97.65 per 1,000 cigarettes, or about $1.95 per pack, increase all other tobacco taxes by about the same proportion, and index the taxes for inflation after 2014. The Administration also proposes to clarify that roll-your-own tobacco includes any processed tobacco that is removed for delivery to anyone other than a manufacturer of tobacco products or exporter. The rate increases would be effective for articles held for sale or removed after December 31, 2013.

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, 2014.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The economic downturn continues to severely test the adequacy of States' UI systems, forcing many States to borrow from the Federal Unemployment Account within the Unemployment Insurance Trust Fund 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 2013 and 2014 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 2016, 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.

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 20-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as an "investment services partnership interest" (ISPI) and to tax a partner's share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for tax years ending 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 Administration proposes to amend the charitable contribution deduction provision to prohibit a deduction for any contribution of a partial interest in property that is, or is intended to be, used as a golf course. The proposal would apply to contributions made after the date of enactment.

Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation.—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 historic preservation easement donated to a qualified charitable organization exclusively for conservation purposes, provided that the value of the deduction is reduced for any return benefit to the donor. Concerns have been raised that the deduction amounts claimed for such easements are excessive and may not appropriately take into account existing limitations on the property.

The Administration proposes to disallow a deduction for any value associated with forgone upward develop-

ment above an historic building. The Administration also proposes to require contributions of conservation easements on all historic buildings, including those listed in the National Register of Historic Places, to comply with a 2006 amendment that requires contributions of historic preservation easements on buildings in registered historic districts to comply with special rules relating to the preservation of the entire exterior of the building and the documentation of the easement contribution. These changes would apply to contributions made after the date of enactment.

Require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years.—Under current law, owners of IRAs and employees with tax-favored retirement plans generally must take distributions from those retirement accounts beginning at age 70-1/2. The minimum amount required to be distributed is based on the life expectancy of the owner or plan participant, calculated at the end of each year. Minimum distribution rules also apply to balances remaining after a participant or IRA owner has died. Heirs who are designated as beneficiaries under IRAs and qualified retirement plans may receive distributions over their lifetimes, no matter what the age difference between the deceased IRA owner or plan participant and the beneficiary. The Administration proposes to require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years. Exceptions would be provided for disabled beneficiaries and beneficiaries within 10 years of age of the deceased IRA owner or plan participant. Minor children would be allowed to receive payments up to five years after they attain the age of majority. This proposal would be effective for distributions with respect to participants or IRA owners who die after December 31, 2013.

Limit the total accrual of tax-favored retirement benefits.—The Administration proposes to limit the deduction or exclusion for contributions to defined contribution plans, defined benefit plans, or IRAs for an individual who has total balances or accrued benefits under those plans that are sufficient to provide an annuity equal to the maximum allowable defined benefit plan benefit. This maximum, currently an annual benefit of $205,000 payable in the form of a joint and survivor benefit commencing at age 62, is indexed for inflation, and the maximum accumulation that would apply for an individual at age 62 is approximately $3.4 million. The proposal would be effective for taxable years beginning after December 31, 2013.

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, 2013.

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, 2013.

Modify reporting of tuition expenses and scholarships on Form 1098-T.—Under current law, institutions of higher education file Form 1098-T to report tuition expenses to students and to the IRS. The educational institution has the choice of filling out Box 1 (payments received for qualified tuition and related expenses) or Box 2 (amounts billed for qualified tuition and related expenses). Box 2 reporting makes Form 1098-T less useful for the student and for the IRS in determining what expenses the student has already paid, and thus the amount of education tax credit that may be claimed for the current tax year. Institutions of higher education are also required to report scholarships and grants (Box 5) that they administer or distribute (for instance, Pell grants). Only expenses paid net of scholarships qualifies for education tax benefits. In addition, scholarships that are not used to pay for eligible education expenses are taxable. Entities other than institutions of higher learning that provide scholarships and grants are not required to file Form 1098-T to report these amounts to students or to the IRS. The Administration proposes to improve Form 1098-T reporting to make the information more useful to students and to the IRS. The proposal would require institutions of higher learning to report amounts paid and

not amounts billed on Form 1098-T. It would also require any entity issuing a scholarship or grant in excess of $500 that is not processed or administered by an institution of higher learning to report the scholarship or grant on Form 1098-T. The threshold amount is indexed for inflation after 2014. The proposal would be effective for tax years beginning after December 31, 2013.

Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA).—In many cases, foreign law would prevent foreign financial institutions from complying with the FATCA provisions of the Hiring Incentives to Restore Employment Act of 2010 by reporting to the IRS information about U.S. accounts. Such legal impediments can be addressed through intergovernmental agreements under which the foreign government agrees to provide the information required by FATCA to the IRS. Requiring U.S. financial institutions to report similar information to the IRS with respect to nonresident accounts would facilitate such intergovernmental cooperation by enabling the IRS to reciprocate in appropriate circumstances by exchanging similar information with cooperative foreign governments to support their efforts to address tax evasion by their residents. The proposal would provide the Secretary of the Treasury with authority to prescribe regulations that would require reporting of information with respect to nonresident alien individuals, entities that are not U.S. persons, and certain U.S. entities held in substantial part by non-U.S. owners, including information regarding account balances and payments made with respect to accounts held by such persons and entities.

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, but that have assets of $10 million or more, 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, 2013.

Make e-filing mandatory for exempt organizations.—The Administration proposes to require that all Form 990 series tax and information returns be filed electronically. The proposal would also require the IRS to make the electronically filed Form 990 series returns publicly available in a machine readable format in a timely manner. The proposal would generally be effective for taxable years beginning after the date of enactment.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports and electronic filing of certain other employee benefit plan reports.—The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement activity. (It also serves to satisfy certain requirements for filing with the Pension Benefit Guaranty Corporation.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to tax code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to 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. Additionally, the IRS would be allowed to require electronic filing of a separate form that reports information to IRS and the Social Security Administration concerning plan participants who terminate employment with a right to future benefits under the plan. The proposal would be effective for plan years beginning after December 31, 2013.

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 under which leasing companies would be 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, 2013.

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, 2013.

Strengthen Tax Administration

Impose liability on shareholders participating in "Intermediary Transaction Tax Shelters" to collect unpaid corporate income taxes.— Certain shareholders, corporate officers and directors, and their advisors have engaged in "Intermediary Transaction Tax Shelters." These transactions are structured so that when the corporation's assets are sold, the corporation is ultimately left with insufficient assets from which to pay the tax owed from the asset sale. In a typical case, an intermediary entity purportedly purchases the shareholders' stock, either after or shortly before the corporation sells its assets. The corporate cash from the asset sale effectively finances the purchase of the shareholders' stock and no assets are left to pay the corporate tax liability. Existing law does not adequately protect the Federal government's interest in collecting the amounts due as a result of these transactions. The Administration therefore proposes to add a new section to the Internal Revenue Code that would identify the elements of "Intermediary Transaction Tax Shelters" (to be further defined in regulations) and impose liability on the selling shareholders for the unpaid corporate taxes to the extent they received proceeds, directly or indirectly, for their shares. This proposal would be effective upon enactment.

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 tax administration.—The Administration proposes an adjustment to the discretionary spending limits, as established in the BBEDCA, and amended by the Budget Control Act of 2011, for IRS tax enforcement, compliance, and related activities, including tax administration activities at the Alcohol and Tobacco Tax and Trade Bureau (TTB). In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2014 cap adjustment for the IRS and TTB will fund over $400 million in new revenue-producing initiatives above current levels of enforcement and compliance activity. Beyond 2014, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2015 through 2018 and to sustain all of the new initiatives plus inflationary costs through 2023. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly $13.8 billion over the budget window, and is estimated to generate an additional $46.5 billion in revenue over that same period for a net savings of over $32.7 billion. These resources will help the IRS and TTB continue to work on closing the tax gap, defined as the difference between taxes owed and those paid on time and estimated at $450 billion in 2006. Enforcement funds provided through the 2014 cap adjustment will continue to target international tax compliance, identify and prevent refund fraud, and restore previously reduced enforcement levels.

Enhance UI program integrity.—The Administration proposes to make investments in UI program integrity by increasing funding for Reemployment and Eligibility

Assessments (REAs), which are conducted 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, which 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. In addition, legislation will be proposed to expand State use of the Treasury Offset Program (TOP) and the Separation Information Data Exchange System (SIDES), which already improve program integrity. TOP allows States to recover UI overpayments from claimants' tax refunds when the claimant is at fault. SIDES allows States and employers to exchange information on reasons for a claimant's separation from employment, which helps States determine UI eligibility; separation issues are the second largest cause of UI improper payments.

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). 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 with a taxpayer to settle any civil or criminal case arising under the Internal Revenue Code prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the 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 period of five consecutive years, 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, 2013.

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 stat-

ute 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, 2013.

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, 2013.

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.

Provide the Secretary of the Treasury authority to access and disclose prisoner data to prevent and identify improper payments.—The Administration proposes to provide the Secretary of the Treasury access to information contained in the Social Security Administration’s (SSA’s) Prisoner Update Processing System (PUPS) for tax administration purposes and for identifying, preventing, and recovering improper payments. The PUPS database contains local prison data and is more complete than the information that the Department of the Treasury currently receives under section 6116 of the Internal Revenue Code for tax administration purposes. The proposal also expands the information the prisons are required to report to SSA to include release dates and prison assigned inmate numbers, which are disclosed pursuant to section 6116 but are not currently part of the PUPS database. This data will allow the Department of the Treasury to compare prisoner information with data about persons requesting or receiving Federal payments and to identify individuals who are ineligible to receive payments or who are receiving erroneous or fraudulent payments and/or filing fraudulent tax returns. SSA will transfer PUPS data to the Department of the Treasury Fiscal Service on a regular basis, where it will be maintained for use by other Federal agencies.

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, 2013.

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, 2013.

Restrict access to the Death Master File (DMF).—The DMF, which is publicly available and updated weekly by the Social Security Administration (SSA), contains the full name, Social Security number (SSN), date of birth, date of death, and the county, state, and zip code of the last address on record for decedents. Although some DMF users need immediate access to the DMF for fraud prevention purposes, others are using the DMF for illegitimate purposes, including identity thieves who use the DMF to steal the names and SSNs of recent decedents, which information identity thieves then use to file fraudulent tax returns. The Administration is proposing to restrict immediate access to the DMF to those users who legitimately need the information for fraud prevention purposes and to delay the release of the DMF to all other users. This proposal would reduce opportunities for identity theft and restrict information sources used to file fraudulent tax returns. The proposal would be effective upon enactment.

Provide whistleblowers with protection from retaliation.—Under current law, the Internal Revenue Code does not protect whistleblowers from retaliatory actions; therefore, potential whistleblowers may be discouraged from filing claims with the IRS. The Administration proposes to amend the Internal Revenue Code to protect whistleblowers from retaliation, which should incentivize potential whistleblowers to file claims and increase the tax administration benefit of the whistleblower program.

Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions.—The Whistleblower Office may disclose tax return information, which is generally confidential, to whistleblowers and their legal representatives as part of a whistleblower administrative proceeding. Although whistleblowers and their legal representatives must sign a confidentiality agreement before tax return information is shared, the statutory prohibitions on redisclosure of tax return information and safeguarding requirements do not apply. The Administration proposes to amend the taxpayer information protections to extend the safeguarding requirements and prohibition on redisclosure of tax return information to whistleblowers and their legal representatives. In addition, the Administration proposes to extend penalties for unauthorized redisclosure of tax return information to whistleblowers and their legal representatives. This proposal will improve the efficiency of the whistleblower award determination proceedings, while increasing the protection available to taxpayers.

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

Extend paid preparer EITC due diligence requirements to the child tax credit.—Under current law, paid tax return preparers completing a tax return with a claim for the EITC must complete a checklist of the EITC eligibility criteria and exercise due diligence in preparing the EITC claim. Preparers who fail to exercise due diligence are subject to a $500 fine for each failure. The due diligence requirement educates preparers and improves EITC compliance. The eligibility criteria for the child tax credit and in particular, the definition of a qualifying child, are nearly identical for purposes of the EITC and child tax credit. The Administration proposes to extend the due diligence requirement to claims of the child tax credit, including the additional child tax credit.

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

Add tax crimes to the Aggravated Identity Theft Statute.—Tax refund-related identity theft has expanded exponentially in recent years. The Aggravated Identity Theft Statute contains a list of felony violations that constitute predicate offenses for aggravated identity

theft but the list does not currently include any tax offenses. The Administration proposes to add tax-related offenses to the list of predicate offenses contained in the Aggravated Identity Theft Statute. This proposal would be effective upon enactment.

Impose a civil penalty on tax identity theft crimes.—The Administration proposes to impose a $5,000 civil penalty in tax identity theft cases. The penalty would be effective upon enactment.

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, 2013.

Modify adoption credit to allow tribal determination of special needs.—Current law allows a more generous credit for the adoption of children with special needs. To claim this credit, a State must have made a determination that the child has special needs. Like States, many Indian Tribal Governments facilitate adoptions involving special needs children; however, currently, a tribe is not permitted to make the determination of special needs. The Administration proposes to allow Indian Tribal Governments to make this determination, effective for tax years beginning after December 31, 2013

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 and taxpayers who die before age 70-1/2 on or after December 31, 2013.

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, 2014.

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, 2013.

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 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.

Exclude self-constructed assets of small taxpayers from the uniform capitalization (UNICAP) rules.—Under the UNICAP rules, taxpayers that produce property or acquire property for resale are required to capitalize direct and indirect costs to the property produced or acquired. Compliance with this requirement is significantly burdensome for taxpayers that are not otherwise subject to the rules as producers or resellers of inventory (i.e., for self-constructed assets). The Administration proposes an exclusion for these small business taxpayers, which would relieve both taxpayers and tax administrators from spending resources on compliance for this group of taxpayers. This proposal would be effective for expenses incurred for self-constructed property by eligible taxpayers after the date of enactment.

Repeal technical terminations of partnerships.—A partnership will terminate when 50 percent or more of the total interest in partnership capital and profits is sold or exchanged within a 12-month period. This is referred to as a "technical termination." This provision serves little purpose and is a trap for the unwary taxpayer. The Administration proposes eliminating technical terminations effective for transfers after December 31, 2013.

Repeal anti-churning rules of section 197 of the Internal Revenue Code.—Section 197 was enacted in 1993 to allow amortization of certain intangibles (such as goodwill and going concern value) that had not been amortizable under prior law. Anti-churning rules were enacted at that time to prevent taxpayers from engaging in transactions with related parties soon after the enactment of section 197 solely to generate amortizable basis. Because it has been 19 years since the enactment of section 197, the anti-churning rules are no longer necessary, and the complexity of the provision outweighs the potential application. The Administration proposes eliminating the anti-churning rules effective for acquisitions after December 31, 2013.

User Fees

Reform inland waterways funding.—The Administration has proposed legislation to reform the laws governing the Inland Waterways Trust Fund, including establishing an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this fund. The additional revenue 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, 98 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 2014.

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, 2013. Assuming the enactment of the fee, total charges collected from aviation users would finance roughly three-fourths of airport investments and air traffic control system costs. To ensure appropriate input from stakeholders on the design of the fee, the proposal would also establish an expert Commission that could recommend to the President a replacement charge, or charges, that would raise no less in revenue than the enacted fee.

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

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

Other Initiatives

Increase employee contributions to Federal defined benefit retirement plans .—The Middle Class Tax Relief and Job Creation Act of 2012 increased employee contributions to Federal defined benefit retirement plans, including FERS, by 2.3 percentage points, effective for individuals joining the Federal work force after December

31, 2012, who have less than five years of creditable civilian service as of December 31, 2012. Benefits for these employees were not changed. The Administration proposes to increase contributions to Federal defined benefit plans, including the Civil Service Retirement System (CSRS) and FERS, for existing employees hired before January 1, 2013, and those joining the Federal work force after December 31, 2012, with five or more years of creditable service. The proposal would increase contributions for these employees by 0.4 percent of pay per year over three years, beginning in 2014, for a total increase of 1.2 percent. Employee benefits would not change.

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

Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy.—Synchronization of business lists among the Bureau of Economic Analysis (BEA), the Bureau of Labor Statistics (BLS), and the Bureau of the Census (Census Bureau) would significantly improve the consistency and quality of sensitive economic statistics including productivity, payroll, employment, and average hourly earnings. The availability of accurate economic statistics is crucial to policy makers. Current law authorizes IRS disclosure of certain Federal tax information (FTI) for governmental statistical use. Business FTI may be disclosed to officers and employees of the Census Bureau for all businesses. Similarly, business FTI may be disclosed to BEA officers and employees, but only for corporate businesses. Currently, BLS is not authorized to receive FTI. The Census Bureau's Business Register is constructed using both FTI and non-tax business data derived from the Economic Census and current economic surveys, so that under current law it is not possible for the Census Bureau to share data with BEA and BLS in any meaningful way, making synchronizing of their business lists impossible. In addition, given the growth of non-corporate businesses, especially in the service sector, the current limitation on BEA's access to corporate FTI impedes the measurement of income and international transactions in the National Accounts. The Administration proposes to give officers and employees of BEA and BLS access to certain FTI of corporate and non-corporate businesses. Additionally, for the purpose of synchronizing BLS and Census Bureau business lists, the proposal would permit employees of State agencies to receive certain business FTI from BLS. No BEA, BLS, or State agency contractor would have access to FTI. Additionally, the Census Bureau, BEA, BLS, and the State agencies would be subject to the confidentiality safeguard procedures in the Confidential Information Protection and Statistical Efficiency Act (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 to a biennial reporting requirement. The proposal would be effective after December 31, 2013.

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 (CPI). 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.

Replace the CPI with the chained CPI for purposes of indexing tax provisions for inflation.—Under current law, a number of parameters of the Internal Revenue Code are indexed for inflation to protect taxpayers from the effects of rising prices. Such parameters include the dollar value of the personal exemption and the standard deduction, the income thresholds for the individual income tax rate brackets, and the income thresholds and phaseout ranges for a number of tax credits. These parameters are currently indexed to the CPI, which overstates increases in the cost of living because it does not fully account for the fact that consumers generally adjust their spending patterns as some prices change relative to other prices. The Administration proposes to index tax provisions to the chained CPI, which more accurately reflects how consumers react to changes in relative prices, effective for tax years beginning after December 31, 2014.

Table 14–4. EFFECT OF BUDGET PROPOSALS

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Tax relief to create jobs and jumpstart growth:													
Provide small businesses a temporary 10-percent tax credit for new jobs and wage increases [1]	....	–10,356	–9,446	–2,752	–1,648	–932	–444	–179	–40	....	....	–25,134	–25,797
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	....	–85	–390	–640	–614	–261	6	64	54	29	10	–1,990	–1,827
Designate Promise Zones [1]	....	....	–107	–316	–522	–697	–769	–757	–744	–734	–730	–1,642	–5,376
Total, tax relief to create jobs and jumpstart growth	....	–10,441	–9,943	–3,708	–2,784	–1,890	–1,207	–872	–730	–705	–720	–28,766	–33,000
Incentives for investment in infrastructure:													
Provide America Fast Forward Bonds [1]	....	1	1	....	–1	....	....	....	....	....	....	1	1
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories [1]	....	–2	–4	–8	–15	–20	–25	–30	–37	–44	–49	–49	–234
Increase the Federal subsidy rate for America Fast Forward Bonds for school construction [1]	....	–251	–794	–1,117	–1,147	–1,147	–1,147	–1,147	–1,147	–1,147	–1,147	–4,456	–10,191
Allow current refundings of State and local governmental bonds [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal the $150 million nonhospital bond limitation on all qualified 501(c)(3) bonds	....	–1	–3	–5	–7	–9	–11	–13	–16	–17	–18	–25	–100
Increase national limitation amount for qualified highway or surface freight transfer facility bonds	....	....	....	–3	–16	–34	–52	–72	–92	–113	–133	–53	–515
Eliminate the volume cap for private activity bonds for water infrastructure	....	–3	–5	–9	–14	–20	–27	–33	–41	–49	–57	–51	–258
Increase the 25-percent limit on land acquisition restriction on private activity bonds	....	–2	–4	–8	–11	–15	–19	–23	–27	–32	–35	–40	–176
Allow more flexible research arrangements for purposes of private business use limits	....	....	....	–1	–1	–1	–1	–3	–3	–3	–3	–3	–16
Repeal the government ownership requirement for certain types of exempt facility bonds	–16	–71	–152	–238	–330	–410	–459	–488	–518	–549	–549	–1,201	–3,764
Exempt certain foreign pension funds from the application of FIRPTA	....	–109	–187	–196	–206	–216	–227	–238	–250	–263	–276	–914	–2,168
Total, incentives for investment in infrastructure	–16	–438	–1,148	–1,585	–1,748	–1,872	–1,968	–2,047	–2,131	–2,217	–2,267	–6,791	–17,421
Tax cuts for families and individuals:													
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs [1]	....	....	–1,086	–1,303	–1,434	–1,584	–1,809	–2,098	–2,383	–2,734	–3,195	–5,407	–17,626
Expand child and dependent care tax credit [1]	....	–251	–953	–954	–946	–957	–955	–949	–947	–937	–926	–4,061	–8,775
Extend exclusion from income for cancellation of certain home mortgage debt	....	–1,058	–1,252	–300	....	....	....	....	....	....	....	–2,610	–2,610
Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations	....	....	....	....	....	....	....	....	....	....	–2	....	–2
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs	....	–5	–13	–14	–14	–15	–16	–18	–19	–20	–21	–61	–155
Total, tax cuts for families and individuals	....	–1,314	–3,304	–2,571	–2,394	–2,556	–2,780	–3,065	–3,349	–3,691	–4,144	–12,139	–29,168

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued
(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Upper-income tax provisions:													
Reduce the value of certain tax expenditures	....	24,568	39,800	43,014	46,800	51,100	55,639	60,271	64,995	69,214	73,860	205,282	529,261
Implement the Buffett Rule by imposing a new “Fair Share Tax”	....	5,327	1,726	3,486	5,542	6,177	5,967	5,968	6,146	6,393	6,655	22,258	53,387
Total, upper-income tax provisions	....	29,895	41,526	46,500	52,342	57,277	61,606	66,239	71,141	75,607	80,515	227,540	582,648
Modify estate and gift tax provisions:													
Restore the estate, gift and GST tax parameters in effect in 2009	....	....	....	....	....	....	12,235	13,284	14,343	15,356	16,475	....	71,693
Require consistency in value for transfer and income tax purposes	....	....	158	171	183	197	210	223	237	251	266	709	1,896
Require a minimum term for GRATs	....	....	131	194	261	335	412	494	581	683	803	921	3,894
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Coordinate certain income and transfer tax rules applicable to grantor trusts	....	....	36	47	62	79	102	129	164	207	261	224	1,087
Extend the lien on estate tax deferrals provided under section 6166	....	....	12	15	16	17	18	19	20	21	22	60	160
Clarify GST tax treatment of HEETs	....	47	–30	–29	–27	–26	–24	–23	–21	–20	–18	–65	–171
Total, modify estate and gift tax provisions	....	47	307	398	495	602	12,953	14,126	15,324	16,498	17,809	1,849	78,559
Reform treatment of financial industry institutions and products:													
Impose a financial crisis responsibility fee	....	....	2,991	6,066	6,321	6,581	6,839	7,159	7,470	7,794	8,128	21,959	59,349
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt	....	6	21	42	67	95	126	160	197	236	276	231	1,226
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method	–91	–75	61	126	200	248	266	284	301	319	339	560	2,069
Total, reform treatment of financial industry institutions and products	–91	–69	3,073	6,234	6,588	6,924	7,231	7,603	7,968	8,349	8,743	22,750	62,644
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
Return fees on the production of coal to pre–2006 levels to restore abandoned mines	....	53	52	53	53	53	53	55	55	....	....	264	427
Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes [2]	....	64	88	92	102	106	109	116	121	127	133	452	1,058
Reinstate Superfund taxes [2]	....	1,369	1,818	1,899	1,970	2,053	2,123	2,152	2,206	2,257	2,358	9,109	20,205
Increase tobacco taxes and index for inflation [2]	....	7,725	9,844	9,264	8,718	8,205	7,723	7,268	6,842	6,440	6,062	43,756	78,091
Make UI surtax permanent [2]	....	1,044	1,459	1,489	1,520	1,551	1,576	1,597	1,618	1,641	1,660	7,063	15,155
Provide short-term tax relief to employers and expand FUTA base [2]	....	–2,467	–2,746	6,910	9,324	7,227	6,848	5,495	4,925	8,036	7,929	18,248	51,481
Tax carried (profits) interests as ordinary income	....	3,407	3,096	2,389	1,718	1,247	1,105	1,065	864	612	406	11,857	15,909
Eliminate the deduction for contributions of conservation easements on golf courses	....	37	53	55	59	61	64	68	71	74	77	265	619
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation	....	8	11	16	22	26	27	28	31	32	33	83	234
Require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years	....	86	224	369	517	668	699	660	612	563	513	1,864	4,911
Limit the total accrual of tax-favored retirement benefits	....	802	831	839	876	964	1,010	1,054	923	1,082	961	4,312	9,342
Total, other revenue changes and loophole closers	....	12,128	14,930	23,575	25,079	22,361	21,537	19,758	18,468	21,064	20,332	98,073	199,232

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
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	2	7
Require a certified TIN from contractors and allow certain withholding	....	25	58	99	135	141	147	154	161	168	176	458	1,264
Modify reporting of tuition expenses and scholarships on Form 1098-T [1]	....	8	105	111	114	117	120	124	128	132	136	455	1,095
Provide for reciprocal reporting of information in connection with the implementation of FATCA	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, expand information reporting	....	33	163	210	250	259	268	279	290	301	313	915	2,366
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Make e-filing mandatory for exempt organizations	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports and electronic filing of certain other employee benefit plan reports	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	....	5	6	6	6	7	7	8	8	8	8	30	69
Increase certainty with respect to worker classification	4	73	361	706	857	945	1,035	1,129	1,226	1,328	1,437	2,942	9,097
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, improve compliance by businesses	4	78	367	712	863	952	1,042	1,137	1,234	1,336	1,445	2,972	9,166
Strengthen tax administration:													
Impose liability on shareholders participating in "Intermediary Transaction Tax Shelters" to collect unpaid corporate income taxes	....	304	421	444	469	493	517	540	562	586	611	2,131	4,947
Increase levy authority for payments to Medicare providers with delinquent tax debt	....	46	67	70	71	72	74	76	76	77	78	326	707
Implement a program integrity statutory cap adjustment for tax administration	....	458	1,252	2,503	3,766	5,052	5,955	6,525	6,816	7,017	7,158	13,031	46,502
Enhance UI program integrity [2]	....	....	....	–5	–14	–30	–737	–571	–49	1,361	111	–49	66
Streamline audit and adjustment procedures for large partnerships	....	78	114	138	174	208	227	232	233	234	235	712	1,873
Revise offer-in-compromise application rules	....	1	1	1	1	1	1	1	1	1	1	5	10
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	2	2	2	2	2	5	15
Extend statute of limitations where State adjustment affects Federal tax liability	....	....	....	1	4	4	4	4	4	4	4	9	29
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	....	....	....	....	....	....	....	....	....	....	....	....	....

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued
(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
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
Provide the Secretary of the Treasury authority to access and disclose prisoner data to prevent and identify improper payments	....	24	35	36	37	38	39	40	41	42	43	170	375
Extend IRS math error authority in certain circumstances [1]	....	16	17	16	17	18	19	19	21	21	21	84	185
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	1	1	1	1	2	2	2	2	10
Restrict access to the DMF [1]	....	65	131	132	135	138	137	137	140	143	145	601	1,303
Provide whistleblowers with protection from retaliation	....	....	....	....	....	....	....	....	....	....	....	....	....
Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions	....	....	....	....	....	....	....	....	....	....	....	....	....
Index all penalties to inflation	....	349	544	699	844	995	1,147	1,303	1,462	1,625	1,791	3,431	10,759
Extend paid preparer EITC due diligence requirements to the child tax credit	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend IRS authority to require truncated SSNs on Form W–2	....	....	....	....	....	....	....	....	....	....	....	....	....
Add tax crimes to the Aggravated Identity Theft Statute	....	....	....	....	....	....	....	....	....	....	....	....	....
Impose a civil penalty on tax identity theft crimes	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, strengthen tax administration	....	1,343	2,585	4,038	5,510	6,995	7,390	8,313	9,317	11,121	10,208	20,471	66,820
Total, reduce the tax gap and make reforms	4	1,454	3,115	4,960	6,623	8,206	8,700	9,729	10,841	12,758	11,966	24,358	78,352
Simplify the tax system:													
Simplify the rules for claiming the EITC for workers without qualifying children [1]	....	–42	–562	–576	–589	–599	–578	–590	–604	–617	–632	–2,368	–5,389
Modify adoption credit to allow tribal determination of special needs	....	....	....	....	....	....	–1	–1	–1	–1	–1	....	–5
Eliminate MRD requirements for IRA/plan balances of $75,000 or less	....	–4	–7	–9	–14	–17	–23	–29	–35	–39	–45	–51	–222
Allow all inherited plan and IRA accounts to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal non-qualified preferred stock designation	....	29	49	48	45	42	37	33	29	26	23	213	361
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	–9	–18	–26	–37	–46	–57	–66	–76	–86	–97	–136	–518
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	–3	–5	–7	–9	–11	–13	–15	–17	–19	–20	–35	–119
Exclude self-constructed assets of small taxpayers from the UNICAP rules	....	–46	–48	–51	–69	–80	–92	–97	–101	–105	–110	–294	–799
Repeal technical terminations of partnerships	....	7	14	17	18	19	20	21	22	22	23	75	183
Repeal anti-churning rules of section 197	....	–23	–95	–187	–250	–281	–295	–298	–298	–298	–298	–836	–2,323
Total, simplify the tax system	–3	–95	–676	–796	–911	–979	–1,008	–1,051	–1,090	–1,127	–1,167	–3,457	–8,900
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]	....	605	632	660	690	719	745	766	790	812	836	3,306	7,255

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Reauthorize special assessment on domestic nuclear utilities	....	200	204	209	213	218	223	228	233	238	243	1,044	2,209
Total, user fees	....	901	963	996	1,030	1,064	1,095	1,121	1,150	1,177	1,207	4,954	10,704
Trade initiative:													
Extend GSP [2]	....	–394	–613	....	....	....	....	....	....	....	....	–1,007	–1,007
Other initiatives:													
Increase employee contributions to Federal defined benefit retirement plans	....	800	1,569	2,325	2,300	2,273	2,237	2,197	2,153	2,104	2,050	9,267	20,008
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	....	....	....	....	....	....	....	....	....	....	....	....	....
Replace the CPI with the chained CPI for purposes of indexing tax provisions for inflation	....	....	1,000	3,000	6,000	8,000	10,000	13,000	16,000	20,000	23,000	18,000	100,000
Total, other initiatives	....	800	2,569	5,325	8,300	10,273	12,237	15,197	18,153	22,104	25,050	27,267	120,008
Total, effect of proposals	**–106**	**32,474**	**50,799**	**79,328**	**92,620**	**99,410**	**118,396**	**126,738**	**135,745**	**149,817**	**157,324**	**354,631**	**1,042,651**

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Provide small businesses a temporary 10-percent tax credit for new jobs and wage increases	....	133	417	....	....	....	....	....	....	....	....	550	550
Designate Promise Zones	....	....	13	28	30	30	33	35	37	40	41	101	287
Provide America Fast Forward Bonds	....	230	1,022	2,117	3,202	4,372	5,656	7,029	8,476	9,977	11,511	10,943	53,592
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories	....	47	213	460	723	999	1,288	1,589	1,902	2,224	2,552	2,442	11,997
Increase the Federal subsidy rate for America Fast Forward Bonds for school construction	....	409	1,522	2,512	2,799	2,799	2,799	2,799	2,799	2,799	2,799	10,041	24,036
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs	....	....	203	209	212	216	222	228	231	234	239	840	1,994
Expand child and dependent care tax credit	....	....	331	344	357	371	383	393	407	415	421	1,403	3,422
Modify reporting of tuition expenses and scholarships on Form 1098-T	....	....	–29	–33	–34	–35	–36	–37	–38	–39	–40	–131	–321
Extend IRS math error authority in certain circumstances	....	–7	–7	–7	–7	–8	–8	–8	–9	–9	–9	–36	–79
Restrict access to the DMF	....	....	–44	–43	–44	–45	–46	–45	–46	–47	–48	–176	–408
Simplify the rules for claiming the EITC for workers without qualifying children	....	25	494	506	518	528	510	521	533	544	558	2,071	4,737
Total, outlay effects of receipt proposals	....	837	4,135	6,093	7,756	9,227	10,801	12,504	14,292	16,138	18,024	28,048	99,807

[2] Net of income offsets.

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

Table 14–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Individual income taxes:												
Federal funds	1,132,206	1,234,103	1,358,165	1,511,773	1,644,560	1,776,010	1,899,786	2,017,467	2,143,957	2,273,830	2,402,072	2,559,458
Legislative proposal, not subject to PAYGO	....	....	458	1,252	2,503	3,767	5,054	5,999	6,558	6,819	6,937	7,151
Legislative proposal, subject to PAYGO	....	–91	24,549	38,749	52,959	63,792	72,302	81,047	90,148	99,071	108,421	117,252
Total, Individual income taxes	**1,132,206**	**1,234,012**	**1,383,172**	**1,551,774**	**1,700,022**	**1,843,569**	**1,977,142**	**2,104,513**	**2,240,663**	**2,379,720**	**2,517,430**	**2,683,861**
Corporation income taxes:												
Federal funds:												
Federal funds	242,289	287,740	335,119	376,448	398,702	427,006	446,224	464,821	475,139	487,410	504,269	522,612
Legislative proposal, subject to PAYGO	....	–24	–3,066	–1,373	1,532	1,985	2,916	3,783	4,528	5,190	5,813	6,427
Total, Federal funds	242,289	287,716	332,053	375,075	400,234	428,991	449,140	468,604	479,667	492,600	510,082	529,039
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	766	1,016	1,090	1,157	1,237	1,300	1,322	1,373	1,416	1,496
Total, Corporation income taxes	**242,289**	**287,716**	**332,819**	**376,091**	**401,324**	**430,148**	**450,377**	**469,904**	**480,989**	**493,973**	**511,498**	**530,535**
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	486,783	575,726	632,294	665,824	707,384	744,512	785,847	826,298	862,430	910,024	953,912	993,955
Legislative proposal, not subject to PAYGO	....	....	....	....	....	2	3	97	75	6	–180	–15
Legislative proposal, subject to PAYGO	....	2	–445	–540	–1,664	–1,904	–1,572	–1,468	–1,241	–1,128	–1,486	–1,439
Disability insurance (off-budget)	82,718	97,759	107,367	113,064	120,122	126,427	133,446	140,315	146,450	154,533	161,985	168,785
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	1	17	13	1	–30	–3
Legislative proposal, subject to PAYGO	....	....	–76	–92	–282	–322	–267	–250	–211	–191	–252	–243
Hospital Insurance	201,143	208,412	223,574	237,084	253,099	267,316	282,804	297,567	310,916	328,591	344,959	360,232
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	1	26	20	2	–49	–4
Legislative proposal, subject to PAYGO	....	7	224	694	952	1,097	1,295	1,425	1,586	1,667	1,707	1,772
Railroad retirement:												
Social security equivalent account	1,764	2,135	2,186	2,262	2,327	2,399	2,463	2,527	2,595	2,665	2,728	2,795
Rail pension & supplemental annuity	2,519	2,751	2,794	3,002	3,124	3,220	3,309	3,395	3,637	3,773	4,024	4,659
Total, Employment and general retirement	774,927	886,792	967,918	1,021,298	1,085,062	1,142,747	1,207,330	1,269,949	1,326,270	1,399,943	1,467,318	1,530,494
On-budget	(205,426)	(213,305)	(228,778)	(243,042)	(259,502)	(274,032)	(289,872)	(304,940)	(318,754)	(336,698)	(353,369)	(369,454)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)
Unemployment insurance:												
Deposits by States [1]	59,378	52,586	51,494	50,396	49,125	47,435	46,529	45,639	46,245	47,380	47,676	49,477
Legislative proposal, not subject to PAYGO	....	....	....	....	–5	–17	–37	–921	–712	–61	1,700	140
Legislative proposal, subject to PAYGO	....	....	7	206	9,842	10,758	9,509	11,373	10,264	9,705	9,143	8,670
Federal unemployment receipts [1]	7,059	7,862	8,442	9,076	9,256	7,909	8,441	8,738	9,684	10,207	6,160	6,242
Legislative proposal, subject to PAYGO	....	....	–1,778	–1,783	717	2,866	1,536	–767	–1,317	–1,443	3,038	3,405
Railroad unemployment receipts [1]	210	107	39	89	155	158	115	88	110	148	152	125
Total, Unemployment insurance	66,647	60,555	58,204	57,984	69,090	69,109	66,093	64,150	64,274	65,936	67,869	68,059
Other retirement:												
Federal employees retirement- employee share	3,712	3,727	3,716	3,698	3,792	4,148	4,341	4,558	4,806	5,086	5,393	5,724
Legislative proposal, subject to PAYGO	....	....	800	1,569	2,325	2,300	2,273	2,237	2,197	2,153	2,104	2,050

Table 14–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Federal employees retirement [2]	28	19	17	17	17	17	17	17	17	17	17	17
Total, Other retirement	3,740	3,746	4,533	5,284	6,134	6,465	6,631	6,812	7,020	7,256	7,514	7,791
Total, Social insurance and retirement receipts (trust funds)	**845,314**	**951,093**	**1,030,655**	**1,084,566**	**1,160,286**	**1,218,321**	**1,280,054**	**1,340,911**	**1,397,564**	**1,473,135**	**1,542,701**	**1,606,344**
On-budget	(275,813)	(277,606)	(291,515)	(306,310)	(334,726)	(349,606)	(362,596)	(375,902)	(390,048)	(409,890)	(428,752)	(445,304)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)
Excise taxes:												
Federal funds:												
Alcohol	9,765	9,713	9,920	9,963	9,991	10,163	10,388	10,624	10,866	11,116	11,371	11,607
Tobacco	16,351	15,928	15,525	15,209	15,000	14,867	14,796	14,700	14,542	14,361	14,190	14,096
Legislative proposal, subject to PAYGO	....	....	10,299	13,125	12,352	11,624	10,940	10,297	9,691	9,122	8,587	8,082
Transportation fuels	–5,751	–3,044	–1,810	–971	–937	–910	–890	–880	–868	–859	–842	–821
Telephone and teletype services	757	645	547	462	389	326	273	227	188	155	127	103
High-cost health insurance coverage	....	....	....	....	....	....	5,099	17,747	21,019	26,113	31,498	39,179
Health insurance providers	....	....	6,400	10,640	11,300	13,380	14,220	14,954	15,857	16,804	17,813	18,880
Indoor tanning services	102	111	121	133	145	158	154	177	195	208	221	225
Medical devices	....	2,124	2,955	3,129	3,273	3,449	3,658	3,892	4,147	4,412	4,690	4,987
Other Federal fund excise taxes	–865	1,792	1,631	1,634	1,640	1,688	1,748	1,818	1,886	1,959	2,036	2,119
Legislative proposal, subject to PAYGO	....	....	–3	–3	–3	–3	–2	–1	–2	–1	–2	–1
Total, Federal funds	20,359	27,269	45,585	53,321	53,150	54,742	60,384	73,555	77,521	83,390	89,689	98,456
Trust funds:												
Transportation	40,169	38,652	39,009	39,406	39,775	40,049	40,290	40,468	40,582	40,965	41,349	41,445
Airport and airway	12,532	11,921	12,199	12,648	13,209	13,804	14,363	14,742	15,184	15,645	16,089	16,590
Legislative proposal, subject to PAYGO	....	....	807	842	881	921	959	992	1,022	1,053	1,083	1,114
Sport fish restoration and boating safety	614	545	561	581	604	634	663	694	725	754	785	817
Tobacco assessments	939	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	629	580	566	545	547	551	559	351	263	272	284	290
Inland waterway	90	87	90	93	96	99	102	104	107	109	112	115
Legislative proposal, subject to PAYGO	....	....	2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal subject to PAYGO)	....	....	803	1,070	1,077	1,084	1,089	1,098	1,105	1,111	1,121	1,149
Oil spill liability	497	504	506	501	495	532	539	533	529	523	521	536
Legislative proposal, subject to PAYGO	....	....	85	118	123	135	141	147	154	161	169	178
Vaccine injury compensation	254	262	271	280	287	295	303	311	318	327	337	346
Leaking underground storage tank	170	181	180	181	182	182	182	180	179	178	178	176
Supplementary medical insurance	2,808	4,207	2,960	3,000	3,000	3,800	4,080	3,060	2,800	2,800	2,800	2,800
Patient-centered outcomes research	....	178	365	391	418	447	476	506	538	572	608	648
Total, Trust funds	58,702	58,077	59,364	60,618	61,656	63,495	64,708	64,148	64,468	65,432	66,398	67,166
Total, Excise taxes	**79,061**	**85,346**	**104,949**	**113,939**	**114,806**	**118,237**	**125,092**	**137,703**	**141,989**	**148,822**	**156,087**	**165,622**
Estate and gift taxes:												
Federal funds	13,973	12,932	12,967	13,645	15,097	16,416	17,807	18,953	20,055	21,239	22,277	23,329
Legislative proposal, subject to PAYGO	....	....	47	307	400	497	605	12,095	13,352	14,720	16,045	17,479
Total, Estate and gift taxes	**13,973**	**12,932**	**13,014**	**13,952**	**15,497**	**16,913**	**18,412**	**31,048**	**33,407**	**35,959**	**38,322**	**40,808**
Customs duties and fees:												
Federal funds:												
Federal funds	28,696	31,890	37,440	40,827	43,975	47,197	50,355	52,989	55,966	58,913	62,129	65,736
Legislative proposal, subject to PAYGO	....	....	–526	–817	....	....	....	....	....	....	....	....

Table 14–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total, Federal funds	28,696	31,890	36,914	40,010	43,975	47,197	50,355	52,989	55,966	58,913	62,129	65,736
Trust funds:												
Trust funds	1,611	1,739	1,841	1,932	1,990	2,078	2,193	2,301	2,405	2,507	2,591	2,591
Total, Customs duties and fees	**30,307**	**33,629**	**38,755**	**41,942**	**45,965**	**49,275**	**52,548**	**55,290**	**58,371**	**61,420**	**64,720**	**68,327**
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	512	508	504	506	506	507	508	509	510	512	513	513
Deposit of earnings, Federal Reserve System	81,957	82,853	92,037	79,006	50,838	11,624	....	10,415	29,769	33,432	36,510	39,239
Transfers from the Federal Reserve	374	522	497	560	571	583	594	606	618	631	643	656
Fees for permits and regulatory and judicial services	13,789	13,897	13,911	36,607	36,578	33,149	28,926	32,685	35,633	34,555	34,259	33,937
Legislative proposal, subject to PAYGO	....	....	267	470	476	480	485	490	497	502	452	457
Fines, penalties, and forfeitures	9,468	7,427	21,328	30,759	33,226	36,338	38,581	40,506	42,508	44,610	46,767	48,774
Legislative proposal, subject to PAYGO	....	....	11	11	33	44	56	68	80	92	105	117
Refunds and recoveries	–47	–51	–33	–32	–32	–32	–32	–32	–32	–32	–32	–32
Total, Federal funds	106,053	105,156	128,522	147,887	122,196	82,693	69,118	85,247	109,583	114,302	119,217	123,661
Trust funds:												
United Mine Workers of America, combined benefit fund	35	32	29	27	24	22	21	15	14	13	12	11
Defense cooperation	100	296	133	211	213	215	217	219	221	223	119	121
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures	826	1,833	1,490	1,185	1,007	1,038	882	892	922	943	965	976
Total, Trust funds	961	2,161	1,732	1,534	1,355	1,386	1,231	1,237	1,268	1,290	1,207	1,220
Total, Miscellaneous receipts	**107,014**	**107,317**	**130,254**	**149,421**	**123,551**	**84,079**	**70,349**	**86,484**	**110,851**	**115,592**	**120,424**	**124,881**
Total, budget receipts	**2,450,164**	**2,712,045**	**3,033,618**	**3,331,685**	**3,561,451**	**3,760,542**	**3,973,974**	**4,225,853**	**4,463,834**	**4,708,621**	**4,951,182**	**5,220,378**
On-budget	(1,880,663)	(2,038,558)	(2,294,478)	(2,553,429)	(2,735,891)	(2,891,827)	(3,056,516)	(3,260,844)	(3,456,318)	(3,645,376)	(3,837,233)	(4,059,338)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)

[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.