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What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

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Earlier this month, the Treasury Department released its "General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals," commonly known as the "Green Book." This alert describes what the Green Book is, the role it plays in the budget process, and why it is important to know what is in it. Brief descriptions of each of the Administration's proposals and a table comparing the 2014 and 2015 proposals are also included for easy reference.

What is the Green Book?

The Green Book is a compilation of the tax proposals in the Administration's budget and also includes a brief explanation of each proposal and its estimated revenue effect. It is called the Green Book because it literally has a green cover. The annual Green Book is important because it identifies the President's tax policy priorities and provides a menu of potential revenue raisers that Congress may consider and adopt. As in recent years, the FY 2015 Green Book also reveals the Administration's tax reform agenda.

While this year's Green Book repeats many provisions seen in earlier years, several new proposals have been added with respect to international tax, energy, financial services, and tax administration. Changes in Green Book proposals reflect the evolution of political and policy priorities, enhanced development of issues, responses to stakeholder concerns, and, in the case of international proposals, the influence of tax policies developed by international organizations and other countries.

More About the Green Book and the Budget

The Green Book is a regular part of the President's annual budget request, which sets forth the Administration's recommendations for the federal budget for the upcoming fiscal year. While Congress is not required to incorporate the provisions of the Green Book in its annual budget resolution, the Green Book is essentially a menu of potential revenue options that bears the imprimatur of the Administration. However, there is no requirement or guarantee that any of the Green Book measures will be adopted by Congress.

The FY 2015 budget appears to be resolved as a consequence of last year's Bipartisan Budget Act, which established topline discretionary appropriation numbers for FY 2015 and FY 2016. As a result, Congress is already moving forward with this year's appropriations bills, and Senate Budget Committee Chairman Patty Murray (D-WA) has announced that the Senate will not pass a budget for FY 2015. The status of House Budget Committee Chairman Paul Ryan's (R-WI) budget resolution is uncertain.

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Why You Should Care About What Is in the Green Book

Several significant actions in tax policy from over the past year make this year's Green Book particularly interesting and important. Following the release of tax reform discussion drafts by House Ways and Means Chairman Dave Camp (R-MI) and former Senate Finance Committee Chairman Baucus, there is great interest to see whether and to what extent the Administration will adopt or reject some of their proposals. A similar level of interest applies as to whether the Administration has been influenced by the efforts of the Organisation for Economic Co-Operation and Development ("OECD"), which is engaged in a comprehensive initiative to clamp down on base erosion and profit shifting ("BEPS"). In all cases, the budget proposals reflect such influence, including repeats of some long-standing provisions, like repeal of the last-in, first -out method of accounting, and new proposals, such as modification of the like-kind exchange rules for real estate. Several new international proposals, including the treatment of mobile income, reflect the work of the OECD BEPS project. For many issues, there is overlap between previous Green Book proposals and provisions included in the tax reform drafts, although the proposals may differ in their details, including carried interest, reinsurance, and the financial crisis responsibility fee or "bank tax."

Provisions that are common to both the Green Book and other existing proposals may have a greater likelihood of being enacted into law. Aside from the push to reform the tax code, pressures to reduce the deficit, to pay for several "must-do" pieces of legislation, and to cooperate with international anti-tax avoidance efforts may increase the possibility that some of these proposals will be considered as stand-alone revenue raisers this year. Consequently, the need for additional revenue and the desire to simplify the tax code may bring the Green Book to the forefront as Congress grapples with several difficult issues this year, including unemployment benefits, the Highway Trust Fund, tax extenders, and a renewal of the Pension Protection Act of 2006. We encourage stakeholders to educate policymakers about the consequences of using a Green Book provision as a pay-for before it's been selected from the menu.

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Revenue Provisions Contained in the Obama Administration's FY 2015 Revenue Proposals (with Comparisons to FY 2014 Budget)

New proposals are in bold; proposals that were in the FY 2014 budget but not in the FY 2015 budget or have been moved have been stricken through

Provision	FY 2014 10-Year Revenue ($M)	FY 2015 10-Year Revenue ($M)
Revenue Estimates of Reserve for Long-Run Revenue-Neutral Business Tax Reform Proposals *FY 2014: Revenue Estimates of Reserve for Revenue-Neutral Business Tax Reform Proposals*		
Incentives For Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs		
Provide tax incentives for locating jobs and business activity in the U.S. and remove tax deductions for shipping jobs overseas	-112	-212
~~Provide new Manufacturing Communities Tax Credit~~	-4,411	N/A
Enhance and make permanent the R&E tax credit*[1]	-99,378	-108,146
Extend and modify certain employment tax credits, including incentives for hiring veterans* *FY 2014: Extend certain employment tax credits including incentives for hiring veterans*	-9,086	-9,714
~~Provide a tax credit for the production of advanced technology vehicles~~	-4,212	N/A
~~Provide a tax credit for medium and heavy-duty alternative-fuel commercial vehicles~~	-2,056	N/A
Modify and permanently extend Renewable Electricity Production Tax Credit*	-17,443	-19,286
Modify and permanently extend the deduction for energy-efficient commercial building property*	-5,222	-6,068
Incentives For Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs Subtotal		**-143,426**

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Tax Relief for Small Business		
Extend increased expensing for small business*	-68,661	-56,828
Eliminate capital gains taxation on investments in small business stock*	-5,810	-9,202
Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures *FY 2014: Double the amount of expensed start-up expenditures*	-2,963	-4,258
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	-10,496	-1,326
Tax Relief for Small Business Subtotal		**-71,614**
Incentives to Promote Regional Growth		
Modify and permanently extend the New Markets Tax Credit (NMTC)* *FY 2014: Extend and Modify the New Markets Tax Credit (NMTC)**	-7,363	-8,713
Restructure assistance to New York City, provide tax incentives for transportation infrastructure*	-2,000	-2,000
~~Modify tax-exempt bonds for Indian tribal governments~~	-120	N/A
Reform and expand the LIHTC*	-1,387	-1,390
Incentives to Promote Regional Growth Subtotal		**-12,103**
Reform U.S. International Tax System		
Defer deduction of interest expense related to deferred income of foreign subsidiaries	36,520	43,138
Determine the Foreign Tax Credit on a pooling basis	65,752	74,672
Tax currently excess returns associated with transfers of intangibles offshore	24,005	25,965
Limit shifting of income through intangible property transfers	2,108	2,728
Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates	6.209	7,568
Restrict deductions for excessive interest of members of financial reporting groups	**N/A**	**48,581**
~~Limit earnings stripping by expatriated entities~~	4,658	N/A

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Modify tax rules for dual capacity taxpayers	10,964	10,382
Tax gain from the sale of a partnership interest on look-through basis	2,656	2,795
Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment	3,243	3,548
Extend section 338(h)(16) to certain asset acquisitions	960	960
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated	389	423
Create a new category of Subpart F income for transactions involving digital goods or services	**N/A**	**11,660**
Prevent avoidance of foreign base company sales income through manufacturing service arrangements	**N/A**	**24,608**
Restrict the use of hybrid arrangements that create stateless income	**N/A**	**937**
Limit the application of exceptions under Subpart F for certain transactions that use reverse hybrids to create stateless income	**N/A**	**1,336**
Limit the ability of domestic entities to expatriate	**N/A**	**17,004**
Reform U.S. International Tax System Subtotal		**276,305**
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	18,889	18,804
Modify rules that apply to sales of life insurance contracts	641	495
Modify proration rules for life insurance company general and separate accounts	5,101	6,317
Expand pro rata interest expense disallowance for corporate-owned life insurance	5,919	5,546
Reform Treatment of Financial and Insurance Industry Institutions and Products Subtotal		**31,162**
Eliminate Fossil-Fuel Preferences		
Eliminate Oil and Natural Gas Preferences *FY 2014: Eliminate Oil and Gas Preferences*		
Repeal enhanced oil recovery credit	0	0
Repeal credit for oil and natural gas produced from marginal wells	0	0

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FY 2014: Repeal credit for oil and gas produced from marginal wells		
Repeal expensing of intangible drilling costs	10,993	14,350
Repeal deduction for tertiary injectants	107	100
Repeal exception to passive loss limitation for working interests in oil and natural gas properties	74	59
Repeal percentage depletion for oil and natural gas wells	10,723	13,030
Repeal domestic manufacturing deduction for oil and natural gas production	17,447	14,218
Increase geological and geophysical amortization period for independent producers to seven years	1,363	3,081
Eliminate Oil and Natural Gas Preferences Subtotal *FY 2014: Eliminate Oil and Gas Preferences Subtotal*		**44,838**
Eliminate Coal Preferences		
Repeal expensing of exploration and development costs	432	679
Repeal percentage depletion for hard mineral fossil fuels	1,982	2,052
Repeal capital gains treatment for royalties	432	508
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels	409	726
Eliminate Coal Preferences Subtotal		**3,965**
Eliminate Fossil Fuel Preferences Subtotal		**48,803**
Other Revenue Changes and Loophole Closers		
Repeal the excise tax credit for distilled spirits with flavor and wine additives	1,093	1,093
Repeal last-in, first-out (LIFO) method of accounting for inventories	80,822	82,708
Repeal lower-of-cost-or-market (LCM) inventory accounting method	7,172	7,495
Modify depreciation rules for purchases of general aviation passenger aircraft	2,702	3,210
Repeal gain limitation for dividends received in reorganization exchanges	2,702	3,051
Expand the definition of substantial built-in loss for purposes of partnership loss transfers *FY 2014: Expand the definition of built-in loss for purposes of partnership loss transfers*	73	76

Extend partnership basis limitation rules to nondeductible expenditures	948	1,017
Limit the importation of losses under related party loss limitation rules	879	913
Deny deduction for punitive damages	372	338
~~Eliminate section 404(k) employee stock ownership plan dividend deduction for large C corporations~~	6,577	N/A
Modify like-kind exchange rules for real property	**N/A**	**18,270**
Conform corporate ownership standards	**N/A**	**564**
Prevent elimination of earnings and profits through distributions of certain stock	**N/A**	**391**
Other Revenue Changes and Loophole Closers Subtotal		**119,126**
Revenue Estimates of Reserve for Long-Run Revenue-Neutral Business Tax Reform Proposals Total *FY 2014: Reserve for Revenue-Neutral Business Tax Reform Proposals Total*		**248,253**

Revenue Estimates of FY 2015 Budget Proposals		
Incentives for Job Creation, Clean Energy, and Manufacturing *FY 2014: Tax Relief to Create Jobs and Jumpstart Growth*		
~~Provide a temporary 10 percent tax credit for new jobs and wage increases~~	-25,797	N/A
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project	-1,827	-1,896
Designate Promise Zones	-5,376	-5,876
Provide new Manufacturing Communities Tax Credit *FY 2014: Located in Revenue Estimates of Reserve for Revenue-Neutral Business Tax Reform Proposals - Incentives For Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs*	-4,411	-4,664
Provide a tax credit for the production of advanced technology vehicles *FY 2014: Located in Revenue Estimates of Reserve for Revenue-Neutral Business Tax Reform Proposals - Incentives For Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs*	-4,212	-4,825
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	**N/A**	**-401**
Modify tax-exempt bonds for Indian tribal governments *FY 2014: Located in Revenue Estimates of Reserve for Revenue-Neutral Business Tax Reform Proposals - Incentives to Promote Regional Growth*	-120	-112
Extend the tax credit for cellulosic biofuels*	**N/A**	**-1,698**
Modify and extend the tax credit for the construction of energy-efficient new homes*	**N/A**	**-2,048**
Reduce excise taxes on liquefied natural gas to bring into parity with diesel	**N/A**	**-20**
Incentives for Job Creation, Clean Energy, and Manufacturing Subtotal		**-21,540**
Incentives for Investment in Infrastructure		
Provide America Fast Forward Bonds (AFFB) and expand eligible uses *FY 2014: Provide America Fast Forward Bonds*	1	-1
Allow eligible uses of AFFB to include financing all qualified private activity bond program categories *FY 2014: Allow eligible use of AFFB to include financing all qualified*	-234	-246

private activity bond categories		
~~Increase the Federal subsidy rate for AFFB for school construction~~	-10,191	N/A
Allow current refundings of State and local governmental bonds	---	-48
Repeal the $150 million non-hospital bond limitation on qualified 501(c)(3) bonds	-100	-82
Increase national limitation amount for qualified highway or surface freight transfer facility bonds	-515	-669
Eliminate the volume cap for private activity bonds for water infrastructure	-258	-201
Increase the 25-percent limit on land acquisition restriction on private activity bonds *FY 2014: Increase the 25-percent limit on land acquisition restriction on qualified private activity bonds*	-176	-141
Allow more flexible research arrangements for purposes of private business use limits	-16	-13
Repeal the government ownership requirement for certain types of exempt facility bonds	-3,764	-3,259
Exempt foreign pension funds from the application of Foreign Investment in Real Property Tax Act	-2,168	-2,272
Incentives for Investment in Infrastructure Subtotal		**-6,932**
Tax Cuts for Families and Individuals[2]		
Expand the EITC for workers without qualifying children	**N/A**	**-59,740**
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs	-17,626	-14,507
Expand the Child and Dependent Care Tax Credit*	-8,775	-9,610
Extend exclusion from income for cancellation of certain home mortgage debt*	-2,610	-7,665
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	-5
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs	-155	-165

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Make Pell Grants excludable from income and from tax credit calculations	**N/A**	**-8,864**
Tax Cuts for Families and Individuals Subtotal		**-100,556**
Upper-Income Tax Provisions		
Reduce the value of certain tax expenditures	529,261	598,066
Implement the Buffet Rule by imposing a new "Fair Share Tax"	53,387	53,026
Upper-Income Tax Provisions Subtotal		**651,092**

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Modify Estate and Gift Tax Provisions		
Restore the estate, gift, and GST tax parameters in effect in 2009	71,693	118,282
Require consistency in value for transfer and income tax purposes	1,896	2,501
Require a minimum term for GRATs	3,894	5,711
Limit duration of GST tax exemption	---	---
Coordinate certain income and transfer tax rules applicable to grantor trusts	1,087	1,644
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business *FY 2014: Extend the lien on estate tax deferrals provided under section 6166*	160	213
Modify GST tax treatment of Health and Education Exclusion Trusts *FY 2014: Clarify GST tax treatment of Health and Education Exclusion Trusts*	-171	-218
Simplify gift tax exclusion for annual gifts	**N/A**	**2,924**
Expand applicability of definition of executor	**N/A**	**---**
Modify Estate and Gift Tax Provisions Subtotal		**131,057**
Reform Treatment of Financial Industry Institutions and Products		
Impose a financial crisis responsibility fee	59,349	56,024
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt	1,226	350
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method	2,069	3,515
Reform Treatment of Financial Industry Institutions and Products Subtotal		**59,889**
Loophole Closers ***FY 2014: Other Revenue Changes and Loophole Closers***		
Tax carried (profits) interests as ordinary income	15,909	13,797
Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years	4,911	5,159
Limit the total accrual of tax-favored retirement benefits	9,342	28,377

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Conform SECA taxes for professional service businesses	**N/A**	**37,679**
Loophole Closers Subtotal		**85,012**
Other Revenue Raisers ***FY2014: Other Revenue Changes and Loophole Closers***		
Increase the Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes	1,058	951
Reinstate and extend Superfund excise taxes	8,032	8,611
Reinstate Superfund Environmental Income Tax	12,173	14,659
Increase tobacco taxes and index for inflation	78,091	78,217
Make unemployment insurance surtax permanent	15,155	15,200
Provide short-term tax relief to employers and expand federal unemployment tax act (FUTA) base	51,481	58,982
Enhance and make permanent incentives for the donation of conservation easements	**N/A**	**-331**
Eliminate the deduction for contributions of conservation easements on golf courses	619	619
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation	234	234
Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans *FY 2014 Eliminate section 404(k) employee stock ownership plan dividend deduction for large C corporations - located in the reserve fund under section Other Revenue Changes and Loophole Closers*	6,577	7,883
Other Revenue Raisers Subtotal *FY 2014 Other Revenue Changes and Loophole Closers Subtotal*		**185,025**
Reduce the Tax Gap and Make Reforms		
Expand Information Reporting		
Require information reporting for private separate accounts of life insurance companies	7	8
Require a certified taxpayer identification number (TIN) from contractors and allow certain withholding	1,264	1,321
Modify reporting of tuition expenses and scholarships on Form 1098-T	1,095	606
Provide for reciprocal reporting of information in connection with the implementation of FATCA	---	**---**

FY 2014 - located in budget document summary table S-9: Mandatory and Receipt Proposals		
Expand Information Reporting Subtotal		**1,935**
Improve Compliance by Businesses		
Require greater electronic filing of returns	---	---
~~Make e-filing mandatory for exempt organizations~~	---	N/A
~~Authorize the Department of the Treasury to require additional information to be included in electronically filed form 5500 annual reports~~	---	N/A
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	69	64
Increase certainty with respect to worker classification	9,097	9,610
~~Repeal special estimated tax payment provision for certain insurance companies~~	---	N/A
Increase information sharing to administer excise taxes		148
Improve Compliance by Businesses Subtotal		**9,822**
Strengthen Tax Administration		
Impose liability on shareholders to collect unpaid income taxes of applicable corporations *FY 2014: Impose liability on shareholders participating in "Intermediary Transaction Tax Shelters" to collect unpaid corporate income taxes*	4,947	5,238
Increase levy authority for payments to Medicare providers with delinquent tax debt	707	743
Implement a program integrity statutory cap adjustment for tax administration *FY 2014: Implement a program integrity cap adjustment for the IRS*	46,502	52,004
Streamline audit and adjustment procedures for large partnerships	1,873	1,798
Revise offer-in-compromise application rules	10	17
Expand IRS access to information in the National Directory of New Hires for tax administration purposes	---	---
Make repeated willful failure to file a tax return a felony	10	10
Facilitate tax compliance with local jurisdictions	15	16
Extend statute of limitations where State adjustment affects Federal tax liability	29	25

Improve investigative disclosure statute	10	10
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable code *FY 2014: Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code*	---	---
Allow the IRS to absorb credit and debit card processing fees for certain tax payments	19	19
Provide the IRS with greater flexibility to address correctible errors *FY 2014: Extend IRS math error authority in certain circumstances*	185	173
Make e-filing mandatory for exempt organizations *FY 2014: Located in Reduce the Tax Gap and Make Reforms - Improve Compliance by Businesses*	---	---
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 *FY 2014: Located in Reduce the Tax Gap and Make Reforms - Improve Compliance by Businesses*	---	---
Impose a penalty on failure to comply with electronic filing requirements	10	10
~~Restrict access to the Death Master File~~	1,303	N/A
Provide whistleblowers with protection from retaliation	---	---
Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions	---	---
Index all penalties to inflation	10,759	631
Extend paid preparer EITC due diligence requirements to the Child Tax Credit	---	---
Extend IRS authority to require a truncated SSN on Form W-2	---	---
Add tax crimes to the Aggravated Identity Theft Statute	---	---
Impose a civil penalty on tax identity theft crimes	---	---
Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail		**---**
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers		**---**

Rationalize tax return filing due dates so they are staggered		**2,581**
Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct		**8**
Enhance administrability of the appraiser penalty		**---**
Strengthen Tax Administration Subtotal		**63,283**
Reduce the Tax Gap and Make Reforms Subtotal		**75,040**
Simplify the Tax System		
Simplify the rules for claiming the EITC for workers without qualifying children	-5,389	-5,509
Modify adoption credit to allow tribal determination of special needs	-5	-6
Simplify minimum required distribution rules		**484**
~~Eliminate minimum required distribution (MRD) rules for individual retirement accounts (IRA) or annuity plan balances of $75,000 of less~~	-222	N/A
Allow all inherited plan and IRA balances to be rolled over within 60 days *FY 2014: Allow all inherited plan and individual retirement account (IRA) or annuity balances to be rolled over within 60 days*	---	---
Repeal non-qualified preferred stock designation	361	405
Repeal preferential dividend rule for publicly traded and publicly offered REITs *FY 2014: Repeal preferential dividend rule for publicly traded real estate investment trusts (REITs)*	---	---
Reform excise tax based on investment income of private foundations	-54	-47
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer	---	---
Simplify arbitrage investment restrictions	-518	-431
Simplify single-family housing mortgage bond targeting requirements	-15	-121
Streamline private business limits on governmental bonds	-119	-100
Exclude self-constructed assets of small taxpayers from the uniform capitalization rules	-799	-841
Repeal technical terminations of partnerships	183	225

Repeal anti-churning rules of section 197	-2,323	-2,583
Repeal special estimated tax payment provision for certain insurance companies	**N/A**	**---**
Repeal the telephone excise tax	**N/A**	**-2,177**
Increase the standard mileage rate for automobile use by volunteers	**N/A**	**-428**
Simplify the Tax System Subtotal		**-11,129**
User Fee		
Reform inland waterways funding	1,100	1,100
Other Initiatives		
Allow offset of Federal income tax refunds to collect delinquent state income taxes for out-of-state residents	---	---
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy	---	---
Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration	---	---
Modify indexing to prevent deflationary adjustments	---	---
~~Replace the CPI with the chained CPI for purposes of indexing tax provisions for inflation~~	100,000	N/A
FY 2015 Budget Proposals Total		**1,048,058**

Adjustments to the Balanced Budget and Emergency Deficit Control Act ("BBEDCA") Baseline

Permanently Extend Increased Refundability of the Child Tax Credit

Current law provides a partially refundable tax credit of $1,000 for each qualifying child. Prior to 2001, the refundable portion of the credit equaled the lesser of the credit amount and 15 percent of earned income above $10,000. In 2001, Congress lowered the earned income threshold from $10,000 to $3,000. However, this change is set to expire in 2017, increasing the earned income threshold back to its pre-2001 level of $10,000. The Administration proposes to make permanent the reduction of the earned income threshold under the child tax credit from $10,000 to $3,000. In addition, the Administration proposes to not index the earned income threshold for inflation, keeping it permanently at $3,000. Costs $64.899 billion over 10 years.

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Permanently Extend Earned Income Tax Credit ("EITC") for Larger Families and Married Couples

Current law provides a refundable Earned Income Tax Credit ("EITC") to low- and middle-income taxpayers based on several factors, including the presence and number of qualifying children claimed as dependents. Before 2009, the credit reached its maximum at two or more qualifying children and the EITC began to phase out for married couples at income levels $3,000 higher than for unmarried workers. The American Recovery and Reinvestment Act of 2009 increased the phase-in rate for families with three or more qualifying children from 40 percent to 45 percent and increased the beginning of the phase-out range for married couples to $5,000 above the level for unmarried filers. The American Taxpayer Relief Act of 2012 made permanent the first $3,000 increase in the beginning of the phase-out range and extended the remaining $2,000 increase and the third child benefits through 2017. The Administration proposes to permanently extend EITC marriage penalty relief, meaning the credit's phase-out range for married couples would permanently begin at income levels $5,000 higher than those for unmarried filers. The Administration also proposes to permanently extend the EITC expansion for larger families, meaning the phase-in rate of the credit for workers with three or more children would be maintained at 45 percent. Costs $21.356 billion over 10 years.

Permanently Extend the American Opportunity Tax Credit

Current law allows taxpayers to claim an American Opportunity Tax Credit ("AOTC") for 100 percent of the first $2,000, plus 25 percent of the next $2,000, of qualified tuition and related expenses per student. This creates a maximum credit amount of $2,500 per student. The AOTC phases out for taxpayers with adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for joint filers). These amounts are not indexed for inflation. The AOTC expires in 2017. The Administration proposes to make this program permanent. Costs $67.307 billion over 10 years.

Reserve for Long-Run Revenue-Neutral Business Tax Reform

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

The Administration proposes two tax policies aimed at incentivizing "insourcing" of jobs. The first part of the proposal would create a new general business credit against income tax equal to 20 percent of the eligible expenses paid or incurred in connection with insourcing a U.S. trade or business. For purposes of this proposal, "insourcing" means reducing or eliminating a trade or business (or line of business) currently conducted outside the U.S., to the extent that this action creates new U.S. jobs. The second part of the proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business. For this purpose, "outsourcing" means reducing or eliminating a trade or business currently operating within the U.S. and starting up, expanding, or moving the same business outside the U.S., to the extent that this action results in a loss of U.S. jobs. Similar proposals were in the Obama Administration's FY 2014 budget. Combined, these proposals are estimated to cost $212 million over 10 years.

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Enhance and Make Permanent the Research and Experimentation Tax Credit

The research and experimentation tax credit, which expired on December 31, 2013, is 20 percent of qualified research expenses above a base amount. Taxpayers can also elect the alternative simplified research credit, equal to 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. The proposal would make the credit permanent and increase the rate of the alternative simplified research credit from 14 percent to 17 percent. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $108.146 billion over 10 years.

Extend and Modify Certain Employment Tax Credits, Including Incentives for Hiring Veterans

The work opportunity tax credit ("WOTC") and the Indian employment credit provide temporary tax incentives to employers of individuals from certain targeted groups. The proposal would expand the definition of "qualified veteran" for the purposes of WOTC and permanently extend the provision. The proposal would also permanently extend the Indian employment credit. Similar proposals were in the Obama Administration's FY 2014 budget. Combined, these proposals are estimated to cost $9.714 billion over 10 years.

Modify and Permanently Extend the Renewable Electricity Production Tax Credit

The renewable electricity production tax credit ("PTC") is a nonrefundable credit available for electricity-generating facilities on which construction began before the end of 2013. The PTC equals 1.5 cents (indexed for inflation) per kilowatt-hour tax credit of electricity produced from qualified facilities that generate electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, and other sources. In addition to the PTC, current law includes an investment tax credit ("ITC") for qualified energy property. Current law provides a 30 percent ITC for solar facilities placed in service prior to January 1, 2017, plus a permanent, nonrefundable, 10 percent ITC for the cost of new solar or geothermal property. The Administration proposes to extend the PTC for facilities on which construction begins before 2015. For facilities on which construction begins after December 31, 2014, the Administration proposes to permanently extend the PTC and make it refundable. The PTC would also be available to renewable electricity consumed directly by the producer, rather than sold to an unrelated third party. Solar facilities that currently qualify for the ITC would be eligible for the PTC in lieu of the ITC through 2016. Solar facilities placed in service after 2016 would only be eligible for the PTC. The proposal would also repeal the permanent 10 percent ITC for solar and geothermal property placed in service after December 31, 2016. Finally, the Administration would allow the expiration of the temporary 30 percent ITC for solar property and the temporary credits for qualifying geothermal heat pump property, small wind property, combined heat and power property fuel cells, and microturbines. Costs $19.286 billion over 10 years.

Modify and Permanently Extend the Deduction for Energy-Efficient Commercial Building Property

Under current law, taxpayers may deduct expenditures for energy-efficient commercial building property. The Administration's proposal would raise the current maximum deduction to $3.00 per square foot and would increase the maximum partial deduction for each separate building system to $1.00 per square foot. The partial deduction would increase to $2.20 per square foot for taxpayers that satisfy energy savings targets both for building envelope and heating, cooling, ventilation, and hot water systems. The proposal would also

provide a new deduction to reward energy savings achieved by a plan to retrofit existing commercial buildings. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $6.068 billion over 10 years.

Tax Relief for Small Businesses

Extend Increased Expensing for Small Business

Under current law, in place of capitalization and depreciation, taxpayers may elect to deduct a limited amount of the cost of qualifying depreciable property placed in service during a taxable year. The deduction limit is reduced by the amount by which the cost of qualifying property placed in service during the taxable year exceeds a specified threshold amount. The maximum deduction amount and the beginning of the phase-out range have been adjusted several times in recent years. For qualifying property placed in service through 2013, the maximum deduction amount is $500,000, reduced by the amount that a taxpayer's qualifying investment exceeds $2,000,000. For qualifying property placed in service in taxable years beginning after 2013, the limits will revert to pre-2003 law, with $25,000 as the maximum deduction and $200,000 as the beginning of the phase-out range. The Administration's proposal would permanently extend the 2013 expensing level and phase-out. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $56.828 billion over 10 years.

Eliminate Capital Gains Taxation on Investments in Small Business Stock

Generally, taxpayers other than corporations may exclude 50 percent of the gain from the sale of qualified small business stock acquired at original issue and held for at least five years. Under the Small Business Jobs Act, taxpayers other than corporations may exclude 100 percent of the gain from the sale of qualified small business stock acquired after September 27, 2010 and before January 1, 2011, and held for at least five years, provided various requirements are met. This 100 percent exclusion was subsequently extended to apply to eligible stock acquired before January 1, 2014. The Administration's proposal would make the 100 percent exclusion permanent. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $9.202 billion over 10 years.

Increase the Limitations for Deductible New Business Expenditures and Consolidate Provisions for Start-Up and Organizational Expenditures

A taxpayer may generally elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins, and to amortize the remaining amount ratably over the 180-month period beginning with the month in which the active trade or business begins. The amount is reduced by the amount by which start-up expenditures exceed $50,000. For the taxable year beginning in 2010, the Creating Small Business Jobs Act of 2010 increased the limit on expensed start-up expenditures to $10,000, to be reduced by the amount by which start-up expenditures exceeded $60,000. The Administration's proposal would permanently allow up to $20,000 of new business expenditures to be deducted, to be reduced by the amount by which start-up expenditures exceed $120,000. New business expenditures would include: (1) investigating the creation or acquisition of an active trade or business, (2) creating an active trade or business, (3) any activity engaged in for profit and for the production of income before the day on which the active trade or business begins, and (4) certain expenditures that are incident to the creation of an entity

taxed as a corporation or partnership. The proposal modifies a similar proposal that was in the Obama Administration's FY 2014 budget. Costs $4.258 billion over 10 years.

Expand and Simplify the Tax Credit Provided to Qualified Small Employers for Non-Elective Contributions to Employee Health Insurance

The Affordable Care Act created a tax credit to help small employers provide health insurance for employees and their families. The credit is phased out on a sliding scale between 10 and 25 full-time equivalent employees, as well as between an average annual wage of $25,000 and $50,000 (indexed). During 2010 through 2013, the maximum credit was 35 percent (25 percent for tax-exempt employers) of the employer's contributions to the premium. For 2014 and later years, the maximum credit percentage is 50 percent (35 percent for tax-exempts). The proposal would expand the group of employers who are eligible for the credit to include employers with up to 50 full-time equivalent employees and would begin the phase-out at 20 full-time equivalent employees. In addition, there would be a change in the coordination of the phase-outs based on average wage and the number of employees so as to provide a more gradual combined phase-out. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $1.326 billion over 10 years.

Incentives to Promote Regional Growth

Modify and Permanently Extend New Markets Tax Credit ("NMTC")

The New Markets Tax Credit ("NMTC") is a 39 percent credit for qualified equity investments made to acquire stock in a corporation, or a capital interest in a partnership, that is a qualified community development entity that is held for a period of seven years. The proposal would extend the NMTC permanently, with an allocation amount of $5.0 billion for each round. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $8.713 billion over 10 years.

Restructure Assistance to New York City, Provide Tax Incentives for Transportation Infrastructure

The Job Creation and Worker Assistance Act of 2002 provided tax incentives for the area of New York City damaged or affected by the terrorist attacks on September 11, 2001, known as the "New York Liberty Zone." The proposal would 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. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $2 billion over 10 years.

Reform and Expand the Low-Income Housing Tax Credit ("LIHTC")

Under current law, the Low-Income Housing Tax Credit ("LIHTC") provides an incentive for the acquisition and development or rehabilitation of rental housing occupied by tenants having incomes below specified levels. The proposal would reform and expand the LIHTC by: (1) allowing states to convert private activity bond volume cap into LIHTCs that the state can allocate; (2) encouraging mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income; (3) changing formulas for 70 present value and 30 percent present value LIHTCs; (4) adding preservation of federally assisted affordable housing to allocation criteria; (5) making the LIHTC beneficial to Real Estate Investment Trusts ("REITs"); and implementing a requirement that LIHTC-supported housing protects victims of domestic abuse. The proposal expands on the LIHTC

reform proposals that were in the Obama Administration's FY 2014 budget. Costs $1.39 billion over 10 years.

Reform U.S. International Tax System

Defer Deductions of Interest Expense Related to Deferred Income of Foreign Subsidiaries

Under current law, a U.S. person may generally deduct interest expense properly allocable and apportioned to foreign-source income, even if the expenses exceed the taxpayer's gross foreign-source income or if the taxpayer earns no foreign-source income. The Administration asserts that the ability to deduct expenses from overseas investments while deferring U.S. tax on the income from the investments may cause U.S. businesses to shift their investments and jobs overseas. The proposal would defer the deduction of interest expense attributable to ownership of stock of a foreign corporation that exceeds a proportionate amount of the taxpayer's income from such corporation that currently is subject to U.S. tax. Branch income would be considered currently subject to U.S. tax, so the proposal would not apply to interest income attributable to branch income. Other directly earned foreign-source income, like royalty income, also would not be subject to the limitation. Deferred interest expense would be deductible in later years, subject to the same limitations. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $43.138 billion over 10 years.

Determine the Foreign Tax Credit on a Pooling Basis

Subject to certain limitations, current law provides that a taxpayer may choose to claim a credit against its U.S. income tax liability for income taxes paid or accrued during the taxable year to any foreign country. Current law also provides that a domestic corporation receiving a dividend from certain foreign subsidiaries may claim a foreign tax credit (deemed paid credit) equal to a portion of the foreign taxes paid by those subsidiaries. The foreign tax credit is limited to the amount of the pre-credit U.S. tax on the taxpayer's foreign-source income. The limitation is applied separately to a passive income category and a general category. The Administration believes that only two "baskets" of credit facilitate the use of "cross-crediting," unduly reducing U.S. taxes. The proposal would require U.S. taxpayers to determine the deemed paid credit based on a consolidated basis by determining the aggregate foreign taxes and earnings and profits of all of their relevant foreign subsidiaries, and limiting the deemed foreign tax credit to an amount proportionate to the taxpayer's pro rata share of the consolidated earnings and profits of the foreign subsidiaries repatriated to the U.S. A similar proposal was in the Obama Administration's FY 2014 budget. The Administration's current proposal raises $74.672 billion over 10 years.

Tax Currently Excess Returns Associated with Transfers of Intangibles Offshore

Under current law, a U.S. taxpayer transferring or licensing intangible property to a related foreign party must receive an amount that is commensurate with the income (i.e., equivalent to an arm's-length standard) attributable to the intangible property. However, notwithstanding the current rules, the Administration asserts that income shifting through transfers of intangibles to low-taxed affiliates has resulted in erosion of the U.S. tax base. The proposal would expand Subpart F by requiring a U.S. taxpayer that transfers an intangible from the U.S. to a related controlled foreign corporation to treat certain "excess income" from the intangible as Subpart F income if the income is subject to a low foreign effective tax rate. In the case of an effective tax rate of 10 percent or less, the proposal

would treat all excess income as Subpart F. The proposal would phase out for effective rates between 10 percent and 15 percent. Excess intangible income would be defined as the excess of gross income from transactions connected with or benefiting from the intangible over the costs (excluding interest and taxes) properly allocated and apportioned to this income, increased by a percentage mark-up. A transfer of intangibles subject to the proposal would include a sale, lease, license, or any shared risk or development agreement (including a cost sharing arrangement). The proposal refines the Obama Administration's FY 2014 budget proposal. Raises $25.965 billion over 10 years.

Limit Shifting of Income through Intangible Property Transfers

Under current law, a U.S. taxpayer transferring or licensing intangible property must receive an amount that is commensurate with the income attributable to the intangible property. In addition, current law generally requires a U.S. person transferring intangible property to a foreign corporation in certain non-recognition transactions to include similar amounts into income over the useful life of the property as for the sale of intangible property. The proposal would clarify the definition of intangible property under section 936(h)(3)(B) for these purposes to include workforce in place, goodwill, and going concern value. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $2.728 billion over 10 years.

Disallow the Deduction for Excess Non-Taxed Reinsurance Premiums Paid to Affiliates

U.S. insurance companies are generally allowed a deduction for premiums paid for reinsurance. Insurance income of a foreign-owned foreign company that is not engaged in a trade or business in the U.S. is not subject to U.S. income tax. The proposal would deny a U.S. insurance company a deduction for reinsurance premiums and other amounts paid to affiliated foreign reinsurance companies to the extent that the foreign insurer (or its parent company) is not subject to U.S. income tax with respect to the premiums received. The proposal would exclude from the U.S. insurance company's income any return premiums, ceding commissions, reinsurance recovered, or any amounts received with respect to reinsurance policies for which a premium deduction is wholly or partially denied. A foreign corporation can elect to treat the premiums and associated investment income as income effectively connected with the conduct of a trade or business in the U.S. A similar provision was included in the Obama Administration's FY 2014 budget proposal. Raises $7.568 billion over 10 years.

Restrict Deductions for Excessive Interest of Members of Financial Report Groups

Under current law, business interest payments generally are deductible from taxable income while dividend payments are not deductible. An exception to this rule exists when a U.S. subgroup is disproportionately leveraged; the exception denies U.S. tax deductions for interest paid by a corporation to a related party, but the disallowed deduction can be carried forward indefinitely. Under the proposal, a member's US interest expense deduction generally would be limited to the member's interest income plus the member's proportionate share of the financial reporting group's net interest expense computed under U.S. income tax principles. Raises $48.581 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Modify the Tax Rules for Dual Capacity Taxpayers

Under current law, a dual capacity taxpayer may not take a foreign tax credit for the portion of any foreign levy that is attributable to a specific economic benefit received by the taxpayer from the levying country. The proposal would allow a dual capacity taxpayer to treat as a creditable tax the portion of a foreign levy that does not exceed the foreign levy that the taxpayer would pay if it were not a dual-capacity taxpayer. The proposal would replace the current regulatory provisions, including the safe harbor, that apply to determine the amount of a foreign levy paid by a dual capacity taxpayer that qualifies as a creditable tax. The proposal would also impose additional limitations on foreign tax credits with respect to foreign oil and gas income. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $10.382 billion over 10 years.

Tax Gain from the Sale of a Partnership Interest on Look-Through Basis

In general, the sale or exchange of a partnership interest is treated as the sale or exchange of a capital asset. Capital gains of a nonresident alien individual or foreign corporation generally are subject to federal income tax only if the gains are treated as income that is effectively connected with the conduct of a trade or business in the U.S. ("ECI"). Revenue Ruling 91-32 holds that gain or loss of a nonresident alien individual or foreign corporation from the sale or exchange of a partnership interest is effectively connected with the conduct of a trade or business in the U.S. to the extent the partner's distributive share of unrealized gain or loss of the partnership is attributable to ECI-related property. Some nonresident alien individuals and foreign corporations may take a contrary position because this position is not statutory. The proposal would provide that gain or loss from the sale or exchange of a partnership interest is ECI to the extent attributable to the partner's distributive share of the partnership's unrealized gain or loss attributable to ECI property. Transferees of partnership interests would be required to withhold 10 percent of the amount realized on the sale or exchange of a partnership interest unless the transferor certified that the transferor was not a nonresident alien individual or foreign corporation. A similar proposal was in the Obama Administration's FY 2014 budget. The proposal is estimated to raise $2.795 billion over 10 years.

Prevent Use of Leveraged Distributions from Related Foreign Corporations to Avoid Dividend Treatment

In general, distributions of property by a corporation to a shareholder are treated as dividends to the extent of applicable earnings and profit, a reduction in basis to the extent of the shareholder's basis, and then gain from the sale or exchange or property. The Administration believes that current law effectively permits the earnings and profits of one corporation to be repatriated without being characterized as a dividend by having that corporation fund a distribution from a second, related corporation that does not have earnings and profits, but in which the distributee shareholder does have sufficient stock basis to treat the distribution as a return of basis. The proposal provides that to the extent a foreign corporation funds a second, related corporation with a principal purpose of avoiding dividend treatment on distributions to a U.S. shareholder, the U.S. shareholder's basis in the stock of the distributing corporation will not be taken into account for purposes of determining the treatment of the distribution. The proposal would apply to distributions after December 31, 2014. Raises $3.548 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Extend Section 338(h)(16) to Certain Asset Acquisitions

A corporation that makes a qualified stock purchase of a target corporation is permitted to elect under section 338 to treat the stock acquisition as an asset acquisition, and thereby may step up, or increase, the tax basis of the target corporation's assets. Section 338(h)(16) prevents a seller from increasing allowable foreign tax credits as a result of a section 338 election. Section 901(m) denies a credit for certain foreign taxes paid or accrued after a covered asset acquisition. Section 338(h)(16) applies to a qualified stock purchase for which a section 338 election is made, but it does not apply to other types of covered asset acquisitions subject to the same credit disallowance rules under section 901(m). The proposal would extend the application of section 338(h)(16) to any covered asset acquisition and would apply to covered asset acquisitions occurring after December 31, 2014. Raises $960 million over 10 years.

Remove Foreign Taxes from a Section 902 Corporation's Foreign Tax Pool When Earnings are Eliminated

Sections 902 and 960 provide that a domestic corporation owning at least 10 percent of the voting stock of a foreign corporation is allowed a credit for foreign taxes paid by a foreign corporation if the domestic corporation receives a dividend distribution from the foreign corporation or, in certain circumstances, if it has a Subpart F income inclusion that is treated as a deemed dividend. Certain transactions other than a dividend distribution may result in a reduction, allocation or elimination of a corporation's earnings and profits. The elimination of earnings and profits without a corresponding reduction in the associated foreign taxes paid results in the taxpayer claiming a foreign tax credit for earnings that will not fund a dividend distribution, and thus will not be taxed for U.S. tax purposes. The proposal would reduce the amount of foreign taxes paid by a foreign corporation in the event a transaction results in the reduction, allocation, or elimination of a foreign corporation's earnings and profits by the amount of foreign taxes associated with such earnings and profits. The proposal would be effective for transactions occurring after December 31, 2013. Raises $423 million over 10 years.

Create a New Category of Subpart F Income for Transactions Involving Digital Goods or Services

Under current law, certain categories of income earned by controlled foreign corporations ("CFCs") are currently included in the income of U.S. shareholders of that CFC as subpart F income. This proposal is aimed at a perceived gap in Subpart F treatment of mobile income from providing digital goods and services. The proposal would create a new category of Subpart F income, foreign base company digital income, resulting when a CFC earns income from digital activity using intangible property developed by a related party and the CFC does not make a substantial contribution to the development of the property or services giving rise to the income. Raises $11.660 billion over 10 years.

Prevent Avoidance of Foreign Base Company Sales Income through Manufacturing Services Arrangements

Similar to the above, subpart F income also includes foreign base company sales income ("FBSCI"), which must be included in the income of U.S. shareholders of a CFC. This proposal is intended to stop taxpayers from avoiding FBSCI by using manufacturing services rather than purchasing the property. It would expand the category of FBSCI to include

income of a CFC from the sale of property manufactured on behalf of the CFC by a related person. Raises $24.608 billion over 10 years.

Restrict the Use of Hybrid Arrangements that Create Stateless Income

Under current law, interest and royalty payments made or incurred in carrying on a trade or business are generally deductible without regard to the tax treatment of such payments in other jurisdictions. In certain instances, a taxpayer is able to claim deductions in the U.S. without including income in another jurisdiction ("stateless income") or claim multiple deductions for the same payment in different jurisdictions ("duplicate deductions"). The proposal is intended to address stateless income or duplicate deductions created through the use of hybrid entities. It would deny deductions for interest and royalty payments made to related parties under certain circumstances involving hybrid arrangements. Raises $937 million over 10 years.

Limit the Application of Exceptions under Subpart F for Certain Transactions That Use Reverse Hybrids to Create Stateless Income

Under section 954(c)(3), Subpart F income for certain dividend and interest income received from a related corporation created or organized and operating in the same country as the CFC receiving the income is subject to the "same country exception" under Subpart F. Additionally, section 954(c)(5) (the "look-through" exemption) excepts certain dividends, interest, rents, and royalties received from a related CFC from Subpart F income to the extent such income is attributable or properly allocable to income of the related CFC that is neither Subpart F income nor income effectively connected with the conduct of a trade or business within the U.S. This proposal would deny section 954(c)(3) and section 954(c)(6) treatment for payments made to a foreign reverse hybrid held directly by a U.S. owner when such amounts are treated as deductible payments received from foreign related persons. Raises $1.336 billion over 10 years.

Limit the Ability of Domestic Entities to Expatriate

This proposal is intended to stop U.S. companies from inverting by combining with smaller foreign entities. The proposal would broaden the definition of an inversion transaction by reducing the 80 percent test to a greater than 50 percent test. It includes a special rule where, regardless of shareholder continuity, the transaction will be considered an inversion if the affiliated group that includes the foreign entity has substantial business activities in the US and the foreign corporation is primarily managed and controlled in the U.S. Raises $17.004 billion over 10 years.

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

Current law provides for different rules on timing and character depending on the characterization of a derivatives contract and where it is traded. For example, forwards are taxable when transferred or settled and are taxed as capital gain or loss, but a forward traded on an exchange is a regulated futures contract that is subject to taxation under section 1256 (the "60/40 rule"). The 60/40 rule treats a regulated futures contract as 60 percent long-term capital gain or loss and 40 percent short term gain according to its marked

to market value as of the last day of the taxable year. Other derivatives contracts, such as notional principal contracts (i.e., swaps) are subject to their own timing and character rules. The Administration believes that the disparate treatment of derivatives taxation has created an elective tax regime that allows sophisticated taxpayers to manipulate the timing and character of their gain or loss.

The Administration proposes to 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 (i.e., marked to market). Ordinary gain or loss would be attributed to the taxpayer under the proposal. Moreover, the definition of derivative would be broadly expanded to include contracts such as convertible debt and structured notes linked to actively traded property (i.e., exchange traded notes). Derivatives used as business hedges would be exempt from market to market accounting. The proposal would apply to derivative contracts entered into after December 31, 2013. Raises $18.804 billion over 10 years.

Modify Rules that Apply to Sales of Life Insurance Contracts

Under current law, the seller of a life insurance contract generally must report as taxable income the difference between the amounts received from the buyer and the adjusted basis in the contract. The proposal would require a person or entity that purchases an interest in an existing life insurance contract with a death benefit equal to or exceeding $500,000 to report certain information to the Internal Revenue Service, to the insurance company that issued the policy, and to the seller. Upon payment of any policy benefits to the buyer, the insurance company would also be required to report certain information to the IRS and the payee, including the insurance company's estimate of the buyer's basis to the IRS. The proposal would also modify the transfer-for-value rule to ensure that exceptions to that rule would not apply to buyers of policies. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $495 million over 10 years.

Modify Proration Rules for Life Insurance Company General and Separate Accounts

In the case of a life insurance company, a dividends-received deduction ("DRD") is permitted only with regard to the company's share of dividends received, reflecting the fact that some portion of the company's dividend income is used to fund tax-deductible reserves for its obligations to policyholders. The proposal would repeal the existing regime for prorating investment income between the "company's share" and the "policyholders' share," instead subjecting to a 15 percent proration the general account DRD. The limitations on DRD that apply to other corporate taxpayers would be expanded to apply explicitly to life insurance company separate account dividends in the same proportion as the mean of reserves bears to the mean of total assets of the account. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $6.317 billion over 10 years.

Expand Pro Rata Interest Expense Disallowance for Corporate-Owned Life Insurance

Under current law, an exception to the pro rata interest disallowance applies with respect to contracts that cover individuals who are officers, directors, employees, or 20 percent owners of the taxpayer. Specifically, in the case of both life and non-life insurance companies, special proration rules require adjustments to prevent or limit the funding of tax-deductible reserve increases with tax-preferred income. The proposal would repeal the exception from the pro rata interest expense disallowance rule for contracts covering employees, officers, or directors, other than 20 percent owners of a business that is the owner or beneficiary of the

contracts. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $5.546 billion over 10 years.

Eliminate Fossil Fuel Preferences

Eliminate Oil and Natural Gas Preferences

Repeal Credit for Enhanced Oil Recovery ("EOR") Projects

Under current law, the general business credit includes a 15 percent credit for eligible costs attributable to Enhanced Oil Recovery projects, including the cost of depreciable or amortizable tangible property that is an integral part of the project; intangible drilling and development costs that the taxpayer can elect to deduct; and deductible tertiary injectant costs. The Administration proposes to repeal the credit for taxable years beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Repeal Credit for Oil and Natural Gas Produced from Marginal Wells

Under current law, the general business credit includes a credit for crude oil and natural gas produced from marginal wells. The credit is available for production from wells that produce oil and gas qualifying as marginal production for purposes of the percentage depletion rules or that have average daily production of not more than 25 barrel-of-oil equivalents and produce at least 95 percent water. Generally, the credit rate is $3.00 per barrel of oil and $0.50 per 1,000 cubic feet of natural gas. The Administration proposes to repeal the credit for taxable years beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Repeal Expensing of Intangible Drilling Costs

Under the Administration's proposal, expensing of intangible drilling costs and 60-month amortization of capitalized intangible drilling costs would not be allowed. Instead, intangible drilling costs would be capitalized as depreciable or depletable property, depending on the nature of the cost incurred, in accordance with the generally applicable rules. The proposal would be effective for costs paid or incurred after 2013. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $14.350 billion over 10 years.

Repeal Deduction for Tertiary Injectants

Under current law, taxpayers may deduct the cost of qualified tertiary injectant expenses for the taxable year. Qualified tertiary injectant expenses are amounts paid or incurred for any tertiary injectant (other than recoverable hydrocarbon injectants) that is used as a part of a tertiary recovery method. The Administration proposes to repeal the deduction beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $100 million over 10 years.

Repeal Exemption to Passive Loss Limitation for Working Interests in Oil and Gas Properties

Under current law, the passive loss rules limit deductions and credits from passive trade or business activities. Passive activities are defined to include trade or business activities in which the taxpayer does not materially participate. However, current law provides an exception for any working interest in an oil or gas property that the taxpayer holds directly or

through an entity that does not limit the liability of the taxpayer with respect to the interest. The Administration proposes to repeal the exception from the passive loss rules for working interests in oil and gas properties beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $59 million over 10 years.

Repeal Percentage Depletion for Oil and Natural Gas Wells

Under current law, the capital costs of oil and gas wells are recovered through the depletion deduction. Under the cost depletion method, the basis recovery for a taxable year is proportional to the exhaustion of the property during the year. A taxpayer may also qualify for percentage depletion with respect to oil and gas properties. The amount of the deduction is a statutory percentage of the gross income from the property. For oil and gas properties, the percentage ranges from 15 percent to 25 percent and the deduction may not exceed 100 percent of the taxable income from the property and may not exceed 65 percent of the taxpayer's overall taxable income. Under the Administration's proposal, effective after 2014, percentage depletion would not be allowed with respect to oil and gas wells. Taxpayers would be permitted to claim cost depletion on their adjusted basis, if any, in oil and gas wells. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $13.030 billion over 10 years.

Repeal Domestic Manufacturing Deduction for Oil and Natural Gas Production

Current law allows a deduction for income attributable to domestic production activities, known as the "domestic manufacturing deduction." The deduction is generally equal to 9 percent of the lesser of qualified production activities income for the taxable year or taxable income for the taxable year, limited to 50 percent of the taxpayer's W-2 wages. The deduction for income from oil and gas production activities is computed at a 6 percent rate. Qualified production activities income includes a taxpayer's domestic production gross receipts minus the cost of goods sold and other expenses, losses, or deductions attributable to such receipts. The proposal would retain the overall manufacturing deduction but exclude from the definition of domestic production gross receipts all gross receipts derived from the sale, exchange, or other disposition of oil, natural gas or a primary product thereof for taxable years beginning after 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $14.218 billion over 10 years.

Increase the Geological and Geophysical Amortization Period for Independent Producers to Seven Years

Geological and geophysical expenditures are costs incurred for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties. Under current law, the amortization period for these expenditures incurred in connection with oil and gas exploration is two years for independent producers. The Administration proposes to increase the amortization period from two years to seven years for amounts paid or incurred after 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $3.081 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Eliminate Coal Preferences

Repeal Expensing of Exploration and Development Costs

Under the Administration's proposal, expensing, 60-month amortization, and 10-year amortization of exploration and development costs relating to coal and other hard mineral fossil fuels would not be allowed. Instead, the costs would be capitalized as depreciable or depletable property, depending on the nature of the cost incurred, in accordance with the generally applicable rules. The other hard-mineral fossil fuels for which expensing, 60-month amortization, and 10-year amortization would not be allowed include lignite and oil shale to which a 15-percent depletion rate applies. The proposal would be effective for costs paid and incurred beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $679 million over 10 years.

Repeal Percentage Depletion for Hard Mineral Fossil Fuels

Under current law, the capital costs of coal mines and other hard mineral fossil fuel properties are recovered through the depletion deduction. Under the cost depletion method, the basis recovery for a taxable year is proportional to the exhaustion of the property during the year. A taxpayer may also qualify for percentage depletion with respect to coal and other hard mineral fossil fuel properties. The amount of the deduction is a statutory percentage of the gross income from the property. For coal and lignite properties, the percentage is 10 percent and for oil shale properties used for fuel purposes, the percentage is 15 percent. The deduction may not exceed 50 percent of the taxable income from the property. Under the Administration's proposal, effective for taxable years beginning in 2015, percentage depletion would not be allowed with respect to coal and other hard mineral fossil fuels. The other hard mineral fossil fuels for which no percentage depletion would be allowed include lignite and oil shale, to which a 15 percent depletion rate applies. Taxpayers would be permitted to claim cost depletion on their adjusted basis, if any, in coal and other hard mineral fossil fuel properties. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $2.052 billion over 10 years.

Repeal Capital Gains Treatment for Royalties

Under current law, royalties received on the disposition of coal or lignite generally qualify for treatment as long-term capital gains and the royalty owner does not qualify for percentage depletion with respect to the coal or lignite. The Administration's proposal would tax coal and lignite royalties as ordinary income, repealing their capital gains treatment. The proposal is effective for amounts realized beginning in 2015. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $508 million over 10 years.

Repeal Domestic Manufacturing Deduction for the Production of Coal and Other Hard Mineral Fossil Fuels

Under current law, the domestic manufacturing deduction is generally available to all taxpayers that generate qualified production activities income, including income from the sale, exchange or disposition of coal, other hard mineral fossil fuels, or primary products thereof produced in the U.S. The proposal would retain the overall manufacturing deduction, but exclude from the definition of domestic production gross receipts all gross receipts derived from the sale, exchange or other disposition of coal, other hard mineral fossil fuels, or a primary product thereof. The hard mineral fossil fuels to which the exclusion would apply

include lignite and oil shale to which a 15-percent depletion rate applies. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $726 million over 10 years.

Other Revenue Changes and Loophole Closers

Repeal the Excise Tax Credit for Distilled Spirits With Flavor and Wine Additives

Under current law, distilled spirits that are mixed with flavor or wine additives qualify for a credit against the rate of $13.50 per proof-gallon. The administration's proposal would repeal the credit found in Section 5010 of the Internal Revenue Code (the "Code"). The administration reasons that calculating the credit and enforcing compliance with the provision is complicated for producers and the government, since it requires information about the specific components of the beverage rather than alcohol content alone. Repeal would raise revenue and simplify tax collections credit for distilled spirits and tax all distilled spirit beverages at the $13.50 per proof-gallon rate. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.093 billion over 10 years.

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 proposal would repeal the use of the LIFO accounting method for federal tax purposes. The Administration believes that repealing LIFO would eliminate a tax deferral opportunity available to taxpayers, would simplify the tax code by eliminating a complex and burdensome accounting method, and would remove a possible impediment to the implementation of International Financial Reporting Standards in the U.S. Taxpayers currently using LIFO would be required to report their inventory using first-in, first-out accounting methods. The LIFO reserve would be taken in account as additional income ratably over 10 years, beginning with the first taxable year beginning after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $82.708 billion over 10 years.

Repeal Lower-of-Cost-or-Market Inventory ("LCM") Accounting Method

Presently, taxpayers not using a LIFO method may write down the carrying values of their inventories by applying the Lower-of-Cost-or-Market Inventory ("LCM") method, and may write down the cost of subnormal goods. Under the proposal, use of the LCM and subnormal goods methods would be prohibited. The proposal would result in a change in the method of accounting for inventories for taxpayers currently using the LCM and subnormal goods methods, and any resulting section 481(a) adjustment generally would be included in income ratably over a four-year period beginning with the year of change. The provision would be effective for taxable years beginning after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $7.495 billion over 10 years.

Modify Depreciation Rules for General Aviation Passenger Aircraft

Under current law, corporate jets are depreciated over five years, in contrast to commercial aircraft which are depreciated over seven years. The proposal changes depreciation for corporate jets to seven years for taxable years beginning after December 31, 2014. A similar proposal was included in the President's submission to the Joint Select Committee on Deficit Reduction. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $3.210 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Repeal Gain Limitation for Dividends Received in Reorganization Exchanges

Under current law, if as part of a reorganization transaction an exchanging shareholder receives in exchange for its stock of the target corporation both stock and property that cannot be received without the recognition of gain ("boot"), the exchanging shareholder is required to recognize gain equal to the lesser of the gain realized in the exchange or the amount of boot received ("boot-within-gain limitation"). The proposal would repeal the boot-within-gain limitation of current law in the case of any reorganization transaction if the exchange has the effect of the distribution of a dividend. In addition, the proposal would take into account all of the available earnings and profits of the corporation, rather than only a shareholder's ratable share of the corporation's undistributed earnings and profits. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $3.051 billion over 10 years.

Expand the Definition of Substantial Built-In Loss for Purposes of Partnership Loss Transfers

Upon a sale or exchange of a partnership interest, partnerships that have a substantial built-in loss must adjust the bases of their assets. A partnership has a substantial built-in loss if the partnership's adjusted bases in its assets exceed the fair market value of such property by more than $250,000. The Administration proposes to measure a substantial built-in loss instead 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 of the partnership. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $76 million over 10 years.

Extend Partnership Basis Limitation to Nondeductible Expenditures

Current law provides that a partner's distributive share of loss is allowed only to the extent of the adjusted basis of the partner's interest in the partnership. Any losses in excess of this amount are allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in the partnership interest to take the deduction. However, these provisions do not apply to partnership expenditures that are not deductible in computing the partnership's taxable income and are not properly chargeable to capital account. The Administration proposes to allow a partner's distributive share of expenditures that are not deductible in computing the partnership's income and not properly chargeable to capital account only to the extent the partner's adjusted basis in its partnership interest at the end of the partnership year. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.017 billion over 10 years.

Limit the Importation of Losses under Related Party Loss Limitation Rule

If a loss sustained by a transferor is disallowed because the transferor and transferee are related, Section 267 provides that the transferee may reduce any gain that it recognizes on a disposition of the transferred asset by the amount of the loss disallowed by the transferor. This shifts the benefit of the loss to the transferee; as a result, losses can be imported where a gain or loss on the property is not subject to federal income tax in the hands of the transferor immediately before the transfer but a gain or loss on the property is subject to federal income tax in the hands of the transferee immediately after the transfer. The Administration proposes to amend Section 267 so that it does not apply under these circumstances. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $913 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Deny Deduction for Punitive Damages

Under the proposal, no deduction would be allowed for punitive damages paid or incurred by the 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. The proposal would apply to damages paid or incurred after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $338 million over 10 years.

Modify Like-Kind Exchange Rules for Real Property

Under current law, no gain or loss is recognized when business or investment property is exchanged for "like-kind" business or investment property if certain requirements are met. Like-kind exchanges allow for the deferral of tax on the exchange of property, including improved and unimproved real estate. The administration's proposal would limit the amount of capital gain deferred through a like-kind exchange of real property to $1,000,000, indexed for inflation, per taxpayer per taxable year. Raises $18.270 billion over 10 years.

Conform Corporate Ownership Standards

Under current law, different standards exist for the definitions of "control" under section 368 and "affiliation" under section 1504, which the Administration believes have led to manipulation in order to qualify, as desired, for tax-free transactions. Section 368 defines "control" as 80 percent of the voting stock and 80 percent of the number of shares of all classes of stock of a corporation, but Section 1504 defines affiliation as direct or indirect ownership by a parent corporation of at least 80 percent of the total voting power of another corporation's stock and at least 80 percent of the total value of the corporation's stock. The proposal would conform the control test to be defined as ownership of at least 80 percent of the total voting power and at least 80 percent of the total value of stock of a corporation. Raises $564 million over 10 years.

Prevent Elimination of Earnings and Profits through Distributions of Certain Stock

Current law requires a shareholder that receives a distribution of property from a corporation made with respect to its stock to include in gross income the portion of the distribution constituting a dividend. Such a distribution constitutes a dividend if it is made out of the corporation's earnings and profits from the current taxable year and then from its earnings and profits accumulated in successive prior periods. However, earnings and profits are computed as of the close of the corporation's taxable year in which the distribution is made without diminution due to distributions made during the taxable year. Under the proposal, a corporation's distribution of stock of another corporation would reduce the distributing corporation's earnings and profits in any taxable year by the greater of the stock's fair market value or the corporation's basis in the stock. Raises $391 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Budget Proposals
Incentives for Job Creation, Clean Energy, and Manufacturing

Provide Additional Tax Credits for Investments in Qualified Property Used in a Qualifying Advanced Energy Manufacturing Project

Current law provides a 30 percent tax credit for investments in eligible property used in a qualifying advanced energy project. A qualifying advanced energy project is a project that re-equips, expands, or establishes a manufacturing facility for the production of advanced energy property. The proposal would authorize an additional $2.5 billion of credits for investments in eligible property used in a qualifying advanced energy manufacturing project. Up to $200 million of these credits could be allocated to the construction of infrastructure that contributes to networks of alternative fuel vehicle refueling stations. If a taxpayer applies for a credit with respect to only part of the qualified investment in the project, the taxpayer's increased cost sharing and the project's reduced revenue cost to the government would be taken into account in determining whether to allocate credits to the project. Costs $1.896 billion over 10 years.

Designate Promise Zones

Current law provides various tax incentives to encourage the development of particular regions, including empowerment zones. The proposal would designate 20 promise zones, with 14 in urban areas and 6 in rural areas. Zone designations and corresponding tax incentives would last for 10 years. The Secretary of Agriculture and the Security of HUD would designate the zones in consultation with numerous other Cabinet-level officials through a competitive application process. Designations would be based on the strength of the applicant's "competitiveness plan," its need to attract investment and jobs, and several other factors. Certain geographical and population requirements would apply. Promise zones would receive two tax incentives: (1) an employment credit for businesses that employ zone residents and (2) first-year depreciation of 100 percent for new qualified property placed in service within the zone. The employment credit would apply to the first $15,000 of zone employee wages. The credit would equal 20 percent for zone residents employed within the area and 10 percent for zone residents employed outside the area. With respect to first-year depreciation, qualified property would include tangible property with a recovery period of 20 years or less, water utility property, certain computer software, and qualified leasehold improvement property. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $5.876 billion over 10 years.

Provide New Manufacturing Communities Tax Credit

The Administration proposes a new allocated tax credit to support investments in communities that have experienced a closing of a military base or closing/reduction of a major employer. The credit could be structured using the mechanism of the New Markets Tax Credit or as an allocated investment credit similar to the investments in qualified property used in a qualifying advanced energy manufacturing project. The Administration intends to work with Congress to craft the structure and selection criteria. The proposal would provide about $2 billion in credits for qualified investments approved in each of the three years 2015 through 2017. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $4.664 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

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 replacing this credit with a credit for advanced technology vehicles. Advanced technology vehicles would be required to meet several requirements – specifically: (1) the vehicle must operate primarily on an alternative to petroleum; (2) there must be few vehicles operating in the U.S. as of January 1, 2012 using the same technology; and (3) the technology that the vehicle uses must exceed the footprint-based target miles per gallon gasoline equivalent ("MPGe") by at least 25 percent. The credit would be limited to motor vehicles weighing 14,000 pounds or less. The credit would be scaled to the vehicle's MPGe and would be capped at $10,000, or $7,500 for vehicles with a manufacturer's suggested retail price above $45,000. The credit would be available for vehicles placed in service after December 31, 2014 and before January 1, 2022, except that the credit would be phased out at 75 percent of the otherwise available amount for vehicles placed in service in 2019, 50 percent for vehicles placed in service in 2020, and 25 percent in 2021. Costs $4.825 billion over 10 years.

Provide a Tax Credit for Medium- and Heavy-Duty Alternative Fuel Commercial Vehicles

Current law provides a tax credit for the purchase of fuel-cell vehicles weighing over 14,000 pounds. However, there are no other tax incentives for vehicles weighing over 14,000 pounds. The Administration's proposal would provide a tax credit for dedicated alternative-fuel vehicles weighing more than 14,000 pounds. The credit would be $25,000 for vehicles weighing up to 26,000 pounds and to $40,000 for vehicles weighing more than 26,000 pounds. The credit would be allowed for vehicles placed in service after December 31, 2014 and before January 1, 2021. The credit would also be limited to 50 percent of the otherwise allowable amount for vehicles placed in service in calendar year 2020. Costs $401 million over 10 years.

Modify Tax-Exempt Bonds for Indian Tribal Governments

Current law contains certain limitations on Indian Tribal Governments in their use of tax-exempt bonds. The proposal would: (1) adopt for Indian tribal governments the comparable state/local government standard for eligibility for issuing tax-exempt governmental bonds on a permanent basis; (2) adopt a comparable private activity bond standard; (3) impose a targeting restriction on the location of projects financed; and (4) impose a restriction on the financing of gambling facilities. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $112 million over 10 years.

Extend the Tax Credit for Cellulosic Biofuels

The cellulosic biofuel producer credit (renamed the second generation biofuel producer credit in 2013) expired at the end of 2013. This nonrefundable credit of $1.01 was available for each gallon qualified cellulosic biofuel (i.e., second generation biofuel) produced by the taxpayer and sold to an unrelated person. Qualified fuels were liquid fuels that: (1) were produced in the U.S.; (2) were derived from fibre-based sourced sources on a renewable or recurring basis or cultivated from algae or related microorganisms; and (3) met registration requirements with the Environmental Protection Agency. The proposal would retroactively extend the credit at $1.01 per gallon through December 31, 2020. After 2020, the proposal would reduce the credit amount each year by 20.2 cents, so that the credit would expire after December 31, 2024. Costs $1.698 billion over 10 years.

Modify and Extend the Tax Credit for the Construction of Energy-Efficient New Homes

The business tax credit included a new energy-efficient home credit available to contractors for the construction of qualified new energy-efficient homes before January 1, 2014. The credit generally required that the home be certified to achieve either a 30 percent or 50 percent reduction in heating and cooling energy consumption compared to a comparable dwelling. For homes meeting the 30 percent standard, one-third of the savings was required to have come from the building envelope (i.e., windows, wall, and doors); for homes meeting the 50 percent standard, one-fifth of the savings was required to have come from the building envelope. The credit equaled $1,000 for new manufactured homes that met the 30 percent standard and $2,000 in the case of a new home that met the 50 percent standard. The proposal would extend the tax credit for homes acquired prior to January 1, 2015. For homes acquired after December 31, 2014, and before January 1, 2025 the proposal would provide a $1,000 energy efficient new home tax credit for the construction of a qualified ENERGY STAR certified new home acquired for use as a residence. In addition, the proposal would provide a $4,000 tax credit for the construction of a qualified DOE Challenge Home acquired for use as a residence. Third party verification of compliance with ENERGY STAR or DOE Challenge Home guidelines would be required. Costs $2.048 billion over 10 years.

Reduce Excise Taxes on Liquefied Natural Gas ("LNG") to Bring Into Parity with Diesel

Current law imposes an excise tax of 24.3 cents per gallon on diesel fuel and liquefied natural gas used as highway motor fuels to fund the Highway Trust Fund. With the exception of liquefied petroleum gas (propane), compressed natural gas, and Liquefied Natural Gas ("LNG"), highway motor fuels are subject to an additional 0.1 cent per gallon tax to fund the Leaking Underground Storage Tank Trust Fund. Most of these taxes are set to expire after September 30, 2016. However, a 4.3 cents per gallon fuels tax is a permanent funding mechanism for the Highway Trust Fund and will not expire. The proposal would lower the 24.3 cents per gallon excise tax on LNG to 14.1 cents per gallon beginning after December 31, 2014. Costs $20 million over 10 years.

Incentives for Investment in Infrastructure

Create the America Fast Forward Bond Program

Previously, Congress established Build America Bonds, which are taxable bonds issued by state and local governments in which the federal government makes direct payments to state and local governmental issuers (called "refundable tax credits") to subsidize a portion of their borrowing costs in an amount equal to 35 percent of the coupon interest on the bonds. The proposal would create a new, permanent America Fast Forward Bond program that would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would be taxable bonds issued by state and local governments in which the federal government makes direct payments to state and local governmental issuers (through refundable tax credits). Treasury would make payments in an amount equal to 28 percent of the coupon interest on the bonds. Eligible uses for America Fast Forward Bonds would include: (1) original financing for governmental capital projects, as under the authorization of Build America Bonds; (2) current refundings of prior public capital project financings for interest cost savings where the prior bonds are repaid promptly within 90 days of issuance of the current refunding bonds; (3) short-term governmental working capital

financings for governmental operating expenses; and (4) financing for section 501(c)(3) nonprofit entities. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $247 million over 10 years.

Allow Current Refundings of State and Local Governmental Bonds

Refundings of state and local bonds reduce interest costs. However, current statutory provisions vary in their treatment of refundings among different state and local bond program provisions. The proposal would provide a general provision to authorize current refundings of state and local bonds to allow for greater uniformity and certainty. Bonds would have to meet certain size and maturity limitations for the refunding provisions to apply. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $48 million over 10 years.

Repeal the $150 Million Non-Hospital Bond Limitation on Qualified Section 501(c)(3) Bonds

Section 501(c)(3) bonds can be used to finance either capital expenditures or working capital expenditures of section 501(c)(3) organizations. The proposal would repeal the current law $150 million limit on the volume of outstanding, non-hospital, tax-exempt bonds for the benefit of any one section 501(c)(3) organization. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $82 million over 10 years.

Increase National Limitation Amount for Qualified Highway or Surface Freight Transfer Facility Bonds

Under current law, tax-exempt private activity bonds may be used to finance qualified highway or surface freight transfer facilities. Such bonds are not subject to state volume 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 proposal would increase the $15 billion aggregate amount permitted to be allocated to $19 billion. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $669 million over 10 years.

Eliminate the Volume Cap for Private Activity Bonds for Water Infrastructure

There are two basic kinds of tax-exempt bonds: governmental bonds and qualified private activity bonds. Private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements necessary for "qualified" private activity bonds. Most qualified private activity bonds are subject to an annual unified state volume cap. The proposal would provide an exception to the unified annual state volume cap on tax-exempt qualified private activity bonds for exempt facilities for the "furnishing of water" or "sewage facilities." A similar proposal was in the Obama Administration's FY 2014 budget. Costs $201 million over 10 years.

Increase the 25-percent Limit on Land Acquisition Restriction on Private Activity Bonds

Under current law, a private activity bond is generally not a qualified bond if it is part of an issue where 25 percent or more of the net proceeds are to be used for the acquisition of land. The proposal would increase the 25 percent land acquisition restriction to 35 percent on certain qualified private activity bonds. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $141 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Allow More Flexible Research Arrangements for Purposes of Private Business Use Limits

Under current law, actual or beneficial use of a tax-exempt bond-financed project by a private business for the purposes of public-private research arrangements involving the conduct of research at tax-exempt bond-financed research facilities faces stringent restrictions. The proposal would provide an exception to the private business limits on tax-exempt bonds for research arrangements relating to basic research at tax-exempt bond-financed research facilities that meet the following requirements: (1) a qualified user (a state and local government or section 501(c)(3) nonprofit entity) would be required to own the research facilities; and (2) a qualified user would be permitted to enter into any bona fide, arm's-length contractual arrangement with a private business sponsor of basic research regarding the terms for sharing the economic benefits of any products resulting from the research, including arrangements in which those economic terms (such as exclusive or non-exclusive licenses of intellectual property, and licensing fees or royalty rates) are determined in advance at the time the parties enter into the contractual arrangement. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $13 million over 10 years.

Repeal the Government Ownership Requirement for Certain Types of Exempt Facility Bonds

Current law permits tax-exempt financing with respect to different categories of "exempt facilities" including airports, docks and wharves, and mass commuting facilities. However, these facilities are treated as exempt facilities only if all of the property to be financed with the net proceeds of the tax-exempt bond issue is to be owned by a governmental unit. The proposal would repeal the requirement that airports, docks and wharves, and mass commuting facilities must be owned by a governmental unit. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $3.259 billion over 10 years.

Exempt Foreign Pension Funds from the Application of the Foreign Investment in Real Property Tax Act ("FIRPTA")

Foreign Investment in Real Property Tax Act ("FIRPTA"), enacted in 1980, is intended to subject foreign investors to the same U.S. tax treatment on gains from the disposition of U.S. real property interests as that which applies to U.S. investors. The proposal would exempt from the application of FIRPTA gains of foreign pension funds from the disposition of U.S. real property interests. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $2.272 billion over 10 years.

Tax Cuts for Families And Individuals

Expand the Earned Income Tax Credit (EITC) for Workers without Qualifying Children

Current law provides a refundable EITC to low- and moderate-income workers. The credit is based on several factors, including the presence and number of qualifying children in the worker's household, adjusted gross income (AGI), earned income, investment income, filing status, age, and immigration and work status in the U.S. To be eligible for the EITC as a worker without qualifying children, the taxpayer must be at least 25 years old and less than 65 years old. The EITC has a phase-in range (where each additional dollar of income results in a larger credit), a plateau (where additional income has no effect on the size of the credit), and a phase-out range (where each additional dollar of income results in a smaller total

credit). The Administration proposes to increase the EITC for workers without qualifying children by doubling the phase-in rate and the phase-out rate from 7.65 percent to 15.3 percent, thereby doubling the maximum credit from about $500 to about $1,000. The Administration would also double the phase-out range, from an estimated $13,720 to $17,000 for joint filers. The credit for workers without children would be phased out completely at $23,750 for joint filers. The proposal would also allow taxpayers without qualifying children between the ages of 21 and 67 to claim the EITC. Costs $59.740 billion over 10 years.

Provide for Automatic Enrollment in Individual Retirement Accounts or Annuities ("IRAs"), Including a Small Employer Tax Credit, and Double the Tax Credit for Small Employer Plan Start-Up Costs

The proposal would require employers in business for at least two years that have more than 10 employees to offer an automatic Individual Retirement Accounts or Annuities ("IRAs") option to employees, under which regular contributions would be made to an IRA on a payroll-deduction basis. Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement could claim a temporary non-refundable tax credit for the employer's expenses associated with the arrangement up to $500 for the first year and $250 for the second year. These employers would be entitled to an additional non-refundable credit of $25 per enrolled employee up to $250 for six years. In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE to do so, the non-refundable "start-up costs" tax credit for a small employer that adopts a new qualified retirement, SEP, or SIMPLE would be doubled from the current maximum of $500 per year for three years to a maximum of $1,000 per year for three years and extended to four years (rather than three) for any employer that adopts a new qualified retirement plan, SEP, or SIMPLE during the three years beginning when it first offers (or first is required to offer) an automatic IRA arrangement. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $14.507 billion over 10 years.

Expand the Child and Dependent Care Tax Credit

Taxpayers are provided a nonrefundable tax credit for up to 35 percent of $3,000 in eligible care expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. Currently, the percentage of expenses for which the credit may be claimed decreases by 1 percent for every $2,000 of AGI in excess of $15,000 until the percentage reaches 20 percent. The Administration proposes to provide eligible taxpayers an additional credit on total expenses of up to $4,000 per child under age five, for up to two children. The credit rate for the additional young child credit would be 30 percent, and would phase down at a rate of one percentage point for every $2,000 of AGI over $61,000 until the rate reaches zero at incomes above $119,000. Together, the current law child and dependent care tax credit and the additional credit would provide a total credit of up to 65 percent of the first $3,000 in child care expenses for one child under age five and up to 65 percent of the first $6,000 in child care expenses for two children under age five. The additional credit would also provide a credit of up to 30 percent on the next $1,000 in child care expenses for each child under age five, for up to two children. Costs $9.610 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Extend Exclusion from Income for Cancellation of Certain Home Mortgage Debt

Gross income generally includes income that is realized by a debtor from the discharge of indebtedness. However, recent legislation has temporarily allowed discharges of qualified principal residence indebtedness to be excluded from calculations of gross income. The Administration proposes to extend this provision to exclude amounts that are discharged before 2017. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $7.665 billion over 10 years.

Provide Exclusion from Income for Student Loan Forgiveness for Students in Certain Income-Based or Income-Contingent Repayment Programs Who Have Completed Payment Obligations

In general, loan amounts that are forgiven are considered gross income to the borrower and subject to individual income tax in the year of discharge. Borrowers under the Department of Education's Federal Direct Loan Program or Federal Family Education Loan Program are considered to have repaid their loan obligation once they have repaid the loan in full or made required payments on those loans for 25 years. For those who reach the 25-year point, any remaining loan balance is forgiven. Under the proposal, loan balances forgiven under such circumstances would not be included in income. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $5 million over 10 years.

Provide Exclusion from Income for Student Loan Forgiveness and Certain Scholarship Amounts for Participants in the Indian Health Service ("IHS") Health Professions Programs

Under current law, loan amounts that are forgiven are generally considered gross income to the borrower and subject to individual income tax in the year of discharge. However, loan amounts that are forgiven or discharged under the National Health Service Corps Loan Repayment Program or similar state loan repayment programs are not included in gross income. Scholarship amounts for tuition and related expenses are also generally excluded from income, except for scholarship amounts that represent payment for teaching, research, and other services. The Administration's proposal would extend the exclusion to scholarship amounts received from the Indian Health Service ("IHS") Health Professions Loan Repayment Program and the IHS Health Professions Scholarship Program. These programs would improve access to medical care for Indian and Alaska Natives by providing physicians and other health professionals to IHS facilities. The proposal would be effective for tax years beginning after December 31, 2013. Costs $165 million over 10 years.

Make Pell Grants Excludable from Income and from Tax Credit Calculations

Pell Grants are the foundation of the Federal student aid system, and the recipients are among the neediest students. Yet, many families who receive Pell Grants have to choose between paying tax on their Pell Grant and reducing their American Opportunity Tax Credit (AOTC). Scholarships, including Pell Grants, are generally excluded from gross income to the extent they are used to pay for tuition and related expenses. Scholarship money used to pay for living expenses, such as room and board, is not excluded from gross income, and so generally is taxable. The Administration proposes to allow Pell Grants to be excludable from gross income, regardless of whether the grant funding is used to pay for living expenses, as long as the proceeds are spent in accordance with the Pell Grant program. For purposes of the AOTC and Lifetime Learning Credit, taxpayers would be able to treat the entire amount of the Pell Grant as used to pay expenses other than qualified tuition and related expenses.

The treatment of other scholarships would not be changed. Costs $8.864 billion over 10 years.

Upper-Income Tax Provisions

Reduce the Value of Certain Tax Expenditures

Current law permits the allowable portion of an individual taxpayer's itemized deductions to reduce the amount of taxable income. The proposal would limit the value of all itemized deductions and certain other tax expenditures by limiting the tax value of those deductions and expenditures to 28 percent whenever they would otherwise reduce taxable income. This limitation, which would be effective beginning in 2014, would only affect taxpayers with 33-percent, 35-percent, or 39.6-percent tax brackets and would apply to itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain "above-the-line" deductions. This proposal is similar to one proposed in the Obama Administration's FY 2014 budget. Raises $598.066 billion over 10 years.

Implement the Buffet Rule by Imposing a New "Fair Share Tax"

Under current law, individual taxpayers may reduce their taxable income by excluding certain types or amounts of income and claiming certain deductions in the computation of adjusted gross income ("AGI"). According to the administration, deductions significantly reduce tax liability for high-income taxpayers, particularly from the preferentially low tax rates on dividends and capital gains. The proposal would impose a new minimum tax, called the Fair Share Tax ("FST"), on high-income taxpayers. The tentative FST would equal 30 percent of AGI less a credit for charitable contributions. The final FST is the excess, if any, of the tentative FST over the sum of the taxpayer's (1) regular income tax (after certain credits) including the 3.8-percent net investment income tax, (2) the alternative minimum tax, and (3) the employee portion of payroll taxes. The Buffet rule would apply for taxpayers with $1 million or more AGI. The proposal would be effective for tax years beginning after December 31, 2014. Raises $53.026 billion over 10 years.

Modify Estate and Gift Tax Provisions

Restore the Estate, Gift, and Generation-Skipping Transfer ("GST") Tax Parameters in Effect in 2009

In 2009, the estate tax provided for an estate tax and Generation-Skipping Transfer ("GST") exemption of $3.5 million and a top rate of 45 percent and a gift tax exemption of $1 million. In 2011 and 2012, the estate and gift taxes provide for a $5 million exemption and a top rate of 35 percent. The passage of the American Taxpayer Relief Act set the current estate, GST, and gift tax rate at 40 percent and each individual has a lifetime exclusion for all three types of taxes of $5 million (indexed after 2011 for inflation from 2010). The proposal would reinstate the estate and gift tax parameters in effect in 2009 and would be effective for the estates of decedents dying, and for transfers made, after December 31, 2017. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $118.282 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Require Consistency in Value for Transfer and Income Tax Purposes

This proposal would impose both a consistency and a reporting requirement. The basis of property received by reason of death under section 1014 must equal the value of that property for estate tax purposes. The basis of property received by gift during the life of the donor must equal the donor's basis determined under section 1015. The basis of property acquired from a decedent to whose estate section 1022 is applicable is the basis of that property, including any additional basis allocated by the executor, as reported on the Form 8939 that the executor filed. This proposal would require that the basis of such property in the hands of the recipient be no greater than the value of that property as determined for estate or gift tax purposes. A reporting requirement would be imposed on the executor of the decedent's estate and on the donor of a lifetime gift to provide the necessary valuation and basis information to both the recipient and the IRS. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $2.501 billion over 10 years.

Require Minimum Term for GRATs

A fixed annuity, such as the annuity interest retained by the grantor of a Grantor Retained Annuity Trust ("GRAT"), is one form of qualified interest, so the gift of the remainder interest in the GRAT is determined by deducting the present value of the retained annuity during the GRAT term from the fair market value of the property contributed to the trust. This proposal would require, in effect, some downside risk in the use of this technique by imposing the requirement that a GRAT have a minimum term of 10 years and a maximum term of 10 years more than the annuitant's life expectancy. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $5.711 billion over 10 years.

Limit Duration of Generation Skipping Transfer Tax Exemption

The generation skipping transfer ("GST") tax is imposed on gifts and bequests to transferees who are two or more generations younger than the transferor. The GST tax was enacted to "backstop" the estate and gift tax system by preventing the avoidance of those taxes through the use of a trust that gives successive life interests to multiple generations of beneficiaries. This proposal would provide that the generation skipping transfer exclusion allocated to the trust would expire. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

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 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. The Administration proposes to change the rules so that to the extent that a grantor of a trust is deemed to be an owner for income tax purposes, the trust's assets would be included in that grantor's gross estate for estate tax purposes and would be subject to gift tax at any time during that grantor's life when the grantor ceased to be treated as an owner for income tax purposes. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.644 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Extend the Lien on Estate Tax Deferrals Where Estate Consists Largely of Interest in Closely Held Business

There is a lien on nearly all estate assets for the 10-year period following a decedent's death. 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. The Administration is proposing extending the lien throughout the section 6166 deferral period. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $213 million over 10 years.

Modify Generation-Skipping Transfer ("GST") Tax Treatment of Health and Education Exclusion Trusts (HEETS)

Current law provides that payments made by a donor for another's medical care or tuition are exempt from gift tax under section 2503. Under section 2611, GST tax does not apply to any transfer that is exempt from the gift tax under section 2503. The Administration believes that taxpayers have interpreted this exemption to extent to Health and Education Exclusion Trusts, which provide for medical expenses and tuition of multiple generations of descendants. The proposal would clarify that the exclusion from GST under section 2611 only applies to a payment by a donor directly to the provider of medical care or to a school in payment of tuition and not to trust distributions, even if for the same purposes. The proposal would apply to trusts created after introduction of a bill proposing this change and to transfers after that date made to pre-existing trusts. Costs $218 million over 10 years.

Simplify Gift Tax Exclusion for Annual Gifts

Under current law, the first $14,000 of gifts made to each donee in 2014 is excluded from the donor's taxable gifts, with no limit on the number of donees to whom such excluded gifts may be made by a donor in any one year, so long as the gift is of a present interest rather than a future interest in the donated property. The Administration proposes to eliminate the present interest requirement for gifts that qualify for the gift tax annual exclusion and impose an annual limit of $50,000 per donor on the donor's transfers of property that will qualify for the gift tax annual exclusion. Raises $2.924 billion over 10 years.

Expand Applicability of Definition of Executor

Under current law, the definition of executor for purposes of estate tax law is the person who is appointed, qualified, and acting within the U.S. as executor or administrator of the decedent's estate or, if none, then "any person in actual or constructive possession of any property of the decedent." This definition prevents the ability of anyone to act on behalf of a decedent with regard to a tax liability that arose prior to the decedent's death. The proposal would make the tax code's definition of executor applicable for all tax purposes, and authorize such executor to do anything on behalf of the decedent in connection with the decedent's pre-death tax liabilities or obligations that the decedent could have done if still living. Negligible revenue effect.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Reform Treatment of Financial Industry Institutions and Products

Impose a Financial Crisis Responsibility Fee

The Administration proposes to assess a Financial Crisis Responsibility Fee to recoup Troubled Asset Relief Program losses and to discourage excessive leverage. The fee would apply to U.S.-based bank holding companies, thrift holding companies, certain broker-dealers, companies that control certain broker-dealers, and insured depository institutions. Firms with worldwide consolidated assets of less than $50 billion would not be subject to the fee for the period when their assets are below this threshold. U.S. subsidiaries of foreign firms that fall into these categories and that have assets in excess of $50 billion also would be covered.

The fee would be based on the covered liabilities of a financial firm. The rate of the fee is 17 basis points (reduced by 50 percent for more stable sources of funding, including long-term liabilities). The fee would be tax deductible. The fee would be effective as of January 1, 2016. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $56.024 billion over 10 years.

Require Current Inclusion in Income of Accrued Market Discount and Limit the Accrual Amount for Distressed Debt

Market discount is the difference between a bond's acquisition price in the secondary market and its stated redemption price at maturity. Market discount that accrues while a taxpayer holds a bond is taxable when the bond matures or is disposed of, and is treated as ordinary income up to the amount of gain recognized on the disposition of the bond. The Administration proposes to align the market discount rules with the original issue discount ("OID") rules, which require the inclusion of the discount annually. The accrual of market discount would be limited to the greater of an amount of a bond's yield to maturity at issuance plus five percentage points or an amount equal to the applicable federal rate plus 10 percentage points. The proposal would apply to debt securities acquired after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $350 million over 10 years.

Require that the Cost Basis of Stock that is a Covered Security Must Be Determined Using an Average Basis Method

When selling or disposing identical shares of stock that have different cost basis, a taxpayer can identify the specific shares of stock sold, and therefore determine the amount of gain or loss to be recognized according to the basis of each share. The Administration believes that this "specific identification" method allows taxpayers to manipulate recognition of gain or loss on fungible shares of portfolio stock. The Administration proposes that taxpayers use the average basis for all identical shares of portfolio stock held by a taxpayer that have a long-term holding period, in line with the rules currently permitted for registered investment company stock. Shares held by a taxpayer in a nontaxable account, such as an IRA, would not be subject to the average basis requirement. The proposal would apply to portfolio stock acquired on or after January 1, 2015. Raises $3.515 billion over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Loophole Closers

Tax Carried (Profits) Interests as Ordinary Income

Under current law, carried interest income is taxed at capital gains rates rather than at ordinary income tax rates. The Administration's proposal would designate a carried interest in an investment partnership as an "investment services partnership interest" and would generally tax a partner's share of income from this interest as ordinary income. In addition, the proposal would require the partner to pay self-employment taxes on such income, and the gain recognized on the sale of an "investment services partnership interest" would generally be treated as ordinary income, not a capital gain. The proposal would also treat any allocation of income or gain attributable to invested capital by the partner as ordinary income or capital gain based on its character to the partnership. The proposal would be effective for tax years ending after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $13.797 billion over 10 years.

Require Non-Spouse Beneficiaries of Deceased Individual Retirement Account or Annuity ("IRA") Owners and Retirement Plan Participants to Take Inherited Distributions Over No More Than 5 Years

Under current law, minimum distribution rules apply to balances remaining after a plan participant or IRA owner has died. Under the proposal, non-spouse beneficiaries of retirement plans and IRAs would generally be required to take distributions over no more than five years. Exceptions would be provided for certain eligible beneficiaries. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $5.159 billion over 10 years.

Limit the Total Accrual of Tax-Favored Retirement Benefits

Under the proposal, a taxpayer who has accumulated amounts within the tax-favored retirement system (i.e., IRAs, section 401(a) plans, section 403(b) plans, and funded section 457(b) arrangements maintained by governmental entities) in excess of the amount necessary to provide the maximum annuity permitted for a tax-qualified defined benefit plan under current law (currently an annual benefit of $210,000 payable in the form of a joint and 100 percent survivor benefit commencing at age 62 and continuing each year for the life of the participant and, if later, the life of the participant's spouse) would be prohibited from making additional contributions or receiving additional accruals under any of those arrangements. Currently, the maximum permitted accumulation for an individual age 62 is approximately $3.42 million. If a taxpayer reached the maximum permitted accumulation, no further contributions or accruals would be permitted, but the taxpayer's account balance could continue to grow with investment earnings and gains. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $28.377 billion over 10 years.

Conform Self-Employment Contributions Act ("SECA") Taxes for Professional Service Businesses

Under current law, non-wage distributions to employee-shareholders of S corporations are not subject to either Federal Insurance Contributions Act or Self-Employment Contributions Act taxes, though the IRS has the authority to reclassify such distributions as wages to the extent any wages paid are not reasonable compensation. This issue has come to light, with recent high-profile examples of Newt Gingrich and John Edwards. The proposal would harmonize the SECA taxes imposed on the owners of professional services businesses

organized as pass-through entities. S corporation shareholders who materially participate in the business would be subject to SECA taxes on their distributive shares of income; those that do not materially participate would be subject to SECA taxes only on an amount of income equal to reasonable compensation. "Professional service businesses" would be defined as pass-through entities in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, and consulting, as well as athletics, investment advice or management, brokerage services, and lobbying. This is the first time this proposal has been included in the Obama Administration's budget. Raises $37.679 billion over 10 years.

Other Revenue Raisers

Increase Oil Spill Liability Trust Fund Financing Rate by One Cent and Update the Law to Include Other Sources of Crudes

Under current law, an excise tax is imposed on domestic crude oil, imported petroleum products, and any domestically produced crude oil that is used in or exported from the U.S. at a rate of 8 cents per barrel (9 cents per barrel after December 31, 2016). The tax is deposited in the Oil Spill Liability Trust Fund to pay costs associated with oil removal and damages resulting from oil spills, as well as other purposes. The proposal would increase the rate of the Oil Spill Liability Trust Fund tax to 9 cents per barrel for periods beginning on January 1, 2015, and to 10 cents per barrel for periods after December 31, 2017. The proposal also updates the law to include other sources of crude oil, including bituminous deposits as well as kerogen-rich rock. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $951 million over 10 years.

Reinstate Superfund Excise Taxes and Environmental Income Tax

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 financed the cleanup of hazardous waste sites, include the following: (1) a 9.7-cents-per-barrel excise tax on domestic and imported crude oil and petroleum products; (2) an excise tax on listed hazardous chemicals at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use as materials in their manufacture one or more of the listed hazardous chemicals; and (4) the corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified Alternative Minimum Tax income of a corporation exceeds $2 million. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $23.270 billion over 10 years.

Increased Tobacco Taxes and Index for Inflation

Under current law, an excise tax is imposed on tobacco products, including cigarettes, roll-your-own tobacco, pipe tobacco, and cigars. These rates are not indexed for inflation. The Administration proposes to increase excise taxes on cigarettes from $1.01 to about $1.95 per pack and increase all other excise taxes on tobacco products and cigarette papers and tubes by roughly the same proportion beginning in 2015. The proposal would also clarify that roll-your-own tobacco includes any processed tobacco that is removed or transferred for delivery to anyone without a proper permit, excluding export shipments of processed tobacco. Raises $78.217 billion over 10 years.

Make Unemployment Insurance Surtax Permanent

The Federal Unemployment Tax Act ("FUTA") currently imposes a federal payroll tax on employers of 6.0 percent of the first $7,000 paid annually to each employee. Before July 1, 2011, the federal payroll tax had included a temporary surtax of 0.2 percent, which was added to the permanent FUTA tax rate. The surtax had been extended several times since its enactment in 1976, but it expired on July 1, 2011. The proposal would make the 0.2 percent surtax permanent to support the continued solvency of the federal unemployment trust funds. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $15.200 billion over 10 years.

Provide Short-Term Tax Relief to Employers and Expand Federal Unemployment Tax Act ("FUTA") Base

The Federal Unemployment Tax Act ("FUTA") currently imposes a federal payroll tax on employers of 6.0 percent of the first $7,000 paid annually to each employee. Generally, these funds support the administrative costs of the unemployment insurance ("UI") benefits system. Employers in states that meet certain federal requirements are allowed a credit against FUTA taxes of up to 5.4 percent, making the minimum net federal rate 0.6 percent. States that become non-compliant experience a reduction in FUTA credit, causing employers to face a higher federal UI tax. The proposal would provide short-term relief to employers by suspending interest payments on state UI debt and suspending the FUTA credit reduction for employers in borrowing states in 2014 and 2015. The proposal would also raise the FUTA wage base to $15,000 per worker paid annually in 2017, index the wage base to wage growth for subsequent years, and reduce the net federal UI tax from 0.8 percent (after the proposed permanent extension of the FUTA surtax) to 0.37 percent. States with wage bases below $15,000 would need to conform to the new FUTA base. States would maintain the ability to set their own tax rates, as under current law. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $58.982 billion over 10 years.

Enhance and Modify the Conservation Easement Deduction

Under current law, a donor may deduct the value of a conservation easement (a partial interest) that is donated to a qualified charitable organization exclusively for conservation purposes, including for the preservation of certain certified historic structures. 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. The proposal would: (1) make the conservation easement provision permanent; (2) prohibit a deduction for any contribution of property that is, or is intended to be, used as a golf course; and (3) disallow a deduction for any value of a historic preservation easement associated with forgone upward development above a historic building and require conservation easements on National Register buildings to comply with the same special rules currently applicable to buildings in a registered historic district. The proposal expands on the conservation easement reform proposals that were in the Obama Administration's FY 2014 budget. Raises $522 million over 10 years.

Eliminate Deduction for Dividends on Stock of Publicly-Traded Corporations Held in Employee Stock Ownership Plans

Under current law, corporations do not generally receive a corporate income tax deduction for dividends paid to their shareholders. However, a deduction for dividends paid with respect to employer stock held in an Employee Stock Ownership Plan is allowed if certain conditions are met. A dividend qualifies as an applicable dividend only if the provisions of

the ESOP provide that the dividend is paid or used in accordance with one of three available alternatives. The administration's proposal would repeal the deduction for dividends paid with respect to stock held by an ESOP that is sponsored by a publicly traded corporation. Raises $7.883 billion over 10 years.

Reduce the Tax Gap and Make Reforms

Expand Informaton Reporting

Require Information Reporting for Private Separate Accounts of Life Insurance Companies

Under current law, investments in comparable assets through a separate account of a life insurance company generally give rise to tax-free or tax-deferred income. 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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $8 million over 10 years.

Require a Certified Taxpayer Identification Number from Contractors and Allow Certain Withholding

Under the 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 tax identification number. Additionally, 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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.321 billion over 10 years.

Modify Reporting of Tuition Expenses and Scholarships on Form 1098-T

Form 1098-T is used to verify education spending for education-related tax benefits. The proposal would require institutions of higher learning to report amounts paid and not amounts billed on the Form 1098-T. The proposal 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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $606 million over 10 years.

Provide for Reciprocal Reporting of Information in Connection with the Implementation of the Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") requires foreign financial institutions, in order to avoid the imposition of a new U.S. withholding tax, to report to the IRS comprehensive information about U.S. account holders of financial accounts. In accordance with FATCA and intergovernmental agreements signed pursuant to FATCA, the proposal would require certain financial institutions to report the account balance (including, in the case of a cash value insurance contract or annuity contract, the cash value or surrender value) for all financial accounts maintained at a U.S. office and held by foreign persons. No revenue effect.

Improve Compliance by Businesses

Require Greater Electronic Filing of Returns

The proposal would require all corporations and partnerships with $10 million or more in assets to file their tax returns electronically. In addition, regardless of asset size, corporations with more than 10 shareholders and partnerships with more than 10 partners would be required to file their tax returns electronically. The proposal modifies a similar proposal that was in the Obama Administration's FY 2014 budget. No revenue effect.

Implement Standards Clarifying When Employee Leasing Companies Can Be Held Liable for Their Clients' Federal Employment Taxes

Employers are required to withhold and pay federal employment taxes ("FICA" and "FUTA" taxes) with respect to wages paid to their employees. Liability for federal employment taxes generally lies with the taxpayer. Employee leasing is the practice of contracting with an outside business to handle certain administrative, personnel, and payroll matters for a taxpayer's employees. The proposal would set forth standards for holding employee leasing companies jointly and severally liable with their clients for federal employment taxes. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $64 million over 10 years.

Increase Certainty with Respect to Worker Classification

For both tax and non-tax purposes, workers must be classified into one of two mutually exclusive categories: employees or self-employed (sometimes referred to as independent contractors). Since 1978, the IRS has not been permitted to issue general guidance addressing worker classification, and in many instances has been precluded from reclassifying workers – even prospectively – who may have been misclassified. The proposal would permit the IRS to require prospective reclassification of workers who are currently misclassified and whose reclassification has been prohibited under current law, and Treasury and the IRS also would be permitted to issue generally applicable guidance on the proper classification of workers under common law standards. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $9.610 billion over 10 years.

Increase Information Sharing to Administer Excise Taxes

The IRS and the Tobacco Tax and Trade Bureau are authorized to disclose tax return information to Treasury employees. The proposal would extend this authority to customs officials housed at the Department of Homeland Security. Raises $148 million over 10 years.

Strengthen Tax Administration

Impose Liability on Shareholders to Collect Unpaid Income Taxes of Applicable Corporations

"Intermediary Transaction Tax Shelters" are listed transactions that require disclosure on a tax return to avoid certain penalties. These transactions are structured so that when a C corporation's assets are sold, the C corporation is ultimately left with insufficient assets from which to pay the tax owed from the asset sale. The proposal would impose liability on shareholders who enter into an Intermediary Transaction Tax Shelter and applies to shareholders who, directly or indirectly, dispose of a controlling interest (at least 50 percent) within a 12-month period in exchange for consideration other than stock issued by the

acquirer of the C corporation stock. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $5.238 billion over 10 years.

Increase Levy Authority for Payments to Medicare Providers with Delinquent Tax Debt

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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $743 million over 10 years.

Implement a Program Integrity Statutory Cap Adjustment for Tax Administration

The proposal would provide a multi-year program integrity cap adjustment for IRS tax enforcement, compliance and related activities through an amendment to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011. The proposed cap adjustment for 2015 will fund about $480 million in new revenue-producing initiatives above current levels of enforcement and compliance activity. Beyond 2015, the Administration proposes further increases in additional revenue-generating initiatives from 2016 through 2019 and to fund all of the new initiatives and inflationary costs via cap adjustments through FY 2024. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $52.004 billion over 10 years.

Streamline Audit and Adjustment Procedures for Large Partnerships

The Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") established unified audit rules applicable to all but certain small partnerships. Because the TEFRA audit and adjustment procedures for large partnerships were inefficient and more complex than those for other large entities, the Taxpayer Relief Act of 1997 established streamlined audit and adjustment procedures, as well as a simplified reporting system, for electing large partnerships. Few large partnerships have elected into the streamlined procedures. The proposal would mandate the streamlined procedures, but not the simplified reporting system, for any partnership that has 1,000 or more partners at any time during the taxable year, a "Required Large Partnership." 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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.798 billion over 10 years.

Revise Offer-In-Compromise Application Rules

Current law provides that the IRS may compromise any civil or criminal case arising under the internal revenue laws prior to a reference to the Department of Justice for prosecution or defense. In 2006, a new provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. The proposal would eliminate the requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer's offer. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $17 million over 10 years.

Expand IRS Access to Information in the National Directory of New Hires for Tax Administration Purposes

The Office of Child Support Enforcement of the Department of Health and Human Services maintains the National Directory of New Hires ("NDNH"), which is a database that contains data from Form W-4 for newly hired employees, quarterly wage data from state workforce

and federal agencies for all employees, and unemployment insurance data from state workforce agencies for all individuals who have applied for or received unemployment benefits. The NDNH was created to help state child support enforcement agencies enforce obligations of parents across state lines. The proposal would amend the Social Security Act to expand IRS access to NDNH data for general tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. A similar proposal was in the Obama Administration's FY 2014 budget. No revenue effect.

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 proposal would provide that any person who willfully fails to file tax returns in any three years within any five consecutive year period, if the aggregated tax liability for such period is at least $50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a fine of not more than $250,000 ($500,000 in the case of a corporation) or imprisonment for not more than five years, or both. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $10 million over 10 years.

Facilitate Tax Compliance with Local Jurisdictions

Although federal tax returns and return information ("FTI") generally are confidential, the IRS and Treasury Department may share FTI with states as well as certain local government entities that are treated as states for this purpose. The purpose of information sharing is to facilitate tax administration. Indian Tribal Governments ("ITGs") are treated as states by the tax law for several purposes, such as certain charitable contributions, excise tax credits, and local tax deductions, but not for purposes of information sharing. For purposes of information sharing, the proposal would treat as states those ITGs that impose alcohol, tobacco, or fuel excise or income or wage taxes, to the extent necessary for ITG tax administration. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $16 million over 10 years.

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. The proposal would create an additional exception to the general three-year statute of limitations for assessment of federal tax liability resulting from adjustments to state or local tax liability. The statute of limitations would be extended to the greater of: (1) one year from the date the taxpayer first files an amended tax return with the IRS reflecting adjustments to the state or local tax return; or (2) two years from the date the IRS first receives information from the state or local revenue agency under an information sharing agreement in place between the IRS and a state or local revenue agency. The statute of limitations would be extended only with respect to the increase in federal tax attributable to the state or local tax adjustment. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $25 million over 10 years.

Improve Investigative Disclosure Statute

Generally, tax return information is confidential, unless a specific exception in the Code applies. In the case of tax administration, the Code permits Treasury and the IRS officers and employees to disclose return information to the extent necessary to obtain information that is not otherwise reasonably available in the course of an audit or investigation. Determining if an investigative disclosure is "necessary" is inherently factual, leading to inconsistent opinions by the courts. The proposal would clarify the taxpayer privacy law by stating that the law does not prohibit Treasury and the 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. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $10 million over 10 years.

Require Taxpayers Who Prepare Their Returns Electronically but File Their Returns on Paper to Print Their Returns with a Scannable Code

The proposal would provide the Treasury with regulatory authority 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 scannable code that would enable the IRS to convert the paper return into an electronic format. A similar proposal was in the Obama Administration's FY 2014 budget. No revenue effect.

Allow the IRS to Absorb Credit and Debit Card Processing Fees for Certain Tax Payments

Section 6311 permits the IRS to receive payment of taxes by any commercially acceptable means that the Secretary deems appropriate. Taxpayers may make credit or debit card payments by phone through IRS-designated third-party service providers, but these providers charge the taxpayer a convenience fee over and above the taxes due. The proposal would amend Section 6311(d) to allow the IRS to accept credit or debit card payments directly from taxpayers and to absorb the credit and debit card processing fees for certain tax payments, without charging a separate processing fee to the taxpayer. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $19 million over 10 years.

Provide the Internal Revenue Service with Greater Flexibility to Address Correctable Errors

Section 6213(b) contains certain exceptions to the general deficiency procedures by granting the IRS authority to correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer's correct tax liability, or "math error authority." Such errors include math errors, inconsistent entries on tax forms, and omissions of correct taxpayer identification numbers necessary to claim certain credits. Use of math error authority can be an efficient use of IRS resources. The proposal would add three items to the list of circumstances where the IRS has math error authority: (1) the information provided by the taxpayer does not match the information collected in government databases; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (2) the taxpayer has failed to include with his or her return documentation that is required by statute. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $173 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Make E-Filing Mandatory for Exempt Organizations

Current law requires a tax-exempt organization to file its Form 990 series return electronically if it files at least 250 returns during the calendar year or if its gross receipts are less than $50,000 annually. Thus, only very small and very large tax-exempt organizations are required to file electronically. The proposal would require all tax-exempt organizations that must file Form 990 series returns or Forms 8872 to file them electronically. The proposal would also require the IRS to make the electronically filed Form 990 series returns and Forms 8872 publicly available in a machine readable format in a timely manner, as provided in regulations. No revenue effect.

Authorize the Department of 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 Department of Labor ("DOL") requires certain information in Form 5500 from employers and plan administrators to be filed electronically. However, under current law, the Treasury and IRS lack the general statutory authority to require electronic filing returns unless the person subject to the filing requirement must file at least 250 returns during the year. Consequently, information relevant to Code requirement and not relevant to the DOL cannot be requested on electronically-filed joint Form 5500 and currently is not collected. The proposal would provide the IRS the authority to require in the electronically filed annual reports the inclusion of information that is relevant only to employee benefit plan tax requirements, giving the IRS authority with respect to such tax information comparable to the authority that DOL already has with respect to information relevant to ERISA Title I. No revenue effect.

Impose a Penalty on Failure to Comply with Electronic Filing Requirements

Under current law, additions to tax are imposed for the failure to file tax returns reporting a liability. For failure to file a corporate return, the addition to tax is 5 percent of the amount required to be shown as tax due on the return, for the first month of failure, and an additional 5 percent for each month or part of a month thereafter, up to a maximum of 25 percent. The proposal would establish an assessable penalty for a failure to comply with a requirement of electronic 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, but would be waived if failure to file electronically is due to reasonable cause. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $10 million over 10 years.

Provide Whistleblowers with Protection from Retaliation

Current law allows whistleblowers to file claims for an award where the whistleblower submitted information that allowed the IRS to detect tax underpayments or detect and bring to trial and punishment persons guilty of violating the internal revenue laws. The proposal would amend the current law to explicitly protect whistleblowers from retaliatory actions, consistent with the protections currently available to whistleblowers under the False Claims Act. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Provide Stronger Protection from Improper Disclosure of Taxpayer Information in Whistleblower Actions

Current law imposes safeguarding requirements on certain disclosures of tax return information. The proposal would extend the safeguarding requirements to apply to whistleblowers and their legal representatives who receive tax return information in whistleblower administrative proceedings. In addition, the proposal extends the penalties for unauthorized inspections and disclosures of tax return information to whistleblowers and their legal representatives. A similar proposal was in the Obama Administration's FY 2014 budget. No revenue effect.

Index All Penalties to Inflation

Currently, there are numerous penalty provisions where a fixed penalty amount was established when the penalty was initially enacted into law. These provisions contain no mechanism to adjust the amount of the penalty for inflation, and thus, these penalties are only increased by amending the law. The proposal would index all penalties to inflation and round the indexed amount to the next hundred dollars. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $631 million over 10 years.

Extend Paid Preparer Earned Income Tax Credit ("EITC") Due Diligence Requirements to Child Tax Credit

Under current law, paid income tax preparers who fail to meet EITC due diligence requirements, including completing and filing a checklist, may face a penalty of $500 for each return for which the requirement was not met. The proposal would extend the due diligence requirement to include all federal income tax returns that claim the child tax credit, including the additional child tax credit. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Extend IRS Authority to Require a Truncated Social Security Number on Form W-2

Currently, employers are required to furnish written statements to their employees containing certain information and such statements require the inclusion of the employee's social security number. The proposal would revise the requirement to instead require employers to include an "identifying number" for each employee, rather than an employee's social security number, on Form W-2. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Add Tax Crimes to Aggravated Identity Theft Statute

The Aggravated Identity Theft Statute permits an increased sentence when the identity of another individual is used to commit certain crimes that are enumerated in the statute. The proposal would add tax-related offenses to the enumerated list. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Impose a Civil Penalty on Tax Identity Theft Crimes

Current law does not impose a civil penalty for tax-related identity theft. The proposal would add a $5,000 civil penalty to be imposed in tax identity theft cases on the individual who filed the fraudulent return. Negligible revenue effect.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Allow States to Send Notices of Intent to Offset Federal Tax Refunds to Collect State Tax Obligations by Regular First-Class Mail Instead of Certified Mail

Under current law, the Department of the Treasury may offset federal tax refunds to collect delinquent state income tax obligations only after the state sends the delinquent debtor a notice by certified mail with return receipt. The Administration's proposal would remove the statutory requirement to use certified mail, thereby allowing the Treasury Department to amend its regulations to permit states to send notices for delinquent state income tax obligations by first class mail. No revenue effect.

Explicitly Provide that the Department of Treasury and IRS Have Authority to Regulate All Paid Return Preparers

Under current law, the IRS has the authority under Circular 230 to regulate the practice of licensed attorneys, certified public accountants, and enrolled agents and actuaries, but not unlicensed and unenrolled paid tax return preparers. The proposal would provide the Treasury Department with the authority to regulate all paid tax return preparers. Negligible revenue effect.

Rationalize Tax Return Filing Due Dates So They Are Staggered

Currently, calendar year corporations, including S corporations, are required to file their income tax returns by March 15 of the year following the close of the taxable year. Fiscal year corporations, including S corporations, are required to file their income tax returns by the 15th day of the third month following the close of the taxable year. Calendar year partnerships are required to file Form 1065 with the IRS and furnish a copy of the Schedule K-1 to each partner by April 15 of the year following the close of the taxable year, but fiscal year partnerships have until the 15th day of the fourth month following the close of the taxable year. The proposal would harmonize then income tax return due dates so that taxpayers receive Schedules K-1 before the due date for filing their income tax returns. All calendar year partnership and all calendar year S corporation returns and all Schedules K-1 would be due March 15, and returns of calendar year corporations other than S corporations would be due April 15 instead of March 15. Raises $2.581 billion over 10 years.

Increase the Penalty Applicable to Paid Tax Preparers Who Engage in Willful or Reckless Conduct

Under current law, the Code imposes a penalty on paid tax return preparers for understatements of tax due to unreasonable positions taken on a return or claim for refund. The proposal would increase the penalty rate on paid tax return preparers for understatements due to willful or reckless conduct to the greater of $5,000 or 75 percent (instead of the current 50 percent) of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. Raises $8 million over 10 years.

Enhance Administrability of the Appraiser Penalty

Current law imposes a penalty on any person who prepares an appraisal of the value of property, if the person knows or reasonably should have known that the appraisal would be used in connection with a return or claim for refund, and if the claimed value of the property based on the appraisal results in a substantial or gross valuation misstatement. An exception to the penalty is available if the value in the appraisal is "more likely than not" the property value. The proposal would replace the existing "more likely than not" exception to

the appraiser penalty with a reasonable cause exception and not subject the appraiser to additional penalties under certain circumstances. Negligible revenue effect.

Simplify the Tax System

Simplify the Rules for Claiming the EITC for Workers without Qualifying Children

Under current law, an otherwise eligible worker living in a household with an eligible child may claim that child for purposes of the EITC. Additionally, taxpayers with low wages who do not have any qualifying children may be eligible to claim a small EITC. 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 workers living with qualifying children to claim the EITC for workers without qualifying children. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $5.509 billion over 10 years.

Modify Adoption Credit to Allow Tribal Determination of Special Needs

Indian Tribal Governments ("ITGs") do not have the authority under current law to determine if a credit for qualified adoption expenses is allowable to an individual adopting a special needs child. The proposal would amend the tax credit for qualified adoption expenses to allow ITGs to determine that a credit is allowable in the case of adoption of a special needs child. Costs $6 million over 10 years.

Simplify Minimum Required Distribution ("MRD") Rules

The proposal would exempt an individual from minimum required distribution ("MRD") rules if the aggregate value of the individual's IRAs and tax-favored retirement plan accumulations does not exceed $100,000 (indexed for inflation). The MRD requirements would phase in ratably for individuals with aggregate retirement benefits between $100,000 and $110,000. The proposal would also harmonize the application of the MRD requirements for holders of designated Roth accounts and of Roth IRAs by generally treating Roth IRAs in the same manner as all other tax-favored retirement accounts. The proposal expands on MRD reform proposals that were in the Obama Administration's FY 2014 budget. Raises $484 million over 10 years.

Allow All Inherited Plan and Individual Retirement Account or Annuity ("IRA") Balances to Be Rolled Over within 60 Days

Under current law, spouse beneficiaries may roll over plan, IRA, and annuity balances within 60 days. Non-spouse beneficiaries may only directly roll over these types of assets. The proposal would allow non-spouse beneficiaries to roll over these types of assets within 60 days. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Repeal Non-Qualified Preferred Stock ("NQPS") Designation

Under current law, non-qualified preferred stock ("NQPS") is treated as taxable "boot" for certain purposes, but is otherwise treated as stock. The Administration believes this adds complexity to the Code and results in inconsistent treatment. The proposal would repeal provisions in the code treating NQPS as "boot." The proposal would be effective for stock

issued after December 31, 2012. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $405 million over 10 years.

Repeal Preferential Dividend Rule for Publicly Traded REITs

The proposal would repeal the preferential dividend rule for publicly-traded REITs. Treasury would be given authority to provide for cures of inadvertent violations of the preferential dividend rule where it continues to apply and require consistent treatment of shareholders. A similar proposal was in the Obama Administration's FY 2014 budget. Negligible revenue effect.

Reform Excise Tax Based on Investment Income of Private Foundations

This proposal would replace the two rates of tax on private foundations that are exempt from federal income tax with a single tax rate of 1.35 percent. The tax on private foundations not exempt from federal income tax would be equal to the excess (if any) of the sum of the 1.35 percent excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The special reduced excise tax rate available to tax-exempt private foundations that maintain their historic level of charitable distributions would be repealed. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $47 million over 10 years.

Remove Bonding Requirements for Certain Taxpayers Subject to Federal Excise Taxes on Distilled Spirits, Wine, and Beer

The proposal would reduce the frequency with which certain distilled spirits, wines, and beer taxpayers must file alcohol excise tax forms and revise bond requirements for small taxpayers. The proposal would require any distilled spirits, wines, and beer taxpayer who reasonably expects to be liable for not more than $50,000 per year in alcohol excise taxes (and who was liable for not more than $50,000 of such taxes in the preceding year) to file and pay such taxes quarterly, rather than semi-monthly. The proposal would also create an exemption from the bond requirement in the Code for these small taxpayers. The proposal would allow any distilled spirits, wine, or beer taxpayer with a reasonably expected alcohol excise tax liability of not more than $1,000 per year to file and pay such taxes annually rather than quarterly. The proposal will create parity among alcohol taxpayers by allowing eligible distilled spirits and beer taxpayers to file annually, like wineries. The proposal would be effective 90 days after the date of enactment. Negligible revenue effect.

Simplify Arbitrage Investment Restrictions

The proposal would unify yield restriction and rebate, relying on arbitrage rebate as the principal type of arbitrage restriction on tax-exempt bonds. The proposal would provide a broader streamlined three-year spending exception to arbitrage rebate for tax-exempt bonds meeting certain requirements. The proposal would increase the small-user exception to the arbitrage rebate requirement to tax-exempt bonds from $5 million to $10 million and index the size for inflation. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $431 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Simplify Single-Family Housing Mortgage Bond Targeting Requirements

Current law allows use of tax-exempt qualified mortgage bonds to finance mortgage loans for owner-occupied single-family housing residences, subject to a number of targeting requirements, including, among others: a mortgagor income limitation; a purchase price limitation; refinancing limitation; and a targeted area availability requirement. The proposal would repeal the purchase price limitation and the refinancing limitation on tax-exempt qualified mortgage bonds. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $121 million over 10 years.

Streamline Private Business Limitations on Governmental Bonds

Current law treats tax-exempt bonds issued by state and local governments 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 (i) used for private business use, and (ii) payable or secured from property or payments derived from private business use. Subsidiary restrictions further reduce the permitted thresholds of private involvement for governmental bonds in several ways, including imposing a 5 percent unrelated or disproportionate private business use limit. The proposal would repeal the 5 percent unrelated or disproportionate private business use test under section 141(b)(3) to simplify the private business limits on tax-exempt governmental bonds. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $100 million over 10 years.

Exclude Self-Constructed Assets of Small Taxpayers from the Uniform Capitalization ("UNICAP") Rules

Current law requires taxpayers that produce property (e.g., construct, build, install, manufacture, develop or improve property) for use in their trade or business or produce or acquire property for resale to capitalize the direct and indirect costs of the property produced or acquired under the Uniform Capitalization ("UNICAP") rules. However, many small taxpayers are unaware that they are subject to the UNICAP rules, particularly with regard to self-constructed assets. The Administration proposes to exempt taxpayers that have annual gross receipts of $10 million or less from the application of UNICAP rules for costs incurred to produce real or personal property for use in a trade or business. Average gross receipts would be calculated based on a taxpayer's three-previous taxable years. A similar proposal was in the Obama Administration's FY 2014 budget. Costs $841 million over 10 years.

Repeal Technical Terminations of Partnerships

If there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits within a 12-month period, the partnership is technically treated as having been terminated for U.S. federal income tax purposes. This causes several unanticipated consequences, including the restart of section 168 depreciation lives, the close of a partnership's taxable year, and the loss of partnership level elections. The proposal would repeal the technical termination of a partnership for transfers on or after December 31, 2014. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $225 million over 10 years.

What's on the Menu? How Will the Administration's Smorgasbord of Tax Proposals Affect You?

Repeal Anti-Churning Rules of Section 197

Section 197 provides that intangibles held or used during a transition period of July 25, 1991 to August 10, 1993 are ineligible for amortization, including when such intangibles are acquired during the transition period or if a taxpayer grants the right to use the intangible to a person who held or used the intangible at any time during the transition period. The Administration proposes to repeal the section 197 rule that make these intangibles ineligible for amortization. Costs $2.583 billion over 10 years.

Repeal Special Estimated Tax Payment Provision for Certain Insurance Companies

Under current law, an insurance company uses reserve accounting to compute losses incurred, which include losses paid during the taxable year plus or minus the increase or decrease in discounted unpaid losses during the year. Taxpayers can elect under section 847 to take an additional deduction equal to difference between the amount of their reserves computed on a discounted basis and the amount computed on an undiscounted basis by making a special estimated tax payment equal to the tax benefit attributable to the additional deduction. This proposal would repeal section 847, effective for taxable years beginning after December 31, 2014. Negligible revenue effect.

Repeal the Telephone Excise Tax

Currently, there is a three-percent excise tax on amounts paid for taxable communications services, which include local telephone service and toll telephone service. Under the proposal, all taxes on communications services, including the tax on local telephone service, would be repealed, effective 90 days after enactment. Costs $2.177 billion over 10 years.

Increase the Standard Mileage Rate for Automobile Use by Volunteers

Currently, taxpayers may deduct unreimbursed expenses directly related to the use of an automobile in giving services to a charitable organization or use a standard mileage rate of 14 cents per mile. The proposal would set the standard mileage rate for the charitable contribution deduction equal to the rate set by the IRS for purposes of the medical and moving expense deduction (currently set at 23.5 cents per mile for tax year 2014). The proposal would be effective for tax years beginning after December 31, 2014. Costs $428 million over 10 years.

User Fee

Reform Inland Waterways Funding

The Administration believes that the current excise tax of 20 cents per gallon on fuel used in inland waterway transportation is not generating enough revenue to cover required costs. The Administration proposes establishing a new user fee, increasing the amount paid by commercial navigation users. A similar proposal was in the Obama Administration's FY 2014 budget. Raises $1.1 billion over 10 years.

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[1] Asterisks identify tax extender proposals.
[2] Budget baseline assumes permanently extended increased refundability of the child tax credit, permanently extended EITC for larger families and marriage penalty relief, and permanently extended AOTC (all extended through 2017 in the American Taxpayer Relief Act of 2012).