FEDERAL RECEIPTS

14. GOVERNMENTAL RECEIPTS

After years of tax policies that have disproportionately benefited high-income Americans and corporations, the country has been left with a tax code that is unbalanced and insufficient to meet national needs. The Administration's agenda represents a change in course, providing tax relief to working American families while asking corporations and high-income families making more than $250,000 to pay more after the economy recovers from the effects of the recent recession.

Within a month of taking office, the Administration took action to jumpstart the economy and provide immediate tax relief to 95 percent of working American families. The Department of the Treasury estimates that as of the end of December 2009, tax reductions (including refundable tax credits) provided in the American Recovery and Reinvestment Act (ARRA) total $99 billion.[1]

The Budget proposes to continue tax relief to middle class families by, for instance, expanding the tax credit for those with dependent care expenses and increasing educational opportunity. It does this while rebalancing the tax code by allowing the top ordinary income tax rates to return to what they were during most of the 1990s for families making more than $250,000 and eliminating subsidies and loopholes that benefit only narrow and often well-funded interest groups, such as oil companies. Further, the Budget will impose a fee on the largest financial institutions to offset the costs of the Troubled Asset Relief Program (TARP) and ensure that support provided to the financial sector through TARP does not add to the national debt. The Budget will also reform the international tax laws by reducing incentives for U.S.-based multinational corporations to invest abroad rather than in the United States and propose enforcement measures that will cut into the gap between what is owed under the tax law and what is paid.

ESTIMATES OF GOVERNMENTAL RECEIPTS

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

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

[1] The tax reduction estimates are based on the Department of the Treasury Office of Tax Analysis (OTA) tax simulation model for the effect of the ARRA tax provisions. The OTA will not have comprehensive data on the 2009 tax filings until later in 2010.

Table 14–1. GOVERNMENTAL RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2009 Actual	Estimate										
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Individual income taxes	915.3	935.8	1,121.3	1,326.0	1,468.4	1,603.9	1,733.5	1,856.3	1,980.1	2,101.8	2,222.7	2,338.3
Corporation income taxes	138.2	156.7	296.9	366.4	393.5	444.8	411.1	449.3	462.6	472.9	485.5	502.1
Social insurance and retirement receipts	890.9	875.8	935.1	1,004.9	1,070.2	1,132.2	1,194.6	1,266.9	1,321.3	1,378.8	1,435.8	1,488.8
(On-budget)	(236.9)	(240.6)	(261.0)	(284.4)	(304.5)	(323.2)	(338.7)	(355.5)	(366.9)	(379.3)	(391.7)	(404.7)
(Off-budget)	(654.0)	(635.2)	(674.1)	(720.5)	(765.7)	(809.0)	(855.9)	(911.4)	(954.4)	(999.6)	(1,044.1)	(1,084.1)
Excise taxes	62.5	73.2	74.3	81.1	85.0	86.5	87.8	89.1	90.0	90.5	91.0	91.8
Estate and gift taxes	23.5	17.0	25.0	22.5	23.6	25.6	27.6	29.8	32.1	34.6	37.2	39.9
Customs duties	22.5	23.8	27.4	31.8	34.8	36.9	39.3	41.8	44.1	46.5	49.3	52.0
Miscellaneous receipts	52.1	94.8	96.1	84.2	76.7	70.1	65.7	68.0	70.7	73.2	75.6	77.8
Health insurance reform	....	....	16.0	17.5	39.0	57.5	74.0	86.0	93.0	101.0	109.5	119.0
Jobs initiatives	....	-12.0	-25.0	-8.0	-3.0	-2.0	....	....	....	....	....	....
Total receipts	**2,105.0**	**2,165.1**	**2,567.2**	**2,926.4**	**3,188.1**	**3,455.5**	**3,633.7**	**3,887.2**	**4,094.0**	**4,299.3**	**4,506.5**	**4,709.8**
(On-budget)	(1,451.0)	(1,529.9)	(1,893.1)	(2,205.9)	(2,422.4)	(2,646.4)	(2,777.7)	(2,975.8)	(3,139.6)	(3,299.7)	(3,462.4)	(3,625.7)
(Off-budget)	(654.0)	(635.2)	(674.1)	(720.5)	(765.7)	(809.0)	(855.9)	(911.4)	(954.4)	(999.6)	(1,044.1)	(1,084.1)
Total receipts as a percentage of GDP	14.8	14.8	16.8	18.1	18.6	19.0	18.9	19.3	19.4	19.5	19.5	19.6

ceipts, are discussed in Chapter 15, "Offsetting Collections and Offsetting Receipts," in this volume.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be $2,165.1 billion in 2010, an increase of $60.1 billion or 2.9 percent from 2009. The estimated increase in 2010 is partly attributable to the growth in personal income and corporate profits as the economy begins to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of receipts. Increases in deposits of earnings by the Federal Reserve System, which are classified as miscellaneous receipts, also contribute to the growth in 2010 receipts relative to 2009. Overall, receipts in 2010 are estimated to be 14.8 percent of Gross Domestic Product (GDP), the same as in 2009 (the lowest share since 1950, when receipts were 14.4 percent of GDP).

As the economy continues to recover from the recession, receipts are estimated to rise to $2,567.2 billion in 2011, an increase of $402.1 billion or 18.6 percent relative to 2010. Receipts are projected to grow at an average annual rate of 9.1 percent between 2011 and 2015, rising to $3,633.7 billion. Receipts are projected to rise to $4,709.8 billion in 2020, growing at an average annual rate of 5.3 percent between 2015 and 2020. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation. The Administration's proposals to restore balance to the tax code, to close loopholes, and to eliminate subsidies to special interests contribute to the growth in receipts, beginning in 2011.

As a share of GDP, receipts are projected to increase from 14.8 percent in 2010 to 16.8 percent in 2011, and to rise to 19.6 percent in 2020. However, as a share of GDP, receipts would still be lower than in 2000, when the receipts share of GDP reached 20.6 percent.

LEGISLATION ENACTED IN 2009 THAT AFFECTS GOVERNMENTAL RECEIPTS

In one of his first official acts, President Obama signed into law the reauthorization of the Children's Health Insurance Program (CHIP) on February 4, 2009. This Act provided the support, options and incentives for States to provide coverage for an additional four million children on average in CHIP and Medicaid who were previously uninsured. Shortly thereafter, on February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009, an ambitious effort to stimulate the economy. The provisions of this Act have provided a direct fiscal boost to help lift the Nation from the most significant economic crisis since the Great Depression and have laid the foundation for further economic growth. The Worker, Homeownership, and Business Assistance Act of 2009, which was signed into law by President Obama on November 6, 2009, built on the successes of ARRA by helping to spur job creation and providing much needed support for workers who are struggling to find jobs. Other legislation signed by President Obama since taking office in January 2009 extended the authority to collect taxes that fund the Airport and Airway Trust Fund, extended the ban on imports from Burma, and extended several tax provisions that were scheduled to expire on December 31, 2009.

The major provisions of these Acts that affect receipts are described below. [2]

CHILDREN'S HEALTH INSURANCE PROGRAM REAUTHORIZATION ACT OF 2009

Increase excise tax rates on tobacco products and make administrative improvements.—Tobacco products (cigars, cigarettes, cigarette papers and tubes, snuff, chewing tobacco, pipe tobacco and roll-your-own tobacco) manufactured in the United States or imported into the United States are subject to Federal excise taxes. This Act increased the Federal excise tax on cigarettes, which was 39 cents per pack under prior law, to $1.01 per pack; excise taxes on other tobacco products were increased in a generally proportionate manner. The definition of "roll-your-own tobacco" was expanded to include any tobacco used for making cigars, or for use as wrappers for making cigars. In addition, a tax was imposed on floor stocks of tobacco products (other than certain cigars and cigarette papers and tubes), reduced by a $500 tax credit. These changes in tobacco excise taxes were effective for articles removed from the factory or released from customs custody after March 31, 2009.

Strengthen regulatory and enforcement authority.—This Act also strengthened regulatory and enforcement authority over the production and importation of tobacco by: (1) subjecting manufacturers and importers of "processed tobacco" to current law permit, inventory, reporting, and recordkeeping requirements; (2) broadening the authority of the Department of the Treasury to deny, suspend, and revoke tobacco permits for holders that fail to comply with the tax code and related regulations; (3) clarifying that the three-year statute of limitations for assessment of taxes applies to taxes on imported alcohol, tobacco products, and cigarette papers and tubes; (4) imposing a tax on the unlawful manufacture of tobacco products and cigarette papers and tubes; and (5) making certain tax return information related to civil actions against tobacco companies available to the Department of Justice. These changes generally were effective on February 4, 2009.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a

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

calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments due in July through September of 2013 by corporations with assets of at least $1 billion from 120 percent of the amount otherwise due to 120.5 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Tax Relief for Individuals and Families

Increase and extend the alternative minimum tax (AMT) exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts to $46,200 for single taxpayers, $69,950 for married taxpayers filing a joint return and surviving spouses, and $34,975 for married taxpayers filing a separate return and for estates and trusts. These temporary increases were effective for taxable years beginning after December 31, 2007, and before January 1, 2009. This Act increased the AMT exemption amounts, effective for taxable years beginning after December 31, 2008, and before January 1, 2010, to $46,700 for single taxpayers, $70,950 for married taxpayers filing a joint return and surviving spouses, and $35,475 for married taxpayers filing a separate return and for estates and trusts.

Extend AMT relief for nonrefundable personal credits.—Under a temporary provision of prior law, taxpayers were permitted to offset both the regular tax and the AMT with nonrefundable personal tax credits, effective for taxable years beginning before January 1, 2009. This Act extended minimum tax relief for nonrefundable personal tax credits for one year, to apply to taxable years beginning before January 1, 2010. The extension does not apply to the child credit, the saver's credit, the earned income tax credit (EITC), or the adoption credit, which were provided AMT relief through December 31, 2010, under the 2001 tax cut. The refundable portion of the child credit and the earned income tax credit are also allowed against the AMT through December 31, 2010. In addition, the extension does not apply to the residential energy efficient property credit or the new qualified plug-in electric drive motor vehicle credit, both of which are allowed against the AMT under prior law.

Provide making work pay tax credit.—A refundable tax credit equal to 6.2 percent of earned income, up to a maximum of $400 for working single taxpayers and $800 for working married taxpayers filing a joint return, was provided under this Act for taxable years 2009 and 2010. The credit is phased out at a rate of 2 percent for taxpayers with modified adjusted gross income (AGI) in excess of $75,000 ($150,000 for married taxpayers filing a joint return). Payments are made to each possession of the United States with a mirror tax system (U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) in an amount equal to the loss in receipts to that possession attributable to the credit provided in this Act. Payments are made to each possession that does not have a mirror tax system (Puerto Rico and American Samoa) in an amount estimated by the Department of the Treasury as being equal to the aggregate credits that would have been allowed to residents of that possession if a mirror tax system had been in effect.

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

Increase refundable portion of the child tax credit.—Taxpayers are allowed a nonrefundable tax credit of up to $1,000 for each qualifying child under the age of 17. The credit is reduced by $50 for each $1,000 (or fraction thereof) of modified AGI over $75,000 for single taxpayers ($110,000 for married taxpayers filing a joint return). If the credit exceeds the taxpayer's individual income tax liability, the taxpayer is eligible for a refundable credit (the additional child credit) equal to the lesser of: (1) 15 percent of earned income in excess of a threshold dollar amount ($12,550 for 2009), indexed annually for inflation; or (2) any child credit unclaimed due to insufficient tax liability. Taxpayers with three or more qualifying children may determine the additional child credit using an alternative formula if this results in a larger credit. Under this Act, effective for taxable years 2009 and 2010, the refundable tax credit was increased by reducing the threshold dollar amount to $3,000.

Provide American opportunity tax credit.—Taxpayers are allowed a nonrefundable tax credit of up to $1,800 (for 2009) per eligible student per year for qualified tuition and related expenses paid for the first two years of the student's post-secondary education in a degree or certificate program. Students must attend at least half time to be eligible for the credit. This credit, called the Hope Scholarship Credit, is equal to 100 percent of the first $1,200 in qualified tuition and related expenses and 50 percent of the next $1,200 of qualified tuition and related expenses for 2009; these amounts are indexed annually for inflation and rounded down to the next lowest multiple of $100. The credit is phased out ratably for single taxpayers with modified AGI between $50,000 and $60,000 ($100,000 and $120,000 for married taxpayers filing a joint return) for 2009. The income thresholds for these phase-out ranges are indexed annually for inflation, with the amount rounded down to the next lowest multiple of $1,000.

ARRA created the American opportunity tax credit to replace the Hope Scholarship Credit for taxable years 2009 and 2010. The new tax credit is partially refundable, has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits. The American opportunity tax credit provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certificate program. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. In addition, generally 40 percent of the otherwise allowable credit is refundable. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return).

Extend and modify the refundable tax credit for first-time homebuyers.—A temporary provision of prior law provided a refundable tax credit to first-time homebuyers who purchased a home after April 8, 2008, and before July 1, 2009, without regard to whether or not there was a binding contract to purchase prior to April 9, 2008. A first-time homebuyer is an individual who had no ownership interest in a principal residence in the United States during the three-year period prior to the purchase of the home to which the credit applies. The credit, which is equal to 10 percent of the purchase price of the home, up to a maximum credit of $7,500, is phased out for taxpayers with modified AGI between $75,000 and $95,000 ($150,000 and $170,000 for married taxpayers filing a joint return). Taxpayers receiving the credit must repay the amount received in equal installments over a 15-year period beginning two years after the purchase of the home. This Act extended the credit to apply to qualifying home purchases before December 1, 2009, waived the recapture of the credit for qualifying home purchases after December 31, 2008, and before December 1, 2009, and increased the maximum credit to $8,000.[3]

[3] The Worker, Homeownership and Business Assistance Act of 2009 extended the deadline to May 1, 2010, for a binding contract and made some other modifications.

Exclude a portion of unemployment compensation from taxation.—Unemployment compensation received under the laws of the United States or a State is subject to individual income tax under current law. Under this Act, for taxable year 2009, a taxpayer may exclude up to $2,400 of such compensation from gross income for Federal individual income tax purposes.

Provide an additional deduction for taxes on the purchase of certain motor vehicles.—Taxpayers who itemize deductions are allowed to elect to deduct State and local general sales taxes in lieu of State and local income taxes. If a taxpayer itemizes deductions and elects to deduct State and local general sales taxes, the taxpayer may substantiate the sales taxes paid with receipts or may deduct an amount determined from Internal Revenue Service (IRS) tables plus the amount of general State and local sales taxes paid on the purchase of a motor vehicle, boat or certain other items. Taxpayers who claim the standard deduction or who itemize deductions and deduct State and local income taxes are not allowed to deduct State and local taxes paid on the purchase of a motor vehicle. Under this Act, taxpayers who claim the standard deduction or itemize deductions, but elect to deduct State and local income taxes, instead of general sales taxes, are also allowed to deduct State and local sales or excise taxes paid or accrued on the purchase of a qualified motor vehicle after February 16, 2009, and before January 1, 2010. A qualified motor vehicle is a passenger automobile, light truck or motorcycle that has a gross vehicle weight rating of not more than 8,500 pounds, or a motor home acquired for use by the taxpayer, the original use of which commences with the taxpayer. The deduction is limited to the tax on up to $49,500 of the purchase price and is phased out for single taxpayers with modified AGI over $125,000 ($250,000 for married taxpayers filing a joint return).

Provide assistance for COBRA continuation coverage.—Certain group health plans are required to offer qualified beneficiaries the opportunity to continue to participate in the group health plan for a specified period of time after the occurrence of certain events that otherwise would have terminated such participation. Qualified beneficiaries may be required to pay a premium for continuation coverage. The continuation coverage rules, which were enacted in the Consolidated Omnibus Budget Reconciliation Act of 1985, are often referred to as "COBRA." Under ARRA, qualified beneficiaries electing COBRA continuation coverage as a result of an involuntary termination occurring on or after September 1, 2008, and before January 1, 2010, are provided a premium subsidy for up to nine months of COBRA continuation coverage.[4] The subsidy is 65 percent of the premium for a period of coverage; the qualified beneficiary electing COBRA continuation coverage is responsible for the remaining 35 percent. Single taxpayers with modified AGI in excess

[4] The Department of Defense Appropriations Act, FY 2010, extended premium assistance coverage to qualified individuals who are involuntarily terminated between January 1, 2010, and February 28, 2010, and extended the duration of the subsidy from nine months to fifteen months.

of $145,000 ($290,000 for married taxpayers filing a joint return) do not qualify for the subsidy. A special sixty-day election period is provided to individuals who did not have a COBRA election in effect as of February 17, 2009, but would otherwise be eligible for the premium subsidy. The entity to which premiums are payable is reimbursed by the amount of the premium for COBRA continuation coverage that is not paid on account of the premium subsidy. These entities treat the reimbursement as a credit against the employee income tax withholding and the employee and employer social security tax liability otherwise deposited in the Treasury. To the extent that the amount of the reimbursement exceeds the amount of the entity's liability for these taxes, the entity is reimbursed directly by the Treasury. Transfers of social security tax liability to the social security trust funds are not affected by the credits.

Tax Incentives for Business

Extend temporary bonus depreciation for certain property.—Taxpayers are allowed to recover the cost of certain property used in a trade or business or for the production of income through annual depreciation deductions. The amount of the allowable depreciation deduction for a taxable year is generally determined under the modified accelerated cost recovery system (MACRS), which assigns applicable recovery periods and depreciation methods to different types of property. Under temporary provisions of prior laws, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired and placed in service after December 31, 2007, and before January 1, 2009. Qualifying property included tangible property that had a recovery period not exceeding 20 years, purchased computer software, water utility property and qualified leasehold improvement property. A one-year extension of the placed-in-service date, through calendar year 2009, was provided for certain longer-lived property and certain transportation property. Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property placed in service after March 31, 2008, and before January 1, 2009. This Act extended the additional first-year depreciation deduction for one year, to apply to qualifying property acquired after calendar year 2007 and before calendar year 2010, and placed in service in calendar year 2009 (through 2010 for certain longer-lived and transportation property). The election to claim additional research or AMT tax credits in lieu of the additional first-year depreciation was also extended for one year.

Extend temporary increase in expensing for small business.—Under a temporary provision expiring in 2011, business taxpayers were allowed to expense up to $125,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2007. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $500,000. Both the deduction and annual investment limits were indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. Another temporary provision of prior law increased the expensing and annual investment limits to $250,000 and $800,000, respectively, effective for taxable years beginning in 2008. This Act extended the $250,000 deduction and $800,000 annual investment limits for one year, through taxable years beginning in 2009.

Allow five-year carryback of net operating losses (NOLs).—In general, an NOL may be carried back two years and carried forward twenty years to offset taxable income in such years. However, different rules apply with respect to NOLs arising in certain circumstances. This Act provided eligible small businesses (businesses meeting a $15 million gross receipts test) the election to increase the carryback period for applicable NOLs from two years to any whole number of years elected by the taxpayer that is more than two and less than six. An applicable NOL is the taxpayer's NOL for any taxable year ending in 2008, or, if elected by the taxpayer, the NOL for any taxable year beginning in 2008. However, any election may be made only with respect to one taxable year.

Clarify and modify regulations related to limitations on certain built-in losses following an ownership change.—The extent to which a "loss corporation" may offset taxable income in taxable years after an "ownership change" by net operating losses, certain built-in losses, and deductions attributable to taxable years prior to the ownership change is limited under current law. This Act repealed prospectively a notice issued by the Department of the Treasury in 2008 that liberalized these rules with respect to an ownership change by a bank. This Act also provided an exception from the application of the limitation in the case of an ownership change that occurs after February 17, 2009, pursuant to a restructuring plan required under a loan agreement or commitment for a line of credit entered into with the Department of the Treasury under the Emergency Economic Stabilization Act of 2008.

Allow deferral of certain income from the discharge of indebtedness.—Gross income generally includes income realized by a debtor from the discharge of indebtedness, subject to certain exceptions. In cases involving discharges of indebtedness that are excluded from gross income under the exceptions to the general rule, taxpayers generally are required to reduce certain tax attributes by the amount of the discharge of indebtedness. The amount of discharge of indebtedness generally equals the excess of the adjusted issue price of the indebtedness being satisfied over the amount paid (or deemed paid) to satisfy such indebtedness. This rule generally applies to: (1) the acquisition by the debtor of its debt instrument in exchange for cash; (2) the issuance of a debt instrument by the debtor in satisfaction of its indebtedness, including a modification of indebtedness that is treated as an exchange (a debt-for-debt exchange); (3) the transfer by a debtor corporation of stock, or a debtor partnership of a capital or profits interest in such partnership, in satisfaction of its indebtedness (an equity-for-debt exchange); and (4) the acquisition by a debtor corporation of its indebtedness from a shareholder as a contribution to capital. This Act allowed a taxpayer to elect to defer the recognition of income from the cancellation of indebtedness associated with the "reacquisition" of "an applicable debt instrument" after December 31, 2008, and before January 1, 2011. Income deferred pursuant to the election must be included in the gross income of the taxpayer ratably in the five taxable years beginning with: (1) the fifth taxable year following the taxable year in which the repurchase occurs, for repurchases in 2009; and (2) the fourth taxable year following the taxable year in which the repurchase occurs, for repurchases in 2010. Additionally, the debtor's original issue discount deductions are delayed to prevent a mismatch in timing between income recognition and deductions.

Suspend applicable high-yield debt obligation rules.—The applicable high-yield debt obligation (AHYDO) rules defer or deny interest deductions on certain debt instruments. This Act generally suspended the application of the AHYDO rules for any debt instrument issued during the period beginning on September 1, 2008, and ending on December 31, 2009, in exchange (including an exchange resulting from a modification of the debt instrument) for an obligation that is not an AHYDO. This Act also provided the Department of the Treasury with the authority to extend the suspension or provide other types of relief from the AHYDO rules.

Reduce capital gains taxation on small businesses.—Current law provides a 50-percent exclusion (60-percent exclusion for certain empowerment zones) from tax for capital gains realized on the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to investments of individuals and not the investments of a corporation. This Act increased the exclusion to 75 percent, effective for stock issued after February 17, 2009, and before January 1, 2011.

Modify other provisions regarding the taxation of businesses.—Other provisions in this Act affecting businesses: (1) modified the amount of estimated tax payments by small businesses for any taxable year beginning in 2009; (2) temporarily expanded the targeted groups eligible for the work opportunity tax credit to include unemployed veterans and disconnected youth who begin work in taxable years 2009 and 2010; (3) provided a temporary exemption from tax on built-in gains of S corporations recognized during taxable years 2009 and 2010 if the seventh taxable year of the recognition period preceded such taxable year; and (4) temporarily liberalized the eligibility requirements for tax-exempt small issue bonds for manufacturing facilities issued after February 17, 2009, and before January 1, 2011, to include certain high-technology facilities and certain functionally related and subordinate facilities.

Relief for State and Local Governments

Modify tax-exempt interest expense allocation rules for financial institutions.—Under current law, a deduction generally is not allowed for interest expenses incurred by a financial institution to purchase obligations the interest on which is exempt from tax. The amount of interest disallowed is an amount that bears the same ratio to such interest expense as the taxpayer's average adjusted bases of tax-exempt obligations acquired after August 7, 1986, bears to the average adjusted bases for all assets of the taxpayer. This rule does not apply to "qualified tax-exempt obligations;" instead, as is described below, only 20 percent of the interest expense allocable to "qualified tax-exempt obligations" is disallowed. A "qualified tax-exempt obligation" is a tax-exempt obligation that: (1) is issued after August 7, 1986, by a qualified small issuer (one that reasonably anticipates that the amount of tax-exempt obligations that it will issue during the year will be $10 million or less); (2) is not a private activity bond; and (3) is designated by the issuer as qualifying for the exception from the general rule. The amount allowable as a deduction with respect to any financial institution preference item is reduced by 20 percent. Financial institution preference items include interest on debt to carry tax-exempt obligations acquired after December 31, 1982, and before August 8, 1986; because qualified tax-exempt obligations are treated as if they were acquired on August 7, 1986, under current law, the amount allowable as a deduction by a financial institution with respect to interest incurred to carry a qualified tax-exempt obligation is reduced by 20 percent. Effective for tax-exempt obligations issued after December 31, 2008, and before January 1, 2011, and held by a financial institution, this Act provided that: (1) such obligations held in an amount not to exceed 2 percent of the adjusted basis of the financial institution's assets would not be taken into account for purposes of determining the portion of the financial institution's interest expenses subject to the pro rata interest disallowance rule; (2) such obligations would be treated as preference items, thereby reducing the amount allowable as a deduction with respect to interest incurred to carry such obligations by 20 percent; and (3) the annual limit for qualified small issuers would be increased from $10 million to $30 million.

Authorize the issuance of qualified school construction bonds.—This Act created a new category of taxable tax credit bonds, called qualified school construction bonds, which provide a Federal subsidy through tax credits to investors in an amount equal to 100 percent of the interest on eligible bonds. All of the proceeds from the issuance of such bonds must be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a bond-financed facility is to be constructed. Up to $11 billion in qualified school construction bonds may be issued in each year, 2009 and 2010.

Extend and expand the issuance of qualified zone academy bonds.—Under prior law, State and local governments were allowed to issue taxable tax credit bonds, called qualified zone academy bonds, which provided a Federal subsidy through tax credits to investors in an amount equal to 100 percent of the interest on the bonds. This authorization was for $400 million in each calendar year, 1998 through 2009. At least 95 percent of the proceeds of such bonds were required to be used for teacher and other personnel training, purchases of equipment, curriculum development, or renovations and repairs at a qualified zone academy. This Act provided that an additional $1.4 billion in qualified zone academy bonds could be issued in each of calendar year 2009 and 2010.

Authorize the issuance of build America bonds.— This Act allowed State and local governments to issue two types of taxable tax credit bonds in 2009 and 2010, called build America bonds, with Federal subsidies for a portion of the borrowing costs. One type of build America bond provides a Federal tax credit to investors equal to 35 percent of the interest payable by the issuer of the bond (net of the tax credit), which represents a Federal subsidy of approximately 25 percent of the total borrowing cost. This type of build America bond may be issued for any purpose for which governmental tax-exempt bonds (excluding private activity bonds) can be issued under current law. The credit, which is included in gross income, is allowed against the regular tax and the AMT. Unused credits may be carried forward to succeeding taxable years. A second type of build America bond provides a refundable credit or direct payment from the Department of the Treasury to eligible State or local government issuers equal to 35 percent of the total interest payable to investors on eligible taxable bonds. This second type of build America bond may be used to finance only capital expenditures.

Authorize the issuance of recovery zone economic development bonds and recovery zone facility bonds.—This Act allowed State and local governments to issue recovery zone economic development bonds and recovery zone facility bonds, which are two new types of tax-preferred bonds. Recovery zone economic development bonds are a modified type of taxable build America bond that are eligible for a deeper Federal subsidy in the form of a refundable credit or direct payment to State and local government issuers in an amount equal to 45 percent of the interest payable on the bond. Recovery zone facility bonds are a modified type of tax-exempt private activity bond. Nationwide, up to $10 billion of recovery zone economic development bonds and up to $15 billion of recovery zone facility bonds may be issued in 2009 and 2010. This total authorization is allocated among States and localities based on relative declines in employment. The proceeds of recovery zone economic development bonds must be used for purposes of promoting development or other economic activity in a recovery zone, including capital expenditures paid or incurred with respect to property located in such zones and expenditures for public infrastructure and construction of public facilities located in such zones. At least 95 percent of the proceeds of recovery zone facility bonds must be used for specific types of recovery zone property. Areas designated by the issuer as recovery zones must have significant poverty, unemployment, general distress, or home foreclosures; be any area for which a designation as an empowerment zone or renewal community is in effect; or be economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990.

Modify the new markets tax credit.—The new markets tax credit is provided 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. A credit of 5 percent is provided to the investor for the first three years of investment. The credit increases to 6 percent for the next four years. Under prior law, the maximum amount of annual qualifying equity investment is capped at $2.0 billion for calendar years 2004 and 2005, and $3.5 billion for calendar years 2006 through 2009. This Act increased the cap on annual qualifying investment to $5 billion for 2008 and 2009.

Provide other relief for State and local governments.—This Act also: (1) provided that tax-exempt interest on certain private activity bonds issued in 2009 and 2010 is not an item of tax preference for purposes of the AMT; (2) modified the speed requirement for high-speed intercity rail facility bonds; (3) allowed Indian tribal governments to issue $2 billion in tribal economic development bonds; (4) provided procedures for the pass-through of credits on tax credit bonds held by regulated investment companies; and (5) delayed for one year the withholding of tax on certain payments to government contractors.

Energy Incentives

Extend the tax credit for energy produced from certain renewable sources.—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy at qualified facilities (the renewable electricity production credit). The credit rate is 1.5 cents per kilowatt hour for electricity produced from wind, closed-loop biomass, geothermal, and solar power, and 0.75 cents per kilowatt hour for electricity produced from open-loop biomass, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy (both rates are adjusted for inflation since 1992). To qualify for the credit, electricity generally must be produced at qualified facilities placed in service by a specific date and must be sold by the taxpayer to an unrelated person. This Act extended the placed-in-service date for: (1) qualified facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, and qualified hydropower for three years through December 31, 2013; (2) qualified wind facilities for three years through December 31, 2012; and (3) qualified marine and hydrokinetic renewable energy facilities for two years through December 31, 2013.

Modify business energy credit.—A nonrefundable tax credit is allowed for certain qualifying energy property placed in service by a taxpayer (the energy credit). Qualifying energy property includes solar energy property, fuel cell power plants, microturbines, geothermal power production property, geothermal heat pump property, small wind energy property and combined heat and power system property. Depending on the type of property placed in service, the credit rate may be 10 or 30 percent of the property's basis, and the credit may be limited by an annual cap. This Act repealed a prior law rule that reduced the basis of property for purposes of the credit computation when the property was financed by subsidized energy financing or with proceeds from private activity bonds. This Act also eliminated the prior law rule limiting the credit with respect to small wind energy property to $4,000 per year.

This Act also allowed taxpayers to elect to treat certain qualified facilities as qualifying energy property eligible for a credit equal to 30 percent of the property's basis. The facilities eligible for this treatment are facilities that would otherwise qualify for the tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy. A taxpayer making the election with respect to a facility may not claim the renewable electricity production credit for electricity produced at the facility. This Act also allowed taxpayers to elect to receive a grant from the Department of the Treasury in lieu of the energy credit or the renewable electricity production credit for these facilities and for other qualifying energy property. The election and grants are available for renewable power facilities placed in service in 2009 and 2010 and are also available if construction began during 2009 and 2010 for wind facilities placed in service before 2013 and other renewable power facilities placed in service before 2014. Grants are available for qualifying energy property other than renewable power facilities if the property is placed in service during 2009 or 2010, or if construction began during 2009 or 2010 and the property is placed in service before 2017.

Extend and modify the credit for nonbusiness energy property.—Under prior law, a nonrefundable 10-percent credit was provided for the purchase of qualified energy efficiency improvements (insulation, exterior windows and doors, roofs) to existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. Specified credits also were provided: (1) $50 for each qualified advanced main air circulating fan; (2) $150 for each qualified natural gas, propane, or oil furnace or hot water boiler; and (3) $300 for each item of qualified energy efficient property (any of the following meeting specified standards: an electric heat pump; an electric heat pump water heater; a central air conditioner; a natural gas, propane, or oil water heater; and biomass fuel property). These credits, which applied to expenditures after December 31, 2008, for property placed in service after December 31, 2008, and before January 1, 2010, were subject to an aggregate lifetime cap of $500 for each taxpayer with respect to a specific dwelling; no more than $200 of the credits could be attributable to expenditures on windows. This Act: (1) increased the credit rate to 30 percent and expanded it to apply to the energy property otherwise eligible for the $50, $150 and $300 credits of prior law; (2) extended the credits for one year, to apply to property purchased and placed in service prior to January 1, 2011; (3) replaced the $500 lifetime cap ($200 for windows) with an aggregate cap of $1,500 for property placed in service during the period 2009 through 2010; (4) modified the efficiency standards for qualifying property; and (5) eliminated the rule that reduced the credit for property purchased with subsidized energy financing.

Modify credits for alternative fuel and plug-in electric drive motor vehicles.—A tax credit (the alternative motor vehicle credit) is provided for each new qualified fuel cell, hybrid, advanced lean burn technology and alternative fuel vehicle placed in service by the taxpayer. The credit varies depending on the weight class of the vehicle, the type of technology used, the amount by which the vehicle exceeds fuel economy standards, and, in some cases, the estimated lifetime fuel savings of the vehicle. The credit is available for vehicles purchased after 2005 and, under prior law, was scheduled to expire after 2009, 2010 or 2014, depending on the type of vehicle. In addition, the credit for hybrid and advanced lean burn technology vehicles phases out with respect to a manufacturer's vehicles after the manufacturer has sold at least 60,000 of those vehicles.

A credit also is available for each qualified plug-in electric drive motor vehicle (a vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards, draws propulsion using a traction battery with at least four kilowatt-hours of capacity, and is capable of being recharged from an external source of electricity) placed in service. Under prior law, the base amount of the credit for plug-in electric drive motor vehicles was $2,500, plus $417 for each kilowatt-hour of battery capacity in excess of four kilowatt-hours. The maximum credit varied by weight of the vehicle, ranging from $7,500 for a vehicle weighing less than 10,000 pounds to $15,000 for a vehicle weighing more than 26,000 pounds. Under prior law, the credit was scheduled to phase out over the four calendar quarters beginning in the second quarter following the quarter in which a total of 250,000 credit-eligible vehicles were sold for use in the United States; in addition, the credit was not available for purchases after December 31, 2014.

This Act modified the alternative motor vehicle credit by making it a personal credit allowed against the AMT, effective for taxable years beginning after December 31, 2008. This Act also made the following modifications to the plug-in electric drive motor vehicle credit, effective for vehicles acquired after December 31, 2009: (1) the credit was capped at $7,500 per vehicle, regardless of the weight of the vehicle; (2) the credit was eliminated for low-speed vehicles and vehicles weighing 14,000 pounds or more; and (3) the prior law phaseout after the sale of 250,000 credit-eligible vehicles was replaced with separate phaseouts for each manufacturer, with the phaseout for each manufacturer's vehicles beginning after the sale of 200,000 of the manufacturer's credit-eligible vehicles. In addition, this Act provided: (1) a new 10-percent credit capped at $2,500 per vehicle for low-speed vehicles, motorcycles, and three-wheeled vehicles purchased after February 17, 2009, and before January 1, 2012; and (2) a new 10-percent credit capped at $4,000 per vehicle for the cost of converting any motor vehicle into a qualified plug-in electric drive motor vehicle that is placed in service after February 17, 2009, and before January 1, 2012.

Provide a credit for investment in qualified property used in a qualified advanced energy manufacturing project.—This Act provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualified advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy). The total amount of credits certified by the Department of the Treasury may not exceed $2.3 billion. The Department of the Treasury is required to establish a certification program no later than 180 days after February 17, 2009.

Provide other incentives for energy.—This Act also: (1) removed the prior law caps on the credit for the purchase of residential solar hot water, geothermal, and wind property and eliminated the reduction in credits for property using subsidized energy financing; (2) temporarily increased the rate for the credit for alternative fuel vehicle refueling property to 50 percent (except for hydrogen refueling property) and increased the maximum credit per taxable year per location to $50,000 for qualified business property ($200,000 for qualified hydrogen refueling property) and to $2,000 for nonbusiness property; and (3) equalized tax-free transit and parking benefits through 2010, setting both at $230 in 2009.

This Act also authorized the issuance of: (1) an additional $1.6 billion of taxable tax credit bonds, called new clean renewable energy bonds, which are used to finance qualified renewable energy facilities; and (2) an additional $2.4 billion of taxable tax credit bonds, called qualified energy conservation bonds, which are used to finance qualified energy conservation purposes and, as clarified by this Act, may be used to make loans and grants for capital expenditures to implement green community programs. Both types of bonds provide a Federal subsidy through tax credits to investors equal to 70 percent of the interest on the bond.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2009

This Act, which was signed into law by President Obama on March 30, 2009, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2009. These taxes had been scheduled to expire after March 31, 2009, under prior law.

A JOINT RESOLUTION APPROVING THE RENEWAL OF IMPORT RESTRICTIONS CONTAINED IN THE BURMESE FREEDOM AND DEMOCRACY ACT OF 2003, AND FOR OTHER PURPOSES

This Act, which was signed into law by President Obama on July 28, 2009, extended for one year, through July 28, 2010, the ban on all imports from Burma, including a ban on imports of certain gemstones originating from Burma and on jewelry containing such gemstones.

Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act repealed all previously enacted adjustments of estimated tax payments due in July through September by corporations with assets of at least $1 billion, applicable to 2010, 2011 and 2013. In addition, estimated tax payments due in July through September by corporations with assets of at least $1 billion were increased to 100.25 percent of the amount otherwise due in 2014. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

FISCAL YEAR 2010 FEDERAL AVIATION ADMINISTRATION EXTENSION ACT

This Act, which was signed into law by President Obama on October 1, 2009, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through December 31, 2009. These taxes had been scheduled to expire after September 30, 2009, under prior law.

WORKER, HOMEOWNERSHIP, AND BUSINESS ASSISTANCE ACT OF 2009

Extend and modify the refundable tax credit for first-time homebuyers.—Temporary provisions of ARRA and, before that, the Housing and Economic Recovery Act of 2008, provided a refundable tax credit to first-time homebuyers who purchased a home after April 8, 2008, and before December 1, 2009. A first-time homebuyer is an individual who had no ownership interest in a principal residence in the United States during the three-year period prior to the purchase of the home to which the credit applies. The credit, which is equal to 10 percent of the purchase price of the home, up to a maximum credit of $8,000, is phased out for taxpayers with modified AGI between $75,000 and $95,000 ($150,000 and $170,000 for married taxpayers filing a joint return). This Act extended the credit to apply to qualifying home purchases after November 30, 2009, and before May 1, 2010 (July 1, 2010, provided a binding written contract is entered into before May 1, 2010, to close on the purchase before July 1, 2010). This Act also created a new tax credit, equal to 10 percent of the purchase price of the home, up to a maximum credit of $6,500, for existing homeowners who purchase a subsequent primary residence after October 1, 2009, and before May 1, 2010. An existing homeowner is an individual who has maintained the same principal residence in the United States for any five-consecutive-year period during the eight-year period ending on the date of the purchase of the subsequent principal residence to which the credit applies. Effective for qualifying purchases after October 1, 2009, this Act also: (1) limited the credits to residences with a purchase price less than or equal to $800,000; (2) increased the income threshold for the phaseout of the credits to modified AGI of $125,000 for single taxpayers and $225,000 for married taxpayers filing a joint return; (3) required that in order to qualify for the first-time homebuyer credit the taxpayer and/or the taxpayer's spouse must be at least 18 years of age; (4) required that a properly executed copy of the settlement statement used to complete the purchase be attached to the taxpayer's tax return; and (5) clarified that certain transactions within a family do not qualify for the credit. This Act also provided the IRS with mathematical error authority to reject fraudulent or inappropriately claimed credits prior to refund, effective for tax returns filed for taxable years ending on or after April 9, 2008.

Expand temporary five-year carryback of net operating losses (NOLs).—In general, an NOL may be carried back two years and carried forward twenty years to offset taxable income in such years. However, different rules apply with respect to NOLs arising in certain circumstances. A temporary provision of ARRA provided eligible small businesses (businesses meeting a $15 million gross receipts test) the election to increase the carryback period to any whole number of years elected by the taxpayer that is more than two and less than six, for NOLs for any taxable year beginning or ending in 2008. However, any election may be made only with respect to one year. This Act expanded the temporary provision of ARRA provided to eligible small businesses to apply to any business with an NOL for any taxable year beginning or ending in 2008 or 2009. Any election may be made only with respect to one taxable year; however, any small business that made a timely election under the temporary provision of prior law to carry back its applicable 2008 NOL is also allowed to carry back a 2009 NOL in accordance with the provisions of this Act. This Act also limited the amount of an NOL that may be carried back to the fifth taxable year preceding the loss year to 50 percent of taxable income for such taxable year (except in the case of an applicable 2008 NOL of an eligible small business). The amount of the NOL otherwise carried back to taxable years subsequent to such fifth taxable year is adjusted to take into account the 50-percent limitation. The provision generally does not apply to: (1) the Federal National Mortgage Association; (2) the Federal Home Loan Mortgage Corporation; (3) any taxpayer in which the Federal Government acquired before November 6, 2009, pursuant to the Emergency Economic Stabilization Act of 2008, an equity interest or any warrant (or other right) to acquire an equity interest; or (4) any taxpayer that receives after November 6, 2009, funds from the Federal Government in exchange for an equity interest or any warrant (or other right) to acquire an equity interest pursuant to the Emergency Economic Stabilization Act of 2008, unless the funds are received by a financial institution pursuant to a program to increase the availability of credit to small businesses.

Expand the exclusion from gross income of payments received under the Department of Defense Homeowners Assistance Program (HAP).—Certain employees and members of the Armed forces receive payments from HAP to offset the adverse effects on housing values that result from a military base realignment or closure. Under prior law, payments received under HAP, as in effect on November 11, 2003, generally are excluded from gross income for individual income tax and social security and Medicare payroll tax purposes. The excludable amount is limited to the reduction in the fair market value of the property. The HAP program was expanded under ARRA. This Act expanded the exclusion from gross income to apply to HAP payments made after February 17, 2009, the date of enactment of ARRA.

Delay implementation of the world-wide interest allocation rules.—Subject to various limitations, U.S. taxpayers may credit foreign taxes paid or accrued against U.S. tax on foreign-source income. The American Jobs Creation Act of 2004 made several changes to the foreign tax credit rules, including a modification to the interest expense allocation rules. One provision of that Act permitted taxpayers a one-time election to use an alternative method for allocating their interest expenses between U.S.-source and foreign-source income ("worldwide affiliated group election"), effective for taxable years beginning after December 31, 2008. The Housing and Economic Recovery Act of 2008 delayed the effective date of the election for two years, so that it would apply to taxable years beginning after December 31, 2010, and provided a special phase-in rule for the first year the election is in effect. This Act delayed the effective date of the election for an additional seven years, so that it would apply to taxable years beginning after December 31, 2017, and repealed the special phase-in rule for the first year the election is in effect.

Extend unemployment insurance surtax.—Under prior law, the net Federal unemployment tax on employers was scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2009. This Act extended the 0.8 percent rate through June 30, 2011.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments due in July through September of 2014 by corporations with assets of at least $1 billion to 133.25 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

Increase the penalty for failure to file partnership or S corporation returns.—Under prior law, the penalty for failure to file either a partnership or S corporation return was $89 per partner or shareholder, for each month or fraction of a month that the failure continued, up to a maximum of 12 months. The penalty applied to returns required to be filed for taxable years beginning after December 31, 2008. This Act increased the penalty for failure to file either a partnership or S corporation return to $195 per partner or shareholder, effective for returns required to be filed for taxable years beginning after December 31, 2009.

Expand electronic filing by return preparers.—Effective for tax returns filed after December 31, 2010, "specified tax return preparers" are required to file electronically income tax returns of individuals, estates and trusts. Specified tax return preparers are all return preparers except those who neither prepare nor reasonably expect to prepare ten or more returns in a calendar year.

FISCAL YEAR 2010 FEDERAL AVIATION ADMINISTRATION EXTENSION ACT, PART II

This Act, which was signed into law by President Obama on December 16, 2009, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through March 31, 2010. These taxes had been scheduled to expire after December 31, 2009, under prior law.

DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, FY 2010

This Act, which was signed into law by President Obama on December 19, 2009, provided funding for the Department of Defense military programs and extended various expiring programs. The major provisions of this Act that affected receipts extended and increased the COBRA health insurance premium assistance program, which was enacted in ARRA and scheduled to expire with respect to qualified individuals involuntarily terminated after December 31, 2009. These provisions extended premium assistance coverage to qualified individuals who are involuntarily terminated between January 1, 2010, and February 28, 2010, and extended the duration of the subsidy from nine months to fifteen months.

TO EXTEND THE GENERALIZED SYSTEM OF PREFERENCES AND THE ANDEAN TRADE PREFERENCE ACT, AND FOR OTHER PURPOSES

This Act, which was signed into law by President Obama on December 28, 2009, extended both the Andean Trade Preference Act for Colombia, Ecuador and Peru and the Generalized System of Preferences through December 31, 2010. This Act also increased the estimated tax payments due in July through September of 2014 by corporations with assets of at least $1 billion to 134.75 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE TO REFLECT CURRENT POLICY

An important step in addressing the Nation's fiscal problems is to be upfront about them – and to establish an honest baseline that measures where we are before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the true cost of the current policy path. The BEA baseline, which is commonly used in budgeting and is defined in a now expired statute, reflects, with some exceptions, the projected receipts level under current law. But under current law, relief from the AMT expired at the end of 2009, causing millions of Americans to begin paying this additional tax. Congress has repeatedly taken action to extend AMT relief, sometimes after it has expired, as would be the case now. Furthermore, the 2001 and 2003 tax cuts would expire entirely at the end of 2010. These expirations were not written into law for policy reasons; instead, they reflect decisions made to artificially reduce the cost estimates of AMT relief and the 2001 and 2003 tax cuts to fit these policies within certain budget process rules. Because of this, the BEA's "current law" baseline is not an accurate reflection of what it would mean to continue forward with current policies. This Budget uses an adjusted baseline that continues AMT relief and the 2001 and 2003 tax cuts, so as to project future receipts under current policy and to better measure the effects of the Administration's proposed policy changes.

Index to inflation the 2009 parameters of the AMT as enacted in the American Recovery and Reinvestment Act of 2009.—The Administration's baseline projection of current policy reflects annual indexation of the AMT exemption amounts in effect for taxable year 2009 ($46,700 for single taxpayers, $70,950 for married taxpayers filing a joint return and surviving spouses, and $35,475 for married taxpayers filing a separate return and for estates and trusts); the income thresholds for the 28-percent AMT rate ($87,500 for married taxpayers filing a separate return and $175,000 for all other taxpayers); and the income thresholds for the phaseout of the exemption amounts ($150,000 for married taxpayers filing a joint return and surviving spouses, $112,500 for single taxpayers, and $75,000 for married taxpayers filing a separate return). The baseline projection of current policy also extends AMT relief for nonrefundable personal credits.

Continue the 2001 and 2003 tax cuts.—Most of the tax reductions enacted in 2001 and 2003 expire on December 31, 2010. This includes reductions in marginal tax rates, marriage penalty relief, expansions in the child tax credit, increases in small business expensing, preferential rates for capital gains and dividends, and reduction and repeal of estate and gift taxes. The Administration's baseline projection of current policy continues all of these expiring provisions (as amended by subsequent legislation),[5] except for repeal of estate and generation-skipping transfer taxes. Estate and gift taxes are assumed to be extended at parameters in effect for calendar year 2009 (a top rate of 45 percent and an exemption amount of $3.5 million).

PROPOSALS

The Administration proposes to restore balance to the tax code by providing tax cuts to working families, returning to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, closing loopholes, and eliminating subsidies to special interests. Extensions of certain provisions, including those directed toward boosting investment and economic recovery, are also proposed. These proposals are described below.

Temporary Recovery Measures

Extend making work pay tax credit.—A refundable tax credit equal to 6.2 percent of earned income, up to a maximum of $400 for working single taxpayers and $800 for working married taxpayers filing a joint return, was provided for taxable years 2009 and 2010 under ARRA. The credit is phased out at a rate of 2 percent of modified AGI in excess of $75,000 ($150,000 for married taxpayers filing a joint return). Payments were made to each possession of the United States with a mirror tax system (U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) in an amount equal to the loss in receipts to that possession attributable to the credit provided in this Act. Payments were made to each possession that does not have a mirror tax system (Puerto Rico and American Samoa) in an amount estimated by the Department of the Treasury as being equal to the aggregate credits that would have been allowed to residents of that possession if a mirror tax system had been in effect. The Administration proposes to extend the credit for one year, through taxable year 2011.

Receipt effect of providing $250 Economic Recovery Payments.—The Administration proposes to provide a $250 Economic Recovery Payment in 2010 to each adult eligible ($500 to a married couple where both spouses are eligible) for social security, railroad retirement, veteran's compensation or pension, or Supplemental Security Income (SSI) benefits (excluding individuals who receive SSI while in a Medicaid institution). The Administration also proposes to provide a $250 refundable tax credit to Federal, State and local government retirees who are not eligible for social security benefits. Retirees who are employed and eligible for the making work pay tax credit will have their making work pay tax credit reduced (but not below zero) by the amount of the recovery payment and refundable tax credit.

Extend COBRA health insurance premium assistance.—Under current law, COBRA health insurance premium assistance is scheduled to expire with respect to qualified individuals involuntarily terminated after February 28, 2010. Individuals are eligible for assistance for up to 15 months. The Administration proposes to extend the provision in order to allow qualified individuals involuntarily terminated before January 1, 2011 to be eligible for assistance. The duration of the assistance period for qualified individuals who are involuntarily terminated after February 28, 2010 would be twelve months.

[5] Consistent with treatment of the tax cuts in the Administration's statutory pay-as-you-go (PAYGO) proposal, the Budget, in the current policy baseline, assumes continuation of the 2001 and 2003 tax cuts as amended through June 2009, when the PAYGO legislation was introduced. Among other changes, this continues two amendments made to these tax cuts in ARRA and subsequent to the Administration taking office. These two amendments expand child tax credit refundability and the earned income tax credit for married couples.

Table 14–2. ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS TO REFLECT CURRENT POLICY

(In billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
BEA baseline receipts	2,230.7	2,781.8	3,069.0	3,308.1	3,581.1	3,760.1	4,018.1	4,234.8	4,452.1	4,670.6	4,885.4	16,500.2	38,761.1
Adjustments to reflect current policy:													
Index to inflation the 2009 parameters of the AMT as enacted in the American Recovery and Reinvestment Act	–13.0	–64.1	–32.4	–37.9	–45.1	–53.2	–62.5	–72.5	–84.0	–96.8	–110.3	–232.7	–658.8
Continue the 2001 and 2003 tax cuts:													
Dividends tax rate structure	–2.3	–22.9	–4.1	–12.4	–21.5	–26.6	–27.6	–28.6	–29.4	–29.9	–30.2	–87.5	–233.3
Capital gains tax rate structure	–0.9	–7.7	–1.5	–4.9	–9.4	–12.3	–13.3	–14.2	–15.1	–16.0	–16.8	–35.9	–111.2
Expensing for small businesses	....	–3.2	–5.6	–4.4	–3.5	–2.8	–2.3	–2.0	–1.9	–1.8	–1.8	–19.5	–29.2
Marginal individual income tax rate reductions	....	–87.2	–137.6	–149.9	–162.1	–173.8	–185.5	–197.2	–208.7	–220.2	–231.9	–710.5	–1,753.9
Child tax credit [1]	....	–3.2	–13.0	–13.1	–13.2	–13.5	–13.7	–13.9	–14.0	–14.0	–14.0	–56.0	–125.7
Marriage penalty relief [1]	....	–15.6	–25.3	–26.9	–28.8	–30.7	–32.3	–33.9	–35.6	–37.0	–38.4	–38.4	–304.5
Education incentives	*	–0.7	–1.4	–1.4	–1.5	–1.6	–1.7	–1.7	–1.8	–1.9	–2.0	–6.6	–15.7
Other incentives for families and children	*	–0.4	–0.9	–0.9	–0.9	–0.9	–1.0	–1.0	–1.0	–1.0	–1.0	–4.1	–9.1
Estate, generation-skipping transfer taxes, and gift taxes at 2009 parameters	–2.0	6.2	–18.9	–23.7	–26.0	–28.1	–30.2	–32.2	–34.3	–36.5	–38.8	–90.4	–262.4
Subtotal, continue the 2001 and 2003 tax cuts	–5.1	–134.8	–208.1	–237.6	–266.9	–290.3	–307.6	–324.7	–341.7	–358.3	–374.9	–1,137.7	–2,844.9
Total, adjustments to reflect current policy	–18.1	–198.8	–240.5	–275.5	–312.0	–343.6	–370.1	–397.2	–425.7	–455.1	–485.1	–1,370.4	–3,503.7
Baseline projection of current policy receipts	2,212.6	2,583.0	2,828.5	3,032.7	3,269.1	3,416.6	3,648.0	3,837.6	4,026.4	4,215.5	4,400.2	15,129.8	35,257.5

* $50 million or less.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–15	2011–20
Child tax credit	....	0.8	24.8	24.5	24.5	24.2	24.1	23.9	24.0	24.0	24.1	98.7	218.8
Marriage penalty relief	....	–0.6	4.1	3.9	3.8	3.7	3.7	3.6	3.6	3.6	3.7	14.9	33.1
Total, outlay effects of adjustments to reflect current policy	....	0.2	28.8	28.5	28.3	27.9	27.7	27.5	27.6	27.7	27.8	113.6	251.9

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

Extend temporary increase in expensing for small businesses.—Under a temporary provision expiring in 2011, business taxpayers were allowed to expense up to $125,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2007. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $500,000. Both the deduction and annual investment limits were indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. Another temporary provision of prior law increased the expensing and annual investment limits to $250,000 and $800,000, respectively, effective for taxable years beginning in 2008 and 2009. The Administration proposes to extend the $250,000 expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010.

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

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

Tax Cuts for Families and Individuals

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

Expand child and dependent care tax credit.—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are only eligible if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for up to 35 percent of up to $3,000 in eligible expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases at a rate of one percent for every $2,000 of AGI over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). There are no further income limits. The income phasedown and the credit are not indexed for inflation. The proposal would increase the beginning of the phasedown to $85,000 (and thus, the end of the phasedown range to $113,000) but is otherwise unchanged. The proposal would be effective for tax years beginning after December 31, 2010.

Provide for automatic enrollment in IRAs and double the tax credit for small employer plan start-up costs.—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to offer their employees automatic enrollment in an IRA, effective for taxable years beginning after December 31, 2011. Small employers (those with ten or fewer employees) and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees

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

would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or opting for a traditional IRA. Employers that offer an automatic IRA (including those that are not required to do so) would be entitled to a temporary business tax credit of $25 per participating employee up to a total of $250 per year for two years. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified).

Under current law, small employers (those with no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan or SIMPLE to do so, the Administration proposes to double this tax credit to a maximum of $1,000 per year for three years, effective for taxable years beginning after December 31, 2011.

Expand saver's credit.—Under current law, taxpayers age 18 or older who are not dependents or full-time students may receive a nonrefundable credit (the saver's credit) on up to $2,000 of their compensation contributed to employer-sponsored qualified retirement plans and IRAs. The credit ranges between 10 and 50 percent of the amount contributed, depending on the taxpayer's filing status and AGI (adjusted for inflation). In determining the credit, qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, the two preceding tax years, and the following year, up to the due date of the return, including extensions. Effective for taxable years beginning after December 31, 2010, the Administration proposes to modify the existing credit by: (1) making it refundable; and (2) converting it to a 50-percent match on up to $500 in qualified retirement savings per individual ($1,000 per married couple filing a joint return) per year (indexed annually for inflation beginning with taxable year 2012). The match could be deposited in the account to which the individual contributed. The proposal would increase the eligibility income threshold so that the amount of savings that could be matched would phase out at a rate of five percent for AGI in excess of $32,500 for single taxpayers and $65,000 for married taxpayers filing a joint return (so that the credit would be fully phased out for married taxpayers filing jointly with AGI of $85,000); the increased AGI thresholds would be indexed annually for inflation beginning with taxable year 2012.

Extend American opportunity tax credit.—ARRA created the American opportunity tax credit to replace the Hope Scholarship Credit for taxable years 2009 and 2010. The American opportunity tax credit provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. In addition, generally 40 percent of the otherwise allowable credit is refundable. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable, has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits.

The Administration proposes to permanently extend the American opportunity tax credit and index the expense amounts and phase-out limits, effective for taxable years beginning after December 31, 2010.

Tax Cuts for Businesses

Eliminate capital gains taxation on small businesses.—Current law provides a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to the investments of individuals and not the investments of a corporation. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. The Administration proposes to increase the exclusion to 100 percent, effective for qualified small business stock issued after February 17, 2009. Reporting requirements would be tightened to improve compliance.

Make research and experimentation (R&E) tax credit permanent.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures generally above a base amount. An alternative simplified credit of 14 percent above a base amount is also provided. These tax credits, which expired with respect to expenditures paid or incurred in taxable years beginning after December 31, 2009, are proposed to be permanently extended.

Remove cell phones from listed property.—Taxpayers generally are allowed a deduction for ordinary and necessary expenses paid or incurred in carrying on a trade or business. However, with respect to "listed property," the deduction may be limited or disallowed. Included in listed property are any cellular telephone and other similar telecommunications equipment. Under current law, deductions are disallowed for listed property unless the taxpayer substantiates: (1) the amount of such expense or other item; (2) the use of the listed property; (3) the business purpose of the expense or other item; and

(4) the business relationship to the taxpayer of persons using the listed property. If the listed property is not used predominantly for business purposes (or if not properly substantiated), annual depreciation deductions (and any small business expensing deduction) are limited. In addition, to the extent that an employee uses a business cell phone (or other listed property) for personal purposes, the fair market value of such usage is includable as a fringe benefit in the employee's gross income and wages (with the included amount generally deductible by the employer). The Administration recognizes that the substantiation requirements of current law with respect to cell phones, which have become a ubiquitous device for doing business, are excessively burdensome for employers, employees, and the IRS. Accordingly, the Administration proposes that cell phones (or other similar telecommunications equipment) no longer be classified as listed property, effectively removing the requirement of strict substantiation of use and the limitation on depreciation deductions. In addition, the fair market value of personal use of a cell phone (or other similar telecommunications equipment) provided primarily for business purposes would be excluded from gross income.

Continue Certain Expiring Provisions Through Calendar Year 2011

A number of temporary tax provisions that have been routinely extended are scheduled to expire before December 31, 2011. The Administration proposes to extend a number of these provisions through December 31, 2011. These provisions include the optional deduction for State and local general sales taxes, Subpart F "active financing" and "look-through" exceptions, the exclusion from unrelated business income of certain payments to controlling exempt organizations, the modified recovery period for qualified leasehold improvements and qualified restaurant property, incentives for empowerment and community renewal zones, and several trade agreements, including the Generalized System of Preferences and the Caribbean Basin Initiative. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels, temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.

Other Revenue Changes and Loophole Closers

Reform treatment of financial institutions and products.—The Administration proposes to impose a fee on large financial institutions and close tax loopholes in the taxation of financial institutions and products through a series of legislative reforms in tax laws as described below:

Impose a financial crisis responsibility fee.— The Administration proposes to impose a fee on firms with assets in excess of $50 billion for banks, thrifts, bank holding companies, insurance and other companies that own depository institutions on the date of announcement, and broker-dealers. The fee would be approximately 15 basis points applied to the firm's covered liabilities (generally, liabilities less assessable deposits in the case of a bank).

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

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

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

Reinstate Superfund taxes.—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the nation's highest risk hazardous waste sites, are proposed to be reinstated beginning in 2011, with an expiration in 2020. The proposed taxes include the following: (1) an excise tax of 9.7 cents per barrel on crude oil and imported petroleum products; (2) an excise tax on hazardous chemicals listed in section 4661 of the Code at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use listed hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds $2 million.

Make unemployment insurance surtax permanent.—The net Federal unemployment tax on employers is scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The 0.8 percent rate is proposed to be extended permanently.

Repeal last-in, first-out (LIFO) method of accounting for inventories.—Under the LIFO method of accounting for inventories, it is assumed that the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. The Administration proposes to repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2011. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over ten years.

Repeal gain limitation for dividends received in reorganization exchanges.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1)) can result in distributions of property with minimal U.S. tax consequences. The proposal would repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)).

Reform U.S international tax system.—The Administration proposes to reduce incentives for U.S.-based multinational corporations to invest abroad rather than in the United States and also to target tax avoidance and evasion through a series of legislative reforms and enforcement measures, as described below:

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

Reform foreign tax credit.—Under the proposal, a taxpayer would be required to determine foreign tax credits from the receipt of a dividend from a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of a dividend from a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries. In addition, the proposal would adopt a matching rule to prevent the separation of foreign taxes and associated foreign income.

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

Limit shifting of income through intangible property transfers.—The definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d)) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States. The proposal would also clarify the appropriate method for valuing intangibles transferred to foreign corporations.

Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates.—Under the proposal, a U.S. non-life insurance company would be denied a deduction for certain excessive non-taxed reinsurance premiums paid to affiliates.

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

Repeal 80/20 company rules.—Under current law, if a U.S. corporation derives at least 80 percent of its gross income from an active foreign business (commonly referred to as an "80/20 company") during a three-year testing period, then all or a portion of the interest and dividends paid by the 80/20 company are not subject to U.S. withholding tax. Because the rules that apply to 80/20 companies are subject to manipulation, they are proposed to be repealed.

Prevent avoidance of dividend withholding taxes.—Income earned by foreign persons with respect to equity swaps that reference U.S. equities would be treated as arising from U.S. sources to the extent that the income is determined to be attributable to dividends paid by a domestic corporation. This proposal would also ensure that economically equivalent transactions are subject to similar tax treatment and prevent avoidance of dividend withholding taxes by reforming the existing rules applicable to substitute dividends in a securities loan or a sale-repurchase transaction.

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

Combat under-reporting of income through use of accounts and entities in offshore jurisdictions.—For too long, some American have evaded their taxpaying responsibilities by hiding unreported income in a foreign bank account, trust, or corporation. To reduce such evasion, the Administration proposes a series of measures to strengthen the information reporting and withholding systems that support U.S. taxation of income earned or held through offshore accounts or entities.

Reform treatment of insurance companies and products.—The Administration proposes to reform the taxation of insurance companies and products through a series of legislative changes in domestic tax laws as described below:

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

Modify dividends-received deduction for life insurance company separate accounts.—Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and a policyholder's share. The result of this proration is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS, particularly with regard to the dividends-received deduction for such companies' separate accounts. In some cases, the existing regime produces a company's share that exceeds the company's actual economic interest in the underlying income. The proposal would modify this regime to ensure that the benefits enjoyed by the company are more consistent with the company's actual economic interest in the underlying income.

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

Permit partial annuitization of a nonqualified annuity contract.—A taxpayer who receives amounts under an annuity contract "as an annuity" is generally allowed to recover the investment in the contract ratably as payments are received. In contrast, a taxpayer who receives amounts under an annuity contract but not as an annuity (for example, as a lump-sum) is taxed on an income-first basis. Applying the income-first rule to the annuitization of only a portion of an annuity contract front-loads the reporting of income on a stream of payments and thus may discourage taxpayers from accessing funds that are needed such as for retirement. Under the proposal, the partial annuitization of a nonqualified annuity contract would be entitled to the same treatment as a complete annuitization of the contract.

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, gas and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and gas activities are proposed to be repealed beginning in 2011: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; (7) the ability to claim the domestic manufacturing deduction against income derived from the production of oil and gas; and (8) two-year amortization of independent producer's geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2011: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; (3) capital gains treatment for royalties; and (4) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels.

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

Modify cellulosic biofuel producer credit.—Current law provides an income tax credit for cellulosic biofuel that is produced by the taxpayer. The credit is available (with certain exceptions for nonbusiness use) for all cellulosic biofuel sold or used by the producer. Cellulosic biofuel is defined as any liquid fuel that (i) is produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis and (ii) meets the registration requirements for fuels and fuel additives established by the Environmental Protection Agency under section 211 of the Clean Air Act (EPA registration requirements). Liquid byproducts derived from the processing of paper or pulp (known as black liquor when derived from the kraft process) are produced from lignocellulosic or hemicellulosic matter available on a renewable or recurring basis. Thus, any such liquid byproducts that meet the EPA registration requirements would qualify as cellulosic biofuel and, to the extent so qualifying, could result in substantial revenue losses and a windfall to the paper industry. The Administration proposes to exclude from the definition of cellulosic biofuel any fuels that (i) are more than 4 percent (by weight) water or sediment in any combination, or (ii) have an ash content of more than 1 percent (by weight). This change would exclude black liquor from eligibility for the credit. The change would be effective on the date of enactment.

Eliminate advanced EITC.—Under current law, taxpayers eligible for the refundable EITC who have one or more qualifying children may elect to receive advanced payment of the credit through their employer. Since advance payments have been unpopular among eligible taxpayers and since recent research shows evidence of extensive non-compliance by employers and workers, the Administration proposes that effective for taxable years beginning after December 31, 2010, taxpayers would no longer be able to receive an advance against their expected EITC through their employer. Taxpayers with positive tax liability could, however, continue to receive any nonrefundable portion of the EITC during the year by adjusting their withholding.

Deny deduction for punitive damages.—The Administration proposes to deny tax deductions for punitive damages paid or incurred by a taxpayer, whether upon a judgment or in settlement of a claim. Where the liability for punitive damages is covered by insurance, such damages paid or incurred by the insurer would be included in the gross income of the insured person. This proposal would apply to damages paid or incurred after December 31, 2011.

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

Reduce the tax gap and make reforms.—The tax gap generally is the difference between the amount owed under the tax law and the amount actually paid on time. The Administration proposes to help reduce the tax gap through a number of legislative proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. The Administration also proposes to make certain reforms in domestic tax laws to close loopholes in estate and gift taxation. The proposals to reduce the tax gap and make reforms are described below:

Expand information reporting.—The Administration proposes to expand information reporting, as described below:

Require information reporting on payments to corporations.—Generally, a taxpayer making payments to a recipient aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year is required to send an information return to the IRS setting forth the amount, as well as name and address of the recipient of the payment (generally on Form 1099). Under a longstanding regulatory regime, payments to corporations are generally excepted from this information reporting requirement. This exception has created compliance issues. Because this exception has been in place for many years and because Congress, during that time period, has made numerous changes to the information reporting rules, elimination of the exception should be made by legislative change. Accordingly, the Administration proposes that a business would be required to file an information return for payments for services or for determinable gains aggregating to $600 or more in a calendar year to a corporation (except a tax-exempt corporation).

Require information reporting for rental property expense payments.—The Administration proposes to subject recipients of rental income from real estate to the same information reporting requirements applicable to taxpayers engaged in a trade or business. Under the proposal, recipients of rental income making payments of $600 or more to a service provider such as a plumber, painter or accountant in the course of earning rental income would be required to send an information return to the IRS and to the service provider. Exceptions to the reporting requirement would be made for particularly burdensome situations, such as for taxpayers (including members of the military) who rent their principal residence on a temporary basis, or for those who receive only small amounts of rental income per year.

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

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

Require increased information reporting for certain government payments for property and services.—Generally, a taxpayer making payments aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year is required to send an information return to the IRS (except if the recipient is a corporation) setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). The Administration proposes additional legislation authorizing the IRS and Department of the Treasury to promulgate regulations requiring information reporting on all non-wage payments by Federal, State and local governments to procure property and services.

Increase information return penalties.— Generally, compliance increases significantly with respect to amounts reported on information returns. To help ensure compliance with information return filing obligations, the Administration proposes to increase the penalties imposed under current law for failing to file information returns. The proposal would also provide that every five years the penalty amounts would be adjusted to account for inflation.

Improve compliance by businesses.—The Administration proposes to improve compliance by businesses, as described below:

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

Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.—Under present law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and payment of those taxes from denying liability when the taxes are not paid. Under the proposal, standards would be set forth for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes. The proposal would also provide standards for holding employee leasing companies solely liable for such taxes if they meet specified requirements.

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

Strengthen tax administration.—The Administration proposes to strengthen tax administration, as described below:

Codify "economic substance" doctrine.—The economic substance doctrine is a judicial rather than statutory tax doctrine that has been used by the IRS and applied by the courts for many years to disallow tax benefits from transactions that do not meaningfully change a taxpayer's economic position, even if the transactions technically comply with the Tax Code. The Administration proposes to create a new provision in the Tax Code clarifying that a transaction must have both objective economic substance and a business purpose to satisfy the judicial economic substance doctrine. The new provision would address what constitutes objective economic effects and a substantial nontax business purpose. A 30-percent penalty would be imposed on any understatement of tax resulting from a transaction lacking economic substance, even when the taxpayer has reasonable cause for the understatement. The penalty would be reduced to 20 percent for transactions that are adequately disclosed on the tax return or in a statement attached to the return. These proposed changes would be effective for transactions entered into after the date of enactment.

Allow assessment of criminal restitution as tax.—Court-ordered restitution in criminal tax cases cannot be assessed as a tax, which prevents the IRS from using its existing assessment systems to collect and enforce the restitution obligation. This leads to unnecessary duplication of efforts, delays, and confusion in the administration of court-ordered restitution. The budget proposal would allow the IRS and Department of the Treasury to immediately assess, without issuing a statutory notice of deficiency, and collect as a tax debt court-ordered restitution.

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

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

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

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. IRS and Treasury compliance activity, especially with respect to alcohol, tobacco and fuel excise taxes, may necessitate information sharing with Indian Tribal Governments (ITGs). The Administration's proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed protocols.

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

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

Expand penalties.—The Administration proposes to expand penalties, as described below:

Clarify the bad check penalty applies to electronic checks and other payment forms.—The Tax Code imposes a penalty on any taxpayer who attempts to satisfy a tax liability with a check or money order that is not duly paid. Taxpayers use a variety of commercially acceptable instruments to pay tax liabilities, but only two types of instruments are covered by the Code's bad check penalty: checks and money orders. The proposal would expand the bad check penalty to cover all commercially acceptable instruments of payment that are not duly paid.

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

Modify estate and gift tax valuation discounts and make other reforms.—The Administration proposes to close loopholes in estate and gift taxation, as described below:

Require consistency in value for transfer and income tax purposes.—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. A special limitation applies if the property subsequently is sold by the donee at a loss. Although these are generally the same standards used to determine the value subject to estate or gift tax, there is no explicit consistency rule that would require the recipient of the property to use the value used for estate or gift tax purposes as the recipient's basis in that property. The Administration proposes to require that, for decedents dying and gifts made after December 31 of the year of enactment, the recipient's basis generally must equal (but in no event may exceed) the value of the property for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donee to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropriate.

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

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

Upper-Income Tax Provisions

Upper-income tax provisions dedicated to deficit reduction.—The Administration proposes to allow many of the 2001 and 2003 tax cuts for those making more than $250,000 per year to expire, as scheduled, at the end of 2010. The additional revenues would be devoted to deficit reduction:[7]

Expand the 28-percent rate and reinstate the 36-percent and 39.6-percent rates for those taxpayers with income over $250,000 (married filing a joint return) and $200,000 (single).—The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) split the 15-percent statutory individual income tax rate bracket of prior law into two tax rate brackets of 10 and 15 percent, and replaced the four remaining statutory individual income tax rate brackets of 28, 31, 36 and 39.6 percent with statutory tax rate brackets of 25, 28, 33 and 35 percent. When the tax rate brackets provided under EGTRRA expire on December 31, 2010, the Administration proposes to extend the tax rate brackets of 10, 15, 25 and 28 percent; to eliminate the tax rate brackets of 33 and 35 percent; and to reinstate the prior law tax rate brackets of 36 and 39.6 percent. These rate increases would apply to married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and to single taxpayers with income over $200,000. The 28-percent tax rate bracket would be expanded so that taxpayers earning less than these amounts would not see their taxes rise as a result of the increased tax rate brackets.

Reinstate the personal exemption phaseout and limitation on itemized deductions for those taxpayers with income over $250,000 (married filing a joint return) and $200,000 (single).—Prior to the enactment of EGTRRA, the deduction for personal exemptions for the taxpayer and his or her dependents was phased out for taxpayers with AGI in excess of certain thresholds. In addition, the amount of otherwise allowable itemized deductions (other than medical expenses, investment interest, theft and casualty losses, and wagering losses) was reduced by three percent of AGI in excess of certain thresholds, but not by more than 80 percent. EGTRRA phased in the repeal of the phaseout of personal exemptions and the limitation on itemized deductions over a five-year period, 2006 through 2010. The Administration proposes to reinstate the limitations on personal exemptions and itemized deductions for married taxpayers filing joint returns with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000, effective for taxable years beginning after December 31, 2010.

Impose a 20-percent tax rate on capital gains and dividends for those taxpayers with income over $250,000 (married filing a joint return) and $200,000 (single).—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), the maximum tax rate on long-term capital gains was reduced from 20 percent to 15 percent for taxpayers in individual income tax rate brackets exceeding 15 percent, and from 10 percent to 5 percent (zero beginning in 2008) for lower-income taxpayers. JGTRRA also reduced the maximum tax rate on qualified dividends received by an individual shareholder to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Dividends had been taxed as ordinary income under prior law. The Administration proposes to increase the tax rate on qualified dividends and long-term capital gains to 20 percent for married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000. The proposal would be effective for taxable years beginning after December 31, 2010. All other taxpayers would be taxed at the rates in effect in 2009.

Limit the tax rate at which itemized deductions reduce tax liability to 28 percent.—The Administration proposes to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting only married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and single taxpayers with income over $200,000. The proposed limitation would be effective for taxable years beginning after December 31, 2010.

User Fees

Support capital investment in the inland waterways.—In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams and of the other features that make barge transportation possible on the inland waterways. The current ex-

[7] Under the Administration's statutory PAYGO proposal, savings from allowing many of the 2001 and 2003 tax cuts for those making more than $250,000 to expire after 2010 are not counted as PAYGO savings. The additional revenues, therefore, cannot be used to pay for other polices under the PAYGO rules but, instead, must be devoted to deficit reduction.

cise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs. The Budget proposes to replace the fuel tax with a new funding mechanism that raises the needed revenue in a way that is more efficient and more equitable than the fuel tax. It will preserve the landmark cost-sharing reform established by the Congress in 1986, while supporting inland waterways construction, replacement, expansion, and rehabilitation work.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 18 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2011.

Change retention policy for consular fees.—The Administration proposes to change retention policy for user fees related to passports, visas, and consular services. Additional details are provided in Chapter 15, "Offsetting Collections and Offsetting Receipts," in this volume.

Trade Initiatives

Promote trade.—The Obama Administration is committed to opening markets for American producers. As a part of this effort, the Administration is working with Members of Congress and stakeholders to address outstanding issues and move forward on pending trade agreements with Panama, Colombia, and South Korea. The Administration also looks forward to working with Congress in an effort to reform U.S. preference programs. Additionally, in 2009 the President announced his intention to establish Reconstruction Opportunity Zones (ROZs) in Afghanistan and the border regions of Pakistan as part of the Administration's broader counterterrorism strategy. The Administration will work closely with Congress and private sector stakeholders to implement these important trade initiatives.

Other Initiatives

Extend and modify the New Markets tax credit.—The new markets tax credit (NMTC) is a 39 percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provisions expired at the end of 2009. The Administration proposes to extend the NMTC through 2011, with an allocation amount of $5 billion for each of 2010 and 2011. The proposal would also permit the NMTC to offset AMT liability.

Reform and extend build America bonds.—ARRA created the build America bond program as an optional borrowing alternative for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the current program, the Department of the Treasury makes direct subsidy payments (called "refundable tax credits") to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to make the successful build America bond program permanent in a way designed to be approximately revenue neutral in comparison to the Federal tax cost from traditional tax-exempt bonds. The Administration also proposes to expand the build America bond program beyond new investments in governmental capital projects to include certain additional uses for which State and local governments may use tax-exempt bonds under existing law. The proposed modifications to the build America bond program would be effective for bonds issued beginning in 2011.

Restructure assistance to New York City, provide tax incentives for transportation infrastructure—Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentives. The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. New York State and New York City each would be eligible for a tax credit for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2011 to 2020, inclusive, subject to an annual limit of $200 million (for a total of $2 billion in tax credits), and would be divided evenly between the State and the City. Any unused credits below the annual limit would be added to the $200 million annual limit for the following year, including years after 2020. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following year. The credit would be allowed against any payments (other than payments of excise taxes and social security and Medicare payroll taxes) made by the City and State under any provision of the Tax Code, including income tax withholding.

Implement unemployment insurance integrity legislation.—The Administration has a multi-part proposal to strengthen the financial integrity of the unemployment insurance (UI) system and to encourage the early reemployment of UI beneficiaries. The Administration's proposal will boost States' ability to recover benefit overpayments and deter tax evasion schemes by permitting them to use a portion of recovered funds to expand enforcement efforts in these areas, including identification of misclassified employees. In addition, the proposal would require States to impose a monetary penalty on UI benefit fraud, which would be used to reduce overpayments; require States to charge employers found to be at fault when their actions lead to overpayments; expand collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds; and improve the accuracy of hiring data in the National Directory of New Hires, which would reduce benefit overpayments. These efforts to strengthen the financial integrity of the UI system and encourage early reemployment of UI beneficiaries will keep State UI taxes down and improve the solvency of the State trust funds.

Levy payments to Federal contractors with delinquent tax debt.—The Budget proposes two changes to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Federal contractors. While the IRS can initiate enforcement proceedings against delinquent tax filers in order to collect taxes owed, Treasury can also reduce a Government payment owed to a contractor to collect unpaid taxes. However, Treasury generally must wait until all debt collection administrative procedures are complete before reducing a Government payment. Typically, by the time this lengthy process is finished, Treasury has already paid the Federal contractor, thus resulting in a lost opportunity to collect taxes owed. Under the first proposal, Treasury will be allowed to reduce payments before all debt collection administrative procedures are complete, and will therefore collect more unpaid taxes. Further, pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to levy 100 percent of Federal contractor payments in order to collect delinquent debt. However, the language contains an imperfection that has the unintended effect of limiting the levy to 15 percent of certain payments. The second proposal will allow Treasury to levy up to 100 percent of a Federal contractor payment.

Implement program integrity allocation adjustments—IRS.—The Administration proposes a program integrity allocation adjustment of $1,115 million for the IRS. Allocation adjustments have been used by past administrations and Congresses to help protect increases above a base level for certain activities that generate benefits that exceed programmatic costs. The adjustment permits specified program increases above the ceiling, or allocation limit, provided in the annual congressional appropriations process, but these increases are granted only if appropriations bills increase funding for the specified integrity purposes.

In previous years, the allocation adjustment applied to the total enforcement activity level, which included the entirety of the Enforcement account and over half of the Operations Support account. As in 2010, for 2011 the Administration proposes to apply the allocation adjustment separately to the Enforcement account base ($790 million of the allocation adjustment) and the proportion of the Operations Support appropriation that directly supports Enforcement account activities ($325 million of the allocation adjustment). The Administration proposes this adjusted structure because it mitigates budget execution problems that may arise independently of the Administration's request. Further, the structure applies the allocation adjustment to the enforcement resources most directly involved in generating return-on-investment in the form of additional receipts.

Within the enforcement activity funding, IRS will continue initiatives implemented with 2010 appropriations and establish new initiatives that will bring in an estimated $1.9 billion in additional receipts for each year of work, once new hires reach full productivity in 2013. Not only will these resources help the IRS continue to increase the roughly $50-$60 billion in enforcement revenues generated each year, but they will also help close the tax gap, defined as the difference between taxes owed and those paid on time. The 2011 allocation adjustment will, among other areas, target international tax compliance of high-net worth individuals and corporations, thereby helping the IRS reduce that specific portion of the tax gap.

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

Revise terrorism risk insurance program.—The terrorism risk insurance program (TRIP), which was established under the Terrorism Risk Insurance Act of 2002, was expanded and extended through December 31, 2014, under the Terrorism Risk Insurance Program Reauthorization Act of 2007. The reauthorization expanded coverage to include acts of domestic terrorism and set up a mechanism for the Federal government to recoup 133 percent of Federal payments under the program, up to a maximum of $27.5 billion, through a surcharge imposed on insurance premiums. The Administration proposes to lessen Federal intervention in this insurance market and reduce the subsidy to private insurers (that is, increase the private sector share of losses). Beginning in 2011, after the economy is expected to stabilize, and then again in 2013, the proposal would increase private insurer's deductibles and co-payments. The minimum qualifying size of a terrorist attack (known as the "event trigger") would be increased once in 2011. The proposal removes coverage for acts of domestic terrorism and requires insurers to pay back only 100 percent rather than 133 percent of the Federal payments made under the program. Under the proposal TRIP expires December 31, 2014, consistent with current law.

Allowances

Health insurance reform.—The Budget includes the average receipt and outlay effects of the House and Senate health insurance reform bills as passed by those houses and scored by the Congressional Budget Office (CBO) in December 2009. The CBO receipt estimates are adjusted to remove overlap between the bills and proposals in the Budget.

Jobs initiatives.—The Administration will work with Congress to enact a job creation package along the lines the President announced in December 2009. A number of specific jobs initiatives are included in the Budget, and, as a placeholder for additional initiatives, the Budget includes $100 billion, with this cost split equally between receipts and outlays.

Table 14–3. EFFECT OF PROPOSALS
(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
Temporary Recovery Measures:													
Extend making work pay tax credit [1]	....	–30,132	–31,075	....	....	....	....	....	....	....	....	–61,207	–61,207
Receipt effect of providing $250 Economic Recovery Payments:													
Provide $250 refundable credit for Federal , State and local government retirees not eligible for social security benefits [1]	–38	–212	....	....	....	....	....	....	....	....	....	–212	–212
Interaction of the $250 Economic Recovery Payments with the making work pay tax credit [1]	....	2,436	....	....	....	....	....	....	....	....	....	2,436	2,436
Subtotal, receipt effect of providing $250 Economic Recovery Payments	–38	2,224	....	....	....	....	....	....	....	....	....	2,224	2,224
Extend COBRA health insurance premium assistance [1]	–3,188	–5,237	–228	....	....	....	....	....	....	....	....	–5,465	–5,465
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	....	–284	–731	–1,145	–1,114	–539	–122	72	114	62	26	–3,813	–3,661
Extend temporary increase in expensing for small businesses	–706	–440	434	268	186	135	76	43	24	15	12	583	753
Extend temporary bonus depreciation for certain property	–22,445	–15,216	11,912	7,478	5,149	3,912	2,580	1,685	1,063	792	744	13,235	20,099
Extend option for cash assistance to States in lieu of housing tax credits [1]	–2,435	–1,798	91	269	429	511	538	538	538	538	538	–498	2,192
Total, temporary recovery measures	–28,812	–50,883	–19,597	6,870	4,650	4,019	3,072	2,338	1,739	1,407	1,320	–54,941	–45,065
Tax Cuts for Families and Individuals:													
Expand earned income tax credit [1]	....	–85	–1,674	–1,645	–1,636	–1,628	–1,639	–1,663	–1,692	–1,730	–1,766	–6,668	–15,158
Expand child and dependent care tax credit [1]	....	–377	–1,345	–1,359	–1,368	–1,373	–1,377	–1,374	–1,365	–1,354	–1,349	–5,822	–12,641
Provide for automatic enrollment in IRAs and double the tax credit for small employer plan startup costs [1]	....	....	–506	–825	–876	–982	–1,113	–1,261	–1,423	–1,604	–1,801	–3,189	–10,391
Expand saver's credit [1]	....	–323	–2,683	–2,996	–3,029	–3,109	–3,195	–3,323	–3,490	–3,716	–3,910	–12,140	–29,774
Extend American opportunity tax credit [1]	....	–951	–6,875	–7,444	–7,815	–8,400	–8,841	–8,632	–8,738	–8,870	–8,907	–31,485	–75,473
Total, tax cuts for families and individuals	....	–1,736	–13,083	–14,269	–14,724	–15,492	–16,165	–16,253	–16,708	–17,274	–17,733	–59,304	–143,437
Tax Cuts for Businesses:													
Eliminate capital gains taxation on small businesses	....	....	....	....	–55	–280	–731	–1,217	–1,591	–1,933	–2,248	–335	–8,055
Make research and experimentation tax credit permanent	–3,044	–5,346	–5,969	–6,622	–7,286	–7,945	–8,597	–9,244	–9,887	–10,530	–11,182	–33,168	–82,608
Remove cell phones from listed property	–69	–277	–226	–238	–248	–266	–281	–296	–314	–332	–348	–1,255	–2,826
Total, tax cuts for businesses	–3,113	–5,623	–6,195	–6,860	–7,589	–8,491	–9,609	–10,757	–11,792	–12,795	–13,778	–34,758	–93,489
Continue Certain Expiring Provisions Through Calendar Year 2011 [1, 2]	–8,867	–21,539	–11,926	–2,205	–1,581	–1,422	–1,309	–1,013	–1,138	–1,435	–3,109	–38,673	–46,677
Other Revenue Changes and Loophole Closers:													
Reform treatment of financial institutions and products:													
Impose a financial crisis responsibility fee	....	8,000	8,000	9,000	9,000	9,000	9,000	9,000	9,000	10,000	10,000	43,000	90,000
Require accrual of income on forward sale of corporate stock	1	5	12	19	26	33	36	38	40	42	44	95	295
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	49	169	214	226	240	254	270	286	303	321	341	1,103	2,624
Modify the definition of "control" for purposes of section 249	2	15	30	32	34	36	38	41	43	46	48	147	363
Subtotal, reform treatment of financial institutions and products	52	8,189	8,256	9,277	9,300	9,323	9,344	9,365	9,386	10,409	10,433	44,345	93,282
Reinstate Superfund taxes [2]	....	1,203	1,608	1,729	1,837	1,921	1,995	2,068	2,129	2,196	2,239	8,298	18,925
Make unemployment insurance surtax permanent [2]	....	....	1,458	1,501	1,539	1,571	1,596	1,616	1,631	1,642	1,642	6,069	14,196

Table 14–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
Repeal LIFO method of accounting for inventories	....	....	2,667	6,007	7,070	7,120	7,162	7,224	7,207	7,278	7,350	22,864	59,085
Repeal gain limitation for dividends received in reorganization exchanges	....	46	77	78	78	81	83	85	86	86	88	360	788
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income	....	2,024	3,357	3,343	3,350	3,434	3,520	3,572	1,803	613	626	15,508	25,642
Reform foreign tax credit: Determine the foreign tax credit on a pooling basis	....	1,928	3,198	3,184	3,191	3,271	3,353	3,403	3,439	3,462	3,532	14,772	31,961
Reform foreign tax credit: Prevent splitting of foreign income and foreign taxes	....	1,226	2,223	2,494	2,707	2,875	3,006	3,106	3,186	3,253	3,327	11,525	27,403
Tax currently excess returns associated with transfers of intangibles offshore	....	635	1,580	1,573	1,577	1,616	1,657	1,681	1,699	1,711	1,745	6,981	15,474
Limit shifting of income through intangible property transfers	....	12	32	54	78	104	131	159	189	220	254	280	1,233
Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates	....	22	53	54	54	50	50	54	58	60	64	233	519
Limit earnings stripping by expatriated entities	....	211	352	353	356	368	379	385	390	393	402	1,640	3,589
Repeal 80/20 company rules	....	83	111	111	112	116	120	122	123	124	127	533	1,149
Prevent avoidance of dividend withholding taxes	219	275	135	91	94	96	97	102	109	115	123	691	1,237
Modify tax rules for dual capacity taxpayers	....	381	676	734	788	846	907	972	1,044	1,121	1,080	3,425	8,549
Combat under-reporting of income through use of accounts and entities in offshore jurisdictions [2]	27	72	161	716	919	447	381	549	686	740	762	2,315	5,433
Subtotal, reform U.S. international tax system	246	6,869	11,878	12,707	13,226	13,223	13,601	14,105	12,726	11,812	12,042	57,903	122,189
Reform treatment of insurance companies and products:													
Modify rules that apply to sales of life insurance contracts	....	22	71	84	101	117	136	156	179	204	233	395	1,303
Modify dividends-received deduction for life insurance company separate accounts	....	149	379	407	432	441	468	492	511	512	515	1,808	4,306
Expand pro-rata interest expense disallowance for corporate-owned life insurance (COLI)	....	20	87	183	276	437	659	910	1,293	1,731	2,188	1,003	7,784
Permit partial annuitization of a nonqualified annuity contract	....	5	21	39	59	81	105	132	160	192	226	205	1,020
Subtotal, reform treatment of insurance companies and products	....	196	558	713	868	1,076	1,368	1,690	2,143	2,639	3,162	3,411	14,413
Eliminate fossil fuel tax preferences:													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	1,202	1,582	1,089	914	848	694	482	374	344	310	5,635	7,839
Repeal deduction for tertiary injectants	....	5	9	9	8	7	6	6	5	6	6	38	67
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	20	24	19	18	17	17	17	16	16	16	98	180
Repeal percentage depletion for oil and natural gas wells	....	522	895	933	969	1,009	1,052	1,095	1,141	1,184	1,226	4,328	10,026
Repeal domestic manufacturing deduction for oil and natural gas companies	....	851	1,470	1,559	1,650	1,742	1,831	1,920	2,007	2,096	2,188	7,272	17,314
Increase geological and geophysical amortization period for independent producers to seven years	....	44	160	246	231	177	122	67	28	17	18	858	1,110
Subtotal, eliminate oil and gas preferences	....	2,644	4,140	3,855	3,790	3,800	3,722	3,587	3,571	3,663	3,764	18,229	36,536
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	32	55	49	45	45	44	40	37	34	32	226	413
Repeal percentage depletion for hard mineral fossil fuels	....	57	98	102	106	109	111	115	119	122	123	472	1,062
Repeal capital gains treatment for royalties	10	18	25	48	67	78	87	95	103	111	119	236	751
Repeal domestic manufacturing deduction for coal and other hard mineral fossil fuels	....	3	5	5	5	6	6	6	7	7	7	24	57
Subtotal, eliminate coal preferences	10	110	183	204	223	238	248	256	266	274	281	958	2,283
Subtotal, eliminate fossil fuel tax preferences	10	2,754	4,323	4,059	4,013	4,038	3,970	3,843	3,837	3,937	4,045	19,187	38,819
Tax carried (profits) interests as ordinary income	....	1,452	3,289	3,914	3,741	3,176	2,534	1,975	1,530	1,355	1,011	15,572	23,977
Modify cellulosic biofuel producer credit	784	6,569	8,058	4,901	2,659	1,491	309	....	....	....	....	23,678	23,987

Table 14–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
Eliminate advanced earned income tax credit [1]	....	120	72	70	69	68	69	69	72	74	77	399	760
Deny deduction for punitive damages	....	....	22	32	33	34	35	36	38	38	39	121	307
Repeal lower-of-cost-or-market inventory accounting method	....	....	286	1,423	2,045	1,402	1,127	283	296	309	323	5,156	7,494
Reduce the tax gap and make reforms:													
Expand information reporting:													
Require information reporting on payments to corporations	....	84	612	777	924	983	1,040	1,095	1,152	1,212	1,275	3,380	9,154
Require information reporting for rental property expense payments	....	179	267	281	296	312	327	342	357	372	387	1,335	3,120
Require information reporting for private separate accounts of life insurance companies	....	1	2	3	4	4	6	7	8	10	13	14	58
Require a certified Taxpayer Identification Number from contractors and allow certain withholding	....	17	44	63	72	76	79	83	86	90	94	272	704
Require increased information reporting for certain government payments for property and services	....	25	70	58	28	30	32	34	35	37	39	211	388
Increase information return penalties	....	20	34	35	35	36	42	43	43	44	44	160	376
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	....	4	6	6	7	7	7	8	8	9	9	30	71
Increase certainty with respect to worker classification	....	11	214	543	688	766	848	933	1,020	1,112	1,208	2,222	7,343
Strengthen tax administration:													
Codify "economic substance" doctrine	....	23	77	157	272	366	476	593	682	758	838	895	4,242
Allow assessment of criminal restitution as tax	....	....	3	4	4	4	4	4	4	4	4	15	35
Revise offer-in-compromise application rules	1	3	3	3	3	3	3	3	3	3	4	15	31
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	....	....	....	....	1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions	....	....	....	....	....	1	1	1	1	1	1	1	6
Extend statute of limitations where State adjustment affects Federal tax liability	....	3	4	4	4	4	5	5	5	5	6	19	45
Improve investigative disclosure statute	....	....	....	....	1	1	1	1	2	2	2	2	10
Expand penalties:													
Clarify the bad check penalty applies to electronic checks and other payment forms	....	1	2	2	2	3	3	3	3	4	4	10	27
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	....	1	1	1	2	2	2	1	9
Modify estate and gift valuation discounts and make other reforms:													
Require consistency in value for transfer and income tax purposes	40	135	171	182	192	204	216	229	243	258	273	884	2,103
Modify rules on valuation discounts	....	666	1,413	1,531	1,671	1,818	1,972	2,135	2,305	2,484	2,672	7,099	18,667
Require a minimum term for grantor retained annuity trusts (GRATs)	....	15	46	93	160	231	308	389	477	570	670	545	2,959
Subtotal, reduce the tax gap and make reforms	41	1,187	2,968	3,742	4,364	4,851	5,372	5,910	6,438	6,979	7,547	17,112	49,358
Total, other revenue changes and loophole closers	1,133	28,585	45,520	50,153	50,842	49,375	48,565	48,269	47,519	48,754	49,998	224,475	467,580
Upper-Income Tax Provisions:													
Upper-income tax provisions dedicated to deficit reduction:													
Expand the 28-percent rate and reinstate the 36-percent and 39.6-percent rates for those taxpayers with income over $250,000 (married) and $200,000 (single)		14,509	26,217	29,295	32,556	35,676	38,809	41,960	45,135	48,399	51,883	138,253	364,439
Reinstate the personal exemption phaseout and limitation on itemized deductions for those taxpayers with income over $250,000 (married) and $200,000 (single)	....	6,840	14,925	17,119	18,991	20,808	22,571	24,324	26,054	27,687	29,170	78,683	208,489

Table 14–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
Impose 20-percent tax rate on capital gains and dividends for those taxpayers with income over $250,000 (married) and $200,000 (single)	1,344	12,165	–263	3,315	8,230	11,372	12,370	13,288	14,162	14,973	15,752	34,819	105,364
Subtotal, upper-income tax provisions dedicated to deficit reduction	1,344	33,514	40,879	49,729	59,777	67,856	73,750	79,572	85,351	91,059	96,805	251,755	678,292
Limit the tax rate at which itemized deductions reduce tax liability to 28 percent	....	7,896	21,582	24,500	27,019	29,351	31,570	33,938	36,268	38,426	40,625	110,348	291,175
Total, upper-income tax provisions	1,344	41,410	62,461	74,229	86,796	97,207	105,320	113,510	121,619	129,485	137,430	362,103	969,467
User Fees:													
Support capital investment in the inland waterways [2]	....	....	196	163	187	129	100	72	70	68	68	675	1,053
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	14	14	14	14	14	70	140
Change retention policy for consular fees	....	–782	–810	–825	–840	–857	–873	–891	–909	–927	–946	–4,114	–8,660
Total, user fees	....	–768	–600	–648	–639	–714	–759	–805	–825	–845	–864	–3,369	–7,467
Trade Initiatives:													
Promote trade [2]	....	–145	–430	–552	–606	–647	–680	–705	–729	–753	–777	–2,380	–6,024
Other Initiatives:													
Extend and modify the New Markets tax credit	....	–113	–229	–345	–430	–480	–511	–510	–441	–279	–103	–1,597	–3,441
Reform and extend build America bonds [1]	....	8	–3	–3	–3	–4	–4	–4	–4	–4	–3	–5	–24
Restructure assistance to New York City: Provide tax incentives for transporation infrastructure	....	–200	–200	–200	–200	–200	–200	–200	–200	–200	–200	–1,000	–2,000
Implement unemployment insurance integrity legislation [2 4] ...	....	....	42	42	16	–4	–75	–175	189	–138	–179	96	–282
Levy payments to Federal contractors with delinquent tax debt:													
Authorize post-levy due process	....	77	115	119	124	109	113	118	122	127	132	544	1,156
Increase levy authority to 100 percent for vendor payments	....	61	87	86	90	78	82	85	88	92	96	402	845
Subtotal, levy payments to Federal contractors with delinquent tax debt [4]	....	138	202	205	214	187	195	203	210	219	228	946	2,001
Implement program integrity allocation adjustments—IRS [4]	....	385	1,164	2,355	3,955	6,015	7,987	9,238	9,931	10,378	10,809	13,874	62,217
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents	....	....	....	....	....	....	....	....	....	....	....	....	....
Revise terrorism risk insurance program [4]	....	....	–21	–18	–45	–99	–173	–205	–6	–21	–15	–183	–603
Total, other initiatives	....	218	955	2,036	3,507	5,415	7,219	8,347	9,679	9,955	10,537	12,131	57,868
Allowances:													
Health insurance reform	....	16,000	17,500	40,500	57,000	75,500	89,500	98,000	106,500	116,000	126,500	206,500	743,000
Jobs initiatives	–12,000	–25,000	–8,000	–3,000	–2,000	....	....	....	....	....	....	–38,000	–38,000
Total, allowances	–12,000	9,000	–9,500	37,500	55,000	75,500	89,500	98,000	106,500	116,000	126,500	168,500	705,000
Total, effect of proposals	**–50,315**	**–19,481**	**66,605**	**146,254**	**175,656**	**204,750**	**225,154**	**240,931**	**255,864**	**272,499**	**289,524**	**573,784**	**1,857,756**

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–15	2011–20
Extend making work pay tax credit	....	703	21,265	....	....	....	....	....	....	....	....	21,968	21,968
Provide $250 refundable credit for Federal , State and local government retirees not eligible for social security benefits	....	100	....	....	....	....	....	....	....	....	....	100	100
Interaction of the $250 Economic Recovery Payments with the making work pay tax credit	....	–365	....	....	....	....	....	....	....	....	....	–365	–365
Extend COBRA health insurance premium assistance	319	524	23	....	....	....	....	....	....	....	....	547	547
Extend option for cash assistance to States in lieu of housing tax credits	2,435	1,815	....	....	....	....	....	....	....	....	....	1,815	1,815
Expand earned income tax credit	....	83	1,667	1,635	1,628	1,622	1,634	1,659	1,689	1,726	1,762	6,635	15,105
Expand child and dependent care tax credit ..	....	....	399	406	403	398	403	406	408	407	409	1,606	3,639
Provide for automatic enrollment in IRAs and double the tax credit for small employer plan startup costs	....	....	83	146	149	158	177	200	223	250	281	536	1,667
Expand saver's credit	....	570	3,715	1,402	1,369	1,366	1,349	1,337	1,339	1,340	1,353	8,422	15,140
Extend American opportunity tax credit	....	....	2,941	3,058	3,146	3,268	3,441	3,363	3,330	3,310	3,302	12,413	29,159
Continue certain expiring provisions through calendar year 2011	66	91	23	....	....	....	....	....	....	....	....	114	114

Table 14–3. EFFECT OF PROPOSALS—Continued
(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-15	2011-20
Eliminate advanced earned income tax	....	–120	–72	–70	–69	–68	–69	–69	–72	–74	–77	–399	–760
Reform and extend build America bonds	....	266	1,216	2,630	4,108	5,608	7,105	8,595	10,078	11,554	13,023	13,828	64,183
Total, outlay effects of receipt proposals ..	2,820	3,667	31,260	9,207	10,734	12,352	14,040	15,491	16,995	18,513	20,053	67,220	152,312

[2] Net of income offsets.
[3] This provision is estimated to have zero receipt effect under the Adminstration's current projections for energy prices.
[4] The receipt effect of a spending initiative.

IMPROVING TAX FAIRNESS AND FEDERAL FINANCES THROUGH BETTER TAX COMPLIANCE

The IRS collects over 95 percent of gross (pre-refund) governmental receipts. The IRS collected roughly $2.35 trillion in 2009. However, not every dollar of tax legally owed is actually paid. The great majority of taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply, either because they do not understand their obligations due to the complexity of the tax law or because they seek to avoid those obligations.

Tax Compliance

In 2006, the IRS released updated results of its first large study in two decades of the difference between taxes owed and taxes actually paid—the "tax gap." The IRS estimated that taxpayers initially underpaid by $345 billion for tax year 2001. This equates to a voluntary compliance rate of roughly 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of $290 billion, raising the net compliance rate to 86 percent. The Department of the Treasury does not have estimates of the tax gap for the years after 2001, though current efforts are underway to provide a new estimate and subsequently update it annually.

Due to changes in methodologies, comparisons between the 2001 estimates and those from earlier studies should be made cautiously. However, it appears that the voluntary compliance rate has not changed much since the 1980s. The IRS previously reported voluntary compliance rates of 87 percent in 1988, 86 percent in 1985, and 84 percent in 1983. While the overall compliance rate seems to have moved relatively little over time, each 1 percentage point change significantly affects revenue. A 1 percentage point improvement would increase revenue by over $20 billion per year.

The IRS compliance estimates, primarily based on random audits of individuals and businesses, are not precise, but give a general sense of the size of the tax gap and patterns in compliance. This type of information is critical for effectively targeting IRS enforcement programs to yield revenue while minimizing the cost and burden on taxpayers. The IRS' estimates are most accurate for underpayments of known taxes as recorded in IRS financial systems, and for individual income tax reporting compliance through the recent National Research Program (NRP) random study. Non-filing estimates come from studies of Census data and are somewhat less precise. The weakest portions of the IRS' estimates are in areas where no recent studies have been completed and the IRS is relying on older data (e.g., for corporations).

Of the total tax gap, 83 percent comes from underreporting of tax liability. A significant portion of the gap also comes from underpayment of known tax debts and people who fail to file returns. Individual income taxes, the largest source of Federal receipts, account for 71 percent of the tax gap.

The highest compliance rates are found in areas where the IRS has good information about income because it is reported by third parties (e.g., Form W-2, which reports wage income from employers, and Form 1099, which reports various third-party payments, including interest from banks). The IRS estimates that 95 percent of income with substantial third-party reporting but no tax withholding (e.g., interest income and dividends) is declared on taxpayer returns. Where there is tax withholding, as in the case of most wages, nearly 99 percent of the amounts reported by payers are declared on taxpayer returns. The 2011 Budget contains a collection of proposals that will increase third-party reporting and drive additional compliance.

Conversely, the rate of underpaid taxes is high for income with little or no third-party reporting. For example, an estimated 43 percent of business income that should have been reported on individual returns (e.g., farm income and non-farm proprietor income) is misreported.

Improving Tax Compliance

While the tax gap can likely never be entirely eliminated, reducing the gap by improving compliance is important because non-compliant taxpayers impose unacceptable burdens on other taxpayers and on Federal finances, as well as undermine the integrity and fairness of the tax system.

The Administration proposes to reduce tax evasion and avoidance through a series of legislative reforms and enforcement activities. In addition to the legislative reforms described earlier, the 2011 Budget provides an additional increment of roughly $250 million for a robust set of IRS initiatives to implement more vigorously the IRS' evolving compliance strategy, particularly in the international tax area. These targeted investments will help IRS enforce the law to ensure everyone meets the obligation to pay taxes, as well as reduce the tax gap. The 2011 Budget continues to emphasize international compliance issues while also addressing a wide array of underreporting and non-filing compliance challenges. As the number of entities and transactions - both domestic and international - continues to expand and also increase in complexity, the role of the IRS becomes additionally critical. These investments will help the IRS keep pace with evolving trends and challenges in the tax community, making for a more nimble and effective organization.

Collectively these efforts will reduce the tax gap and improve the fiscal situation of the Government. Equally important, better compliance will improve the fairness of the tax system by ensuring all taxpayers pay their fair share. Implementation depends on effective IRS leadership to improve factors such as technology investments and reengineering processes, as well as on the active support of the Congress to implement tax law changes and provide needed funding for these improvements.

Table 14–4. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2009 Actual	Estimate										
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Individual income taxes:												
Federal funds	915,308	951,424	1,126,211	1,271,452	1,386,746	1,507,028	1,625,199	1,738,636	1,852,955	1,965,881	2,078,372	2,186,118
Legislative proposal, not subject to PAYGO	....	1,380	34,662	43,176	53,352	65,137	75,406	83,410	90,623	97,235	103,525	109,840
Legislative proposal, subject to PAYGO	....	–17,033	–39,577	11,417	28,312	31,696	32,871	34,272	36,546	38,640	40,765	42,381
Total, Individual income taxes	915,308	935,771	1,121,296	1,326,045	1,468,410	1,603,861	1,733,476	1,856,318	1,980,124	2,101,756	2,222,662	2,338,339
Corporation income taxes:												
Federal funds:												
Federal funds	138,229	175,817	292,548	333,216	361,326	414,882	382,576	422,336	436,634	448,610	461,009	477,829
Legislative proposal, not subject to PAYGO	....	–36	–65	–58	–57	–56	–56	–56	–56	–54	–53	–51
Legislative proposal, subject to PAYGO	....	–19,040	3,656	32,206	31,126	28,831	27,338	25,796	24,786	23,021	23,190	22,950
Total, Federal funds	138,229	156,741	296,139	365,364	392,395	443,657	409,858	448,076	461,364	471,577	484,146	500,728
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	763	997	1,079	1,148	1,197	1,239	1,281	1,321	1,363	1,382
Total, Corporation income taxes	138,229	156,741	296,902	366,361	393,474	444,805	411,055	449,315	462,645	472,898	485,509	502,110
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	559,067	542,949	575,863	615,911	653,379	692,085	730,448	776,137	811,600	849,825	886,951	920,255
Legislative proposal, subject to PAYGO	....	44	359	–21	1,193	–483	1,241	2,968	4,272	4,661	5,571	6,442
Disability insurance (off-budget)	94,942	92,182	97,785	104,589	110,951	117,523	124,038	131,797	137,818	144,310	150,615	156,269
Legislative proposal, subject to PAYGO	....	8	61	–4	202	–82	210	503	724	791	945	1,092
Hospital Insurance	190,663	180,464	192,330	208,063	221,823	236,098	249,957	266,012	278,405	291,816	304,911	316,610
Legislative proposal, subject to PAYGO	....	10	116	415	1,012	1,243	1,333	1,422	1,511	1,583	1,683	1,771
Railroad retirement:												
Social security equivalent account	1,912	1,897	1,918	1,978	2,040	2,105	2,163	2,223	2,282	2,345	2,406	2,462
Rail pension & supplemental annuity	2,301	2,266	2,262	2,465	2,573	2,782	2,893	2,971	3,051	3,130	3,350	3,614
Total, Employment and general retirement	848,885	819,820	870,694	933,396	993,173	1,051,271	1,112,283	1,184,033	1,239,663	1,298,461	1,356,432	1,408,515
On-budget	194,876	184,637	196,626	212,921	227,448	242,228	256,346	272,628	285,249	298,874	312,350	324,457
Off-budget	654,009	635,183	674,068	720,475	765,725	809,043	855,937	911,405	954,414	999,587	1,044,082	1,084,058
Unemployment insurance:												
Deposits by States [1]	31,138	44,493	52,653	57,510	60,584	61,949	62,132	61,587	60,376	58,389	58,006	59,281
Legislative proposal, not subject to PAYGO	....	....	....	3	2	–11	–36	–124	–89	20	–200	–160
Legislative proposal, subject to PAYGO	....	....	1	70	102	96	99	102	105	107	111	115
Federal unemployment receipts [1]	6,658	6,902	7,296	7,758	10,413	13,120	14,477	15,620	15,732	15,947	15,688	15,413

Table 14–4. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2009 Actual	Estimate										
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	....	....	–158	188	....	–92
Legislative proposal, subject to PAYGO	....	....	....	1,823	1,876	1,923	1,963	1,995	2,021	2,039	2,051	2,053
Railroad unemployment receipts [1]	93	101	196	268	171	65	47	64	112	147	133	104
Total, Unemployment insurance	37,889	51,496	60,146	67,432	73,148	77,142	78,682	79,244	78,099	76,837	75,789	76,714
Other retirement:												
Federal employees retirement- employee share	4,105	4,413	4,250	4,056	3,895	3,773	3,654	3,584	3,536	3,520	3,523	3,556
Non-Federal employees retirement [2]	38	27	26	23	20	19	19	19	19	19	19	19
Total, Other retirement	4,143	4,440	4,276	4,079	3,915	3,792	3,673	3,603	3,555	3,539	3,542	3,575
Total, Social insurance and retirement receipts (trust funds)	890,917	875,756	935,116	1,004,907	1,070,236	1,132,205	1,194,638	1,266,880	1,321,317	1,378,837	1,435,763	1,488,804
On-budget	236,908	240,573	261,048	284,432	304,511	323,162	338,701	355,475	366,903	379,250	391,681	404,746
Off-budget	654,009	635,183	674,068	720,475	765,725	809,043	855,937	911,405	954,414	999,587	1,044,082	1,084,058
Excise taxes:												
Federal funds:												
Alcohol taxes	9,903	9,983	9,902	9,790	9,617	9,690	9,862	10,040	10,230	10,427	10,629	10,836
Legislative proposal, subject to PAYGO	....	–66	–91	–23	....	....	....	....	....	....	....	....
Tobacco taxes	12,841	17,391	16,895	16,695	16,671	16,648	16,520	16,436	16,280	16,091	15,954	15,782
Transportation fuels tax	–10,324	–7,541	–1,760	176	171	167	163	159	153	148	143	137
Legislative proposal, subject to PAYGO	....	–831	–6,259	–2,502	....	....	....	....	....	....	....	....
Telephone and teleype services	1,115	879	629	377	220	142	116	104	100	100	100	100
Other Federal fund excise taxes	319	2,107	1,547	1,539	1,540	1,586	1,657	1,734	1,812	1,892	1,971	2,055
Legislative proposal, subject to PAYGO	....	66	91	23	4	10	18	24	28	30	32	34
Total, Federal funds	13,854	21,988	20,954	26,075	28,223	28,243	28,336	28,497	28,603	28,688	28,829	28,944
Trust funds:												
Highway	34,961	36,237	37,080	37,799	38,722	39,282	39,644	39,822	39,738	39,396	39,238	39,273
Airport and airway	10,569	11,798	12,493	13,179	13,970	14,812	15,649	16,460	17,270	17,992	18,718	19,468
Sport fish restoration and boating safety	576	573	587	602	617	632	648	664	679	695	713	728
Tobacco assessments	951	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	645	638	647	657	665	671	679	687	693	699	446	338
Inland waterways	76	84	85	86	89	89	90	91	91	93	96	96
Legislative proposal, subject to PAYGO	....	....	....	....	–45	–45	–90	–91	–91	–93	–96	–96
Hazardous substance superfund (Legislative proposal, subject to PAYGO)	....	....	586	816	866	919	964	1,008	1,048	1,078	1,111	1,144
Oil spill liability	447	449	472	488	497	504	511	520	520	508	505	508
Vaccine injury compensation	235	295	241	238	241	245	247	248	251	253	256	259
Leaking under ground storage tank	169	182	183	185	189	191	191	191	193	189	189	188
Total, Trust funds	48,629	51,216	53,334	55,010	56,771	58,260	59,493	60,560	61,352	61,770	62,136	62,866
Total, Excise taxes	62,483	73,204	74,288	81,085	84,994	86,503	87,829	89,057	89,955	90,458	90,965	91,810
Estate and gift taxes:												
Federal funds	23,482	16,971	24,220	20,885	21,771	23,543	25,381	27,327	29,368	31,547	33,853	36,282
Legislative proposal, subject to PAYGO	....	40	815	1,629	1,806	2,023	2,253	2,496	2,753	3,025	3,312	3,615
Total, Estate and gift taxes	23,482	17,011	25,035	22,514	23,577	25,566	27,634	29,823	32,121	34,572	37,165	39,897
Customs duties:												
Federal funds:												
Federal funds	21,264	22,569	27,163	31,133	33,741	35,845	38,133	40,455	42,669	44,980	47,595	50,114
Legislative proposal, subject to PAYGO	....	–37	–1,164	–981	–736	–808	–863	–906	–940	–972	–1,004	–1,036
Total, Federal funds	21,264	22,532	25,999	30,152	33,005	35,037	37,270	39,549	41,729	44,008	46,591	49,078
Trust funds:												
Trust funds	1,189	1,255	1,446	1,619	1,764	1,908	2,063	2,209	2,362	2,536	2,734	2,948

Table 14–4. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2009 Actual	Estimate 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total, Customs duties	22,453	23,787	27,445	31,771	34,769	36,945	39,333	41,758	44,091	46,544	49,325	52,026
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	352	361	364	365	368	371	375	380	384	389	392	397
Deposit of earnings, Federal Reserve System	34,318	77,083	79,341	66,990	59,222	52,344	47,504	49,678	52,243	54,610	56,854	58,868
Fees for permits and regulatory and judicial services	11,066	11,986	12,616	12,903	13,086	13,368	13,940	14,173	14,400	14,294	14,498	14,679
Legislative proposal, subject to PAYGO	....	....	–768	–817	–829	–871	–942	–1,032	–1,082	–901	–934	–947
Fines, penalities, and forfeitures	5,324	4,463	3,709	3,709	3,709	3,709	3,709	3,709	3,709	3,709	3,709	3,709
Refunds and recoveries	–71	–75	–106	–80	–51	–33	–32	–32	–32	–32	–32	–32
Total, Federal funds	50,989	93,818	95,156	83,070	75,505	68,888	64,554	66,876	69,622	72,069	74,487	76,674
Trust funds:												
United Mine Workers of America, combined benefit fund	69	47	28	26	23	21	19	17	15	13	12	11
Defense cooperation	389	394	400	400	400	400	400	400	400	400	400	400
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	....	196	196	220	196	168	140	140	140	140
Fines, penalities, and forfeitures	670	584	509	519	525	531	539	546	554	562	570	577
Refunds and recoveries	6	6	6	6	6	6	6	6	6	6	6	6
Total, Trust funds	1,134	1,031	943	1,147	1,150	1,178	1,160	1,137	1,115	1,121	1,128	1,134
Total, Miscellaneous receipts	52,123	94,849	96,099	84,217	76,655	70,066	65,714	68,013	70,737	73,190	75,615	77,808
Health insurance reform (Legislative proposal, subject to PAYGO)	....	....	16,000	17,500	39,000	57,500	74,000	86,000	93,000	101,000	109,500	119,000
Jobs initiatives (Legislative proposal, subject to PAYGO)	....	–12,000	–25,000	–8,000	–3,000	–2,000	....	....	....	....	....	....
Total, budget receipts	2,104,995	2,165,119	2,567,181	2,926,400	3,188,115	3,455,451	3,633,679	3,887,164	4,093,990	4,299,255	4,506,504	4,709,794
On-budget	1,450,986	1,529,936	1,893,113	2,205,925	2,422,390	2,646,408	2,777,742	2,975,759	3,139,576	3,299,668	3,462,422	3,625,736
Off-budget	654,009	635,183	674,068	720,475	765,725	809,043	855,937	911,405	954,414	999,587	1,044,082	1,084,058

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

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

15. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

I. INTRODUCTION AND BACKGROUND

The Government records money collected in one of two ways: either as governmental receipts, included in the amounts reported on the receipts side of the budget, or as offsetting collections or offsetting receipts, which reduce (or "offset") the amounts reported on the outlay side of the budget. Governmental receipts are discussed in the previous chapter, "Governmental Receipts." The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts, and a small share of governmental receipts. Finally, the third section of this chapter describes the Administration's new user charge proposals.

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities, and the spending associated with these activities is included in total or "gross outlays." Offsetting collections and offsetting receipts are then subtracted from gross outlays to yield "net outlays," which is the most common measure of outlays cited and generally referred to as simply "outlays." Government-wide net outlays reflect the Government's net transactions with the public and are subtracted from governmental receipts to derive the Government's surplus or deficit.

Some offsetting collections and offsetting receipts are classified as such based on a conceptual difference with governmental receipts. In particular, these offsetting collections and offsetting receipts come from business-like transactions with the public and, unlike governmental receipts, are not collected based on the Government's exercise of its sovereign power. For this reason, it is appropriate to classify these offsetting collections and offsetting receipts as offsets to outlays rather than on the receipts side of the budget.[1] Treating offsetting collections and offsetting receipts in this way produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace. Examples of offsetting collections and offsetting receipts resulting from business-like activities include charges for the sale of postage stamps and electricity sold by the Tennessee Valley Authority, proceeds from the sale of goods by defense commissaries, Supplementary Medical Insurance premiums, life insurance premiums for veterans, recreation fees for parks, and proceeds from the sale of assets (e.g., property, plant, and equipment) and natural resources (e.g., timber, oil, and minerals).

Other offsetting collections and offsetting receipts are classified as such either because this classification has been specified in law or because they have traditionally been classified as offsets to outlays. This is despite the fact that they derive from the Government's sovereign powers and would, otherwise, appear on the receipts side of the budget.[2] Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

The final sources of offsetting collections and offsetting receipts are gifts and intragovernmental transfers. Examples of intragovernmental transfers include interest payments to funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement and health benefits funds, and agency payments to funds for employee benefits.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are credited to expenditure accounts and therefore reduce or offset spending at the account level. By contrast, offsetting receipts are credited to receipt accounts (even though they are not recorded as governmental receipts). In some cases, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts reduce total Government outlays, but not the outlays of any particular agency.

Offsetting collections and offsetting receipts are generally differentiated from each other based on the form of Congressional authorization. Offsetting collections are usually authorized to be spent for the purposes of the expenditure account and are generally available for use

[1] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President's Commission on Budget Concepts in 1967* and is discussed in Chapter 11 of this volume: "Budget Concepts." Offsetting governmental receipts, which are a subset of offsetting receipts and estimated to be $23.3 billion in 2009, result from the Government's exercise of its sovereign power to tax, but by law are required to be subtracted from outlays rather than added to governmental receipts.

[2] Where the regulatory or licensing fee is closely linked to the provision of a service by a regulating or licensing agency, the fee could be viewed as payment for a particular service or for the right to engage in a particular type of business. Nevertheless, many budget experts believe such fees are more appropriately classified as governmental receipts. Any reclassification of such fees would either require a change in law or have a direct impact on the Congressional appropriations process.

when collected, without further action by the Congress. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which cannot be spent without further action by the Congress.

Table 15–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table focuses only on payments from the public and does not include intragovernmental transactions. The table shows the amount of the Government's financial transactions with the public that are not evident from the commonly cited budget measure of (net) outlays. For 2011, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $469.0 billion or 3.1 percent of gross domestic product. Of these, an estimated $225.6 billion are offsetting collections and an estimated $243.4 billion are offsetting receipts. Table 15–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the

Table 15–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC

(In billions of dollars)

	Actual 2009	Estimate	
		2010	2011
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	69.0	64.8	67.4
Defense Commissary Agency	6.1	6.2	6.3
Active and retired employee contributions for health benefits	10.5	11.5	12.5
Sale of energy:			
Tennessee Valley Authority	11.1	10.8	12.1
Bonneville Power Administration	2.9	3.8	4.1
Federal Deposit Insurance Corporation: Insurance fees and recoveries	20.5	88.0	36.1
All other user charges	45.1	51.7	65.3
Subtotal, user charges	165.2	236.8	203.8
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	8.0	9.9	8.5
Supplemental Security Income (collections from the States)	4.1	3.8	4.1
Other collections	23.2	18.8	9.2
Subtotal, other collections	35.3	32.5	21.8
Subtotal, offsetting collections	200.5	269.3	225.6
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums, Supplementary Medical Insurance	57.0	61.6	68.8
Outer Continental Shelf rents, bonuses, and royalties	5.3	3.5	7.2
Digital Television Transition and Public Safety Fund	16.7	0.0	0.0
All other user charges	22.3	22.8	28.7
Subtotal, user charges deposited in receipt accounts	101.3	88.0	104.7
Other collections deposited in receipt accounts:			
Military assistance program sales	24.9	24.9	25.5
Interest received from credit financing accounts	26.0	58.2	59.4
Other interest income	4.4	13.2	20.9
All other collections deposited in receipt accounts	66.6	181.4	32.8
Subtotal, other collections deposited in receipt accounts	122.0	277.7	138.7
Subtotal, offsetting receipts	223.3	365.7	243.4
Total, offsetting collections and offsetting receipts from the public	**423.7**	**634.9**	**469.0**
Total, offsetting collections and offsetting receipts excluding off-budget	**354.7**	**570.0**	**401.5**
ADDENDUM:			
User charges that are offsetting collections or offsetting receipts [1]	266.5	324.7	308.5
Other offsetting collections and offsetting receipts from the public	157.3	310.2	160.5
Total, offsetting collections and offsetting receipts from the public	**423.7**	**634.9**	**469.0**

[1] Excludes user charges that are classified as governmental receipts. For total user charges, see Table 15–3.

Table 15–2. OFFSETTING RECEIPTS BY TYPE

(in Millions of Dollars)

Source	2009 Actual	Estimate 2010	2011	2012	2013	2014	2015
I. INTRAGOVERNMENTAL RECEIPTS							
A. On Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Contributions to insurance programs							
Military retirement fund	51,125	58,619	60,818	63,099	65,466	67,920	70,467
Proposed Legislation (Non-PAYGO)	....	....	469	487	505	524	604
Supplementary medical insurance	194,268	208,557	228,649	245,430	275,200	301,283	325,679
Proposed Legislation (Non-PAYGO)	....	....	–103	–40	–75	–187	–163
Hospital insurance	14,366	15,700	18,614	20,225	22,664	25,194	27,504
Railroad social security equivalent benefit fund	121	164	178	195	217	234	249
Civilian supplementary retirement contributions	31,755	32,387	33,480	34,383	35,285	36,187	36,994
Unemployment insurance.	18,093	45,645	1,322	950	904	874	856
Proposed Legislation (Non-PAYGO)	....	31,000	18,000	....	....	....	....
Other contributions	922	842	763	756	736	729	717
Rail industry pension fund.	200	313	322	332	343	354	364
Subtotal, Contributions to insurance programs.	310,850	393,227	362,512	365,817	401,245	433,112	463,271
Other miscellaneous transactions							
Miscellaneous payments	16,330	1,784	1,770	1,711	1,671	1,704	1,739
Other	....	80	....	....	....	....	....
Subtotal, Other miscellaneous transactions	16,330	1,864	1,770	1,711	1,671	1,704	1,739
Subtotal, Distributed by Agency	327,180	395,091	364,282	367,528	402,916	434,816	465,010
ii. Undistributed by Agency							
Employer share, employee retirement (on-budget)							
Civil service retirement and disablity insurance	17,368	16,848	17,555	18,068	18,686	19,443	20,193
Hospital insurance (contribution as employer)	3,120	3,295	3,397	3,416	3,542	3,661	3,811
Military retirement fund	21,288	24,714	25,623	24,883	25,493	26,159	26,740
Proposed Legislation (Non-PAYGO)	....	....	408	395	406	416	426
Other federal employees retirements.	240	239	245	255	265	274	283
Postal Service contributions to FHI	815	745	739	765	799	837	877
CSRDI from Postal Service	2,955	3,937	4,208	4,442	4,700	4,987	5,275
Subtotal, Employer share, employee retirement (on-budget).	45,786	49,778	52,175	52,224	53,891	55,777	57,605
Other miscellaneous transactions							
Interest received by on-budget trust funds.	63,600	72,992	73,738	76,715	80,783	84,851	88,513
Proposed Legislation (Non-PAYGO).	....	....	–7	85	94	160	227
Proposed Legislation (PAYGO)	....	....	....	1	6	27	43
Subtotal, Other miscellaneous transactions	63,600	72,992	73,731	76,801	80,883	85,038	88,783
Subtotal, Undistributed by Agency	109,386	122,770	125,906	129,025	134,774	140,815	146,388
Subtotal, Federal Fund Payments to Trust Funds.	436,566	517,861	490,188	496,553	537,690	575,631	611,398
b. Trust Fund Payments to Federal Funds							
i. Distributed by Agency							
Other miscellaneous transactions							
Other	1,339	1,174	1,244	1,322	1,398	1,476	1,547
Repayment of loans or advances to trust funds	2,496	....	....	....	....	....	....
Subtotal, Other miscellaneous transactions	3,835	1,174	1,244	1,322	1,398	1,476	1,547
Subtotal, Distributed by Agency	3,835	1,174	1,244	1,322	1,398	1,476	1,547
Subtotal, Trust fund Payments to Federal Funds	3,835	1,174	1,244	1,322	1,398	1,476	1,547
Subtotal, Interfund Receipts	440,401	519,035	491,432	497,875	539,088	577,107	612,945

Table 15–2. OFFSETTING RECEIPTS BY TYPE—Continued
(in Millions of Dollars)

Source	2009 Actual	Estimate 2010	2011	2012	2013	2014	2015
2. Federal Intrafund Receipts							
a. Distributed by Agency							
General fund payments to retirement and health benefits funds							
DOD retiree health care fund	11,752	15,306	16,039	17,525	18,885	20,363	21,770
Employees health benefits fund	1,400	5,500	5,500	5,600	5,600	5,700	5,700
Miscellaneous Federal retirement funds	400	525	486	487	470	469	477
Subtotal, General fund payments to retirement and health benefits funds	13,552	21,331	22,025	23,612	24,955	26,532	27,947
Interest							
Interest on Government capital in enterprises	991	568	766	1,161	1,546	1,615	1,642
Interest from the Federal Financing Bank	582	1,139	2,153	3,762	5,357	6,063	6,497
Interest received by retirement and health benefits funds	124	156	173	190	203	216	234
Subtotal, Interest	1,697	1,863	3,092	5,113	7,106	7,894	8,373
Other miscellaneous transactions							
Other	3,668	4,334	4,856	5,494	6,184	6,703	7,481
Proposed Legislation (Non-PAYGO)	....	2,000	....	....	....	....	....
Subtotal, Other miscellaneous transactions	3,668	6,334	4,856	5,494	6,184	6,703	7,481
Subtotal, Distributed by Agency	18,917	29,528	29,973	34,219	38,245	41,129	43,801
b. Undistributed by Agency							
Employing agency contributions							
DOD retiree health care fund	10,645	11,097	11,177	11,909	12,640	13,419	14,250
Proposed Legislation (Non-PAYGO).	....	....	143	....	....	....	....
Employees health benefits	....	....	....	....	....	....	....
Subtotal, Employing agency contributions.	10,645	11,097	11,320	11,909	12,640	13,419	14,250
Subtotal, Undistributed by Agency	10,645	11,097	11,320	11,909	12,640	13,419	14,250
Subtotal, Federal Intrafund Receipts.	29,562	40,625	41,293	46,128	50,885	54,548	58,051
3. Trust Intrafund Receipts							
a. Distributed by Agency							
Personnel benefits							
Payment to railroad retirement (from off-budget)	5,691	6,455	6,439	6,381	6,524	6,620	6,745
Subtotal, Personnel benefits.	5,691	6,455	6,439	6,381	6,524	6,620	6,745
Other miscellaneous transactions							
Other	1	1	1	1	1	1	1
Subtotal, Other miscellaneous transactions	1	1	1	1	1	1	1
Subtotal, Distributed by Agency	5,692	6,456	6,440	6,382	6,525	6,621	6,746
Subtotal, Trust Intrafund Receipts	5,692	6,456	6,440	6,382	6,525	6,621	6,746
Subtotal, On Budget	475,655	566,116	539,165	550,385	596,498	638,276	677,742
B. Off Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Personnel benefits							
Old-age, survivors and disablitity, insurance.	20,824	24,395	26,886	29,530	33,040	36,359	39,512
Subtotal, Personnel benefits.	20,824	24,395	26,886	29,530	33,040	36,359	39,512
Subtotal, Distributed by Agency	20,824	24,395	26,886	29,530	33,040	36,359	39,512
ii. Undistributed by Agency							
Personnel benefits							
Employer share, employee retirement (off-budget)	14,226	14,930	15,573	15,894	16,749	17,518	18,442
Subtotal, Personnel benefits.	14,226	14,930	15,573	15,894	16,749	17,518	18,442

Table 15–2. OFFSETTING RECEIPTS BY TYPE—Continued
(in Millions of Dollars)

Source	2009 Actual	Estimate 2010	2011	2012	2013	2014	2015
Other miscellaneous transactions							
Interest received by off-budget trust funds.	117,954	118,404	119,080	122,281	128,261	135,730	144,286
Subtotal, Other miscellaneous transactions	117,954	118,404	119,080	122,281	128,261	135,730	144,286
Subtotal, Undistributed by Agency	132,180	133,334	134,653	138,175	145,010	153,248	162,728
Subtotal, Federal Fund Payments to Trust Funds.	153,004	157,729	161,539	167,705	178,050	189,607	202,240
Subtotal, Interfund Receipts.	153,004	157,729	161,539	167,705	178,050	189,607	202,240
Subtotal, Off Budget	153,004	157,729	161,539	167,705	178,050	189,607	202,240
SUBTOTAL, INTRAGOVERNMENTAL RECEIPTS	628,659	723,845	700,704	718,090	774,548	827,883	879,982
II. NON-FEDERAL RECEIPTS							
A. On Budget							
1. Proprietary Receipts							
a. Federal Fund Reciepts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Nuclear waste displosal revenues	770	773	779	781	784	785	787
Other	4,394	4,713	5,278	5,548	5,790	6,008	6,216
Proposed Legislation (Non-PAYGO)	....	....	....	46	46	46	46
Proposed Legislation (PAYGO)	....	....	81	95	98	102	108
Subtotal, Fees and other charges for services and special benefits.	5,164	5,486	6,138	6,470	6,718	6,941	7,157
Interest							
Interest on foreign loans and deferred foreign collections	40	40	40	40	40	40	40
Interest on deposits and loan accounts	40	15	279	581	779	793	793
Other interest	26,359	58,532	59,690	63,763	67,641	70,815	73,515
Dividends and other earnings	4,336	12,254	17,565	6,730	6,730	6,730	6,730
Subtotal, Interest.	30,775	70,841	77,574	71,114	75,190	78,378	81,078
Realization upon loans and investments							
Negative and downward reestimates	45,792	158,191	5,293	3,575	2,296	1,791	1,615
Proposed Legislation (Non-PAYGO)	....	....	7	7	6	7	7
Proposed Legislation (PAYGO)	....	1,742	5,516	3,468	1,883	566	279
Other	63	62	62	63	64	65	66
Subtotal, Realization upon loans and investments	45,855	159,995	10,878	7,113	4,249	2,429	1,967
Sale of Government property							
Sale of land and other real property.	124	195	161	210	182	191	214
Proposed Legislation (PAYGO)	....	....	5	10	19	29	29
Other sales of government property	78	72	118	98	49	21	8
Subtotal, Sale of Government property	202	267	284	318	250	241	251
Sale of products							
Sale of timber and other natural land products.	205	203	187	190	147	151	152
Sale of minerals and mineral products	51	12	12	13	10	11	11
Sale of power and other utilities	671	495	729	593	715	645	727
Other	156	102	117	122	101	120	125
Proposed Legislation (PAYGO)	....	....	30	30	30	30	30
Subtotal, Sale of products.	1,083	812	1,075	948	1,003	957	1,045
Other miscellaneous transactions							
Royalties and rents.	4,047	3,595	4,243	4,748	4,801	4,911	5,332
Proposed Legislation (PAYGO)	....	....	–50	–50	–50	–50	....
Recoveries and refunds.	5,313	5,424	5,150	5,279	5,446	5,622	5,774
Proposed Legislation (PAYGO)	....	....	2	3	3	3	3
Gifts and contributions	7	3	3	3	3	3	3
Miscellaneous receipt accounts	2,151	2,005	2,007	2,020	2,036	2,051	2,067
Proposed Legislation (PAYGO)	....	....	19	19	19	19	19

Table 15–2. OFFSETTING RECEIPTS BY TYPE—Continued
(in Millions of Dollars)

Source	2009 Actual	Estimate					
		2010	2011	2012	2013	2014	2015
Subtotal, Other miscellaneous transactions	11,518	11,027	11,374	12,022	12,258	12,559	13,198
Subtotal, Distributed by Agency	94,597	248,428	107,323	97,985	99,668	101,505	104,696
ii. Undistributed by Agency							
Outer Continental Shelf							
Outer Continental Shelf rents and bonuses	1,521	790	538	522	409	423	413
Proposed Legislation (PAYGO)	....	....	8	22	38	53	67
Outer Continental Shelf royalties.	3,771	2,745	6,638	7,572	8,357	8,675	9,054
Proposed Legislation (PAYGO)	....	....	50	50	50	50	....
Subtotal, Outer Continental Shelf.	5,292	3,535	7,234	8,166	8,854	9,201	9,534
Other miscellaneous transactions							
Sale of major assets	....	....	....	323	....	....	....
Subtotal, Other miscellaneous transactions	....	....	....	323	....	....	....
Subtotal, Undistributed by Agency	5,292	3,535	7,234	8,489	8,854	9,201	9,534
Subtotal, Federal Fund Reciepts	99,889	251,963	114,557	106,474	108,522	110,706	114,230
b. Trust Fund Reciepts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Medicare premiums and other charges	57,036	61,618	68,761	76,148	83,802	92,192	99,780
Proposed Legislation (PAYGO)	....	....	–11	–27	–29	–30	–42
Veterans life insurance (trust funds)	136	122	108	95	82	71	60
Other	8,295	9,011	9,542	10,111	10,702	11,272	11,874
Subtotal, Fees and other charges for services and special benefits.	65,467	70,751	78,400	86,327	94,557	103,505	111,672
Interest							
Other interest	404	77	2,008	2,933	3,372	3,796	3,986
Dividends and other earnings	–728	498	768	815	831	802	755
Subtotal, Interest.	–324	575	2,776	3,748	4,203	4,598	4,741
Realization upon loans and investments							
Negative and downward reestimates	164	....	....	....	....	....	....
Other	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	165	1	1	1	1	1	1
Sale of Government property							
Military assistance program sales (trust funds).	24,913	24,854	25,475	25,221	24,716	24,222	23,011
Subtotal, Sale of Government property	24,913	24,854	25,475	25,221	24,716	24,222	23,011
Other miscellaneous transactions							
Recoveries and refunds.	9,417	9,504	9,804	10,104	10,304	10,604	10,704
Proposed Legislation (Non-PAYGO)	....	....	....	71	146	149	153
Proposed Legislation (PAYGO)	....	....	....	151	178	135	132
Gifts and contributions	269	238	238	252	252	239	239
Miscellaneous receipt accounts	92	95	99	104	110	116	122
Subtotal, Other miscellaneous transactions	9,778	9,837	10,141	10,682	10,990	11,243	11,350
Subtotal, Distributed by Agency	99,999	106,018	116,793	125,979	134,467	143,569	150,775
Subtotal, Trust Fund Receipts	99,999	106,018	116,793	125,979	134,467	143,569	150,775
Subtotal, Proprietary Receipts	199,888	357,981	231,350	232,453	242,989	254,275	265,005
2. Offsetting Governmental Receipts							
a. Federal Fund Reciepts							
i. Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	6,464	7,056	7,522	7,563	7,669	7,839	8,018
Proposed Legislation (PAYGO)	....	....	111	111	111	95	95
Other	136	133	134	135	137	138	139
Subtotal, Other miscellaneous transactions	6,600	7,189	7,767	7,809	7,917	8,072	8,252

Table 15–2. OFFSETTING RECEIPTS BY TYPE—Continued
(in Millions of Dollars)

Source	2009 Actual	Estimate 2010	2011	2012	2013	2014	2015
Subtotal, Distributed by Agency	6,600	7,189	7,767	7,809	7,917	8,072	8,252
ii. Undistributed by Agency							
Other miscellaneous transactions							
Spectrum auction proceeds	16,690	341	3,874	850	2,000	……	……
Proposed Legislation (PAYGO)	....	50	300	375	650	750	750
Subtotal, Other miscellaneous transactions	16,690	391	4,174	1,225	2,650	750	750
Subtotal, Undistributed by Agency	16,690	391	4,174	1,225	2,650	750	750
Subtotal, Federal Fund Receipts.	23,290	7,580	11,941	9,034	10,567	8,822	9,002
b. Trust Fund Reciepts							
i. Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	3	7	7	7	6	7	7
Subtotal, Other miscellaneous transactions	3	7	7	7	6	7	7
Subtotal, Distributed by Agency	3	7	7	7	6	7	7
Subtotal, Trust Fund Reciepts.	3	7	7	7	6	7	7
Subtotal, Offsetting Governmental Receipts	23,293	7,587	11,948	9,041	10,573	8,829	9,009
Subtotal, On Budget.	223,181	365,568	243,298	241,494	253,562	263,104	274,014
B. Off Budget							
1. Proprietary Receipts							
a. Trust Fund Reciepts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Other	27	29	29	29	29	29	29
Subtotal, Fees and other charges for services and special benefits.	27	29	29	29	29	29	29
Other miscellaneous transactions							
Recoveries and refunds.	60	59	59	59	59	59	59
Subtotal, Other miscellaneous transactions	60	59	59	59	59	59	59
Subtotal, Distributed by Agency	87	88	88	88	88	88	88
Subtotal, Trust Fund Receipts	87	88	88	88	88	88	88
Subtotal, Proprietary Receipts.	87	88	88	88	88	88	88
Subtotal, Off Budget	87	88	88	88	88	88	88
SUBTOTAL, NON-FEDERAL RECEIPTS	223,268	365,656	243,386	241,582	253,650	263,192	274,102
GRAND TOTAL OFFSETTING RECEIPTS	851,927	1,089,501	944,090	959,672	1,028,198	1,091,075	1,154,084

Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health benefits. As also shown in the table, major offsetting receipts from the public include Supplementary Medical Insurance premiums, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Table 15–2 provides further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 15–1) and intragovernmental transactions.[3] In total, offsetting receipts are estimated to be $944.1 billion in 2011: $700.7 billion are intragovernmental transactions and $243.4 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($231.4 billion) and those classified as offsetting receipts by law or tradition ($11.9 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions with the public such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses and, absent a specification in law or a long-standing practice, would otherwise have been classified on the receipts side of the budget.

II. USER CHARGES

User charges or user fees[4] refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. Laws that authorize user charges, in combination with budget concepts, determine whether a user charge is classified as an offsetting collection, an offsetting receipt or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; less than 1.5 percent of user charges are classified as governmental receipts. As summarized in Table 15–3, total user charges for 2011 are estimated to be $312.2 billion with $308.5 billion being offsetting collections or offsetting receipts, accounting for about two thirds of all offsetting collections and offsetting receipts from the public.

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

Examples of business-type or market-oriented user charges, and regulatory and licensing user charges include those charges listed above for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest and dividends, and also exclude payments from one part of the Federal Government to another. In addition, user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline), or customs duties, fines, penalties, or forfeitures.

Alternative definitions. The definition used in this chapter follows the definition used in OMB Circular No. A–25, "User Charges," which provides policy guidance

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

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

Table 15–3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS

(In billions of dollars)

	Actual 2009	Estimate 2010	Estimate 2011
Gross outlays	3,941.4	4,355.6	4,302.9
Offsetting collections and offsetting receipts from the public:			
User charges [1]	266.5	324.7	308.5
Other	157.3	310.2	160.5
Subtotal, offsetting collections and offsetting receipts from the public	423.7	634.9	469.0
Net outlays	3,517.7	3,720.7	3,833.9

[1] Total user charges for 2009 were $269.6 billion, with $3.2 billion classified as governmental receipts, and the remainder classified as offsetting collections and offsetting receipts. Total user charges for 2010 and 2011 are estimated to be $328.0 billion and $312.2 billion, respectively, with $3.2 billion and $3.6 billion classified as governmental receipts, again respectively.

to Executive Branch agencies on setting prices for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternative definitions as well.

The definition of user charges could be narrower than the one used in this chapter by being limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and by being limited to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record,* January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.[5]

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

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

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

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

What amount should be charged? When the Government is acting in its capacity as sovereign and where user charges are appropriate, current policies support setting fees equal to the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a purely business-type transaction (such as leasing or selling goods, services, or resources), market price is generally the basis for establishing the fee.[6] If the Government is engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

Classification of user charges in the budget. As shown in the note to Table 15–3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $3.6 billion in 2011 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Federal Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Therefore, conceptually they should be classified as governmental receipts, and, unlike in a number of other cases, there is not a long-standing practice or specification in law to classify them as offsetting receipts. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

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

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

The remaining user charges, an estimated $308.5 billion in 2011, are classified as offsetting collections and offsetting receipts on the spending side of the budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

As shown in Table 15–1 above, an estimated $203.8 billion of user charges for 2011 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated $104.7 billion of user charges for 2011 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

III. USER CHARGE PROPOSALS

As shown in Table 15–4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $1.8 billion in 2011 and an average of $4.5 billion per year from 2012–20. These amounts are offsetting collections, offsetting receipts and governmental receipts only; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Budget Enforcement Act of 1990 as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing

Table 15–4. USER CHARGE PROPOSALS IN THE FY 2011 BUDGET [1]
(Estimated collections in millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–2015	2011–2020
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. Offsetting collections													
Department of Commerce: Patent Trademark Office													
Interim fee increase	....	224	232	228	236	239	248	258	269	279	290	1,159	2,503
Department of Health and Human Services: Food and Drug Administration													
Generic drug review activities fees	....	38	40	42	44	46	48	51	53	56	59	210	478
Reinspection and export certification fees	....	32	34	35	37	39	41	43	45	47	50	177	402
Food inspection and food facility registration fees	....	220	231	243	255	267	281	295	310	325	341	1,216	2,767
Department of Homeland Security: Transportation Security Administration													
Aviation passenger security fee	....	....	782	1,595	2,441	2,490	2,540	2,590	2,642	2,695	2,749	7,309	20,525
Department of the Interior													
Minerals Management Service: Outer Continental Shelf oil and gas lease inspection fee	10	20	20	20	20	20	20	20	20	20	20	100	200
Bureau of Land Management: Public lands oil and gas lease inspection fee	....	10	10	10	10	10	10	10	10	10	10	50	100
Department of State													
Retention of consular fees	....	782	810	825	840	857	873	891	909	927	946	4,114	8,660
Western Hemisphere Travel Initiative surcharge extension	....	298	....	....	....	....	....	....	....	....	....	298	298
Department of Transportation: Federal Railroad Administration													
Railroad safety user fee	....	50	80	81	82	84	86	88	90	92	94	377	827
Department of the Treasury: Alcohol and Tobacco Tax and Trade Bureau													
Licensing fees	....	106	107	108	109	110	111	112	113	114	115	540	1,105
2. Offsetting receipts													
Department of Energy													
Environmental cleanup fee	....	200	204	208	212	216	221	225	230	235	240	1,040	2,191

Table 15–4. USER CHARGE PROPOSALS IN THE FY 2011 BUDGET [1]—Continued

(Estimated collections in millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–2015	2011–2020
Subtotal, discretionary user charge proposals	10	1,980	2,550	3,395	4,286	4,378	4,479	4,583	4,691	4,801	4,914	16,589	40,057
MANDATORY:													
Offsetting receipts													
Department of Agriculture													
Food Safety and Inspection Service: Performance and licensing user charges	....	11	13	13	13	14	14	14	14	15	15	64	136
Grain, Inspection, Packers, and Stockyards Administration: User charges	....	29	30	31	31	31	32	32	32	33	34	152	315
Animal and Plant Health Inspection Service: Inspection and licensing user charges	....	20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service: User charges	....	19	19	19	19	19	19	19	19	19	19	95	190
Department of the Interior													
Minerals Management Service and Bureau of Land Management: Fee on nonproducing Federal oil and gas leases	....	8	22	38	53	67	80	97	114	132	149	188	760
Bureau of Land Management: Repeal of Energy Policy Act fee prohibition and mandatory permit funds	....	....	22	22	21	20	....	....	....	....	....	85	85
Department of Labor: Employment Standards Administration													
Foreign labor certification fee	....	111	111	111	95	95	95	95	95	95	95	523	998
Environmental Protection Agency													
Pesticide user charges	....	46	46	72	75	81	81	84	84	87	87	320	743
Pre-manufacture notice user charges	....	4	8	8	8	8	8	8	8	8	8	36	76
Federal Communications Commission													
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Extension of spectrum auction authority	....	....	....	200	200	200	200	200	200	200	200	600	1,600
Domestic satellite spectrum auctions	....	100	75	25	....	....	....	....	....	....	....	200	200
Subtotal, mandatory user charge proposals	50	548	673	991	1,093	1,114	1,109	1,130	1,148	1,172	1,191	4,419	10,169
Subtotal, user charge proposals that are offsetting collections and offsetting receipts	60	2,528	3,223	4,386	5,379	5,493	5,588	5,713	5,893	5,973	6,105	21,008	50,226
GOVERNMENTAL RECEIPTS													
Department of the Interior													
Fees for migratory bird hunting and conservation stamps	....	14	14	14	14	14	14	14	14	14	14	70	140
Department of State													
Retention of consular fees	....	-782	-810	-825	-840	-857	-873	-891	-909	-927	-946	-4,114	-8,660
Corps of Engineers - Civil Works													
Preservation of cost-sharing of inland waterways capital costs	....	....	196	163	187	129	100	72	70	68	68	675	1,053
Subtotal, governmental receipts user charge proposals	....	-768	-600	-648	-639	-714	-759	-805	-825	-845	-864	-3,369	-7,467
Total, user charge proposals	**60**	**1,760**	**2,623**	**3,738**	**4,740**	**4,779**	**4,829**	**4,908**	**5,014**	**5,128**	**5,241**	**17,639**	**42,759**

* $500 thousand or less

[1] A negative sign indicates a decrease in collections.

committees. These and other terms are discussed further in this volume in Chapter 11, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Commerce: U.S. Patent and Trademark Office (PTO)

Interim fee increase. The Budget includes a proposal to increase statutory patent fees by 15 percent, which is expected to yield over $200 million in additional collections in 2011. The increase is intended to be an interim measure to provide additional resources to process patent applications while PTO develops a new fee schedule that better aligns fee rates to the cost of providing services.

Department of Health and Human Services: Food and Drug Administration (FDA)

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

Re-inspection and export certification fees. FDA conducts post-market inspections of manufacturers of food, human drugs, biologics, animal drugs, animal feed, and medical drugs to assess their compliance with Good Manufacturing Practice requirements. The Budget includes a proposal to enable FDA to assess fees for follow-up re-inspections that are required when violations of Good Manufacturing Practices are found during initial inspections. In addition, FDA collects user charges for the issuance of export certifications for human drugs, animal drugs, and medical devices. The Budget includes a proposal to expand FDA's authority to collect fees for issuing export certifications for food and animal feed.

Food inspection and food facility registration fees. The Budget includes two new user charges designed to improve and support additional inspections and enforcement activities, and to establish and maintain a food facility registration system.

Department of Homeland Security: Transportation Security Administration (TSA)

Aviation passenger security fee. Since its establishment in 2001, under the Aviation and Transportation Security Act, the aviation passenger security fee has been limited to $2.50 per passenger enplanement with a maximum fee of $5.00 per one-way trip. However, the cost of providing security has increased substantially since 2001. The Administration proposes to increase by $1.00 per year the aviation passenger security fee beginning in fiscal year 2012 to a maximum of $5.50 per enplanement and $11.00 per one-way trip in 2014 and thereafter. This adjustment will fulfill the original intent of the Aviation and Transportation Security Act by better aligning the cost of aviation security services with the fee paid by those individuals who directly benefit from the service. With the proposed adjustments to the aviation passenger security fee, total aviation security fees (which include an air carrier fee) would generate revenue sufficient to fund 76 percent of the discretionary costs of the TSA's Aviation Security Program in fiscal year 2014, compared to approximately 40 percent currently.

Department of the Interior

Minerals Management Service (MMS): Outer Continental Shelf (OCS) oil and gas lease inspection fee. The Budget includes appropriations language to increase OCS inspection fees on oil and gas facilities that are subject to inspection by MMS. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, MMS currently spends more than $44 million on compliance inspections. Inspection costs include, among other things, the cost of approximately 60 inspectors and nearly $20 million in helicopter costs. Inspection costs rise as energy development companies extend exploration and production efforts into deeper waters; additional miles must be flown, aircraft requirements increase, and the time for travel and inspection increases as facilities become increasingly complex. The proposed fee will generate approximately $20 million in 2011, up from $10 million in 2010, thereby requiring OCS energy developers to fund roughly 50 percent of compliance inspection costs.

Bureau of Land Management (BLM): Public lands oil and gas lease inspection fee. The Budget includes appropriations language to begin charging inspection fees to oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends about $40 million on compliance inspections. Inspection costs include, among other things, the salaries and travel expenses of inspectors. The proposed fee will generate approximately $10 million in 2011, thereby requiring energy developers on Federal lands to fund roughly 25 percent of compliance costs.

Department of State

Western Hemisphere Travel Initiative surcharge extension. The Administration proposes to extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge for one year, through September 30, 2011. The Passport Services Enhancement Act of 2005 (P.L. 109–167) authorized the Department to charge a fee, but only through September 30, 2010, to cover the Department's costs of meeting increased demand for passports as a result of the implementation of the Western Hemisphere Travel Initiative.

Retention of consular fees. The Administration proposes to standardize the budgetary treatment of fees related to the provision of consular services by the Department of State. The proposal would allow the Department to retain all user fees collected from the provision of passport, visa, and other consular services for 2011 and all future years. The portion of collections from consular fees currently deposited as governmental receipts would instead be deposited as offsetting collections for use by the Department to cover the full cost of immigration, passport, and other consular services. The proposed reclassification is included in the Budget as appropriations language. The Congressional Budget Committees would treat the reclassification as a pay-as-you-go (PAYGO) cost pursuant to section 10 of Rule XXI of the Rules of the House of Representatives, 111th Congress, and Section 201 of S. Con. Res. 21, the concurrent resolution on the Budget for 2008. For this reason, the Budget reflects this reclassification as a PAYGO cost, to be offset from within overall Administration spending and revenue proposals.

Department of Transportation: Federal Railroad Administration (FRA)

Railroad safety inspection fee. The FRA establishes and enforces safety standards for U.S. railroads. FRA's rail safety inspectors work in the field and oversee railroads' operating and management practices. The Administration is proposing that, starting in 2011, the railroads cover the cost of FRA's field inspections because railroads benefit directly from Government efforts to maintain high safety standards. The proposed fee would be similar to existing user charges collected from other industries regulated by Federal safety programs.

Department of the Treasury: Alcohol and Tobacco Tax and Trade Bureau (TTB)

TTB annual licensing fee. The TTB ensures that alcohol and tobacco products are labeled, advertised, and marketed in accordance with Federal law. TTB has the authority to inspect places of business associated with alcohol and tobacco production and distribution, and to assess fines for unlawful activity. The Administration proposes to begin collecting annual licensing fees from the regulated community to cover the costs of TTB's regulatory activities and align TTB with the self-financing structure of other Federal regulators.

2. Offsetting receipts

Department of Energy

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

B. Mandatory User Charge Proposals

Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and licensing user charges. Through a variety of activities, including slaughter and processing plant inspections, FSIS ensures that meat, poultry and egg products are safe, wholesome, and correctly labeled and packaged. This Budget includes a proposal for two new user charges, a performance fee and a licensing fee. The performance fee would be charged to those facilities that have product recalls, are linked to an outbreak of food-borne illness, or require re-sampling and retesting because of positive samples. This fee would be charged each time one of these incidents occurs. The licensing fee is a flat fee for facility applications and renewal activities. This fee is graduated based on the size of the facility.

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

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

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

Department of the Interior

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

Bureau of Land Management (BLM): Repeal of Energy Policy Act fee prohibition and mandatory permit funds. Beginning in 2012, the Administration proposes to repeal a provision of the Energy Policy Act that prohibits BLM from charging fees for its services. The Budget proposal would permit BLM to charge a fee for oil and gas permit processing, consistent with recent appropriations provisions, generating offsetting collections that will permit a corresponding reduction in BLM's discretionary funding. In 2011, the Administration proposes to continue the oil and gas permit processing fees imposed by appropriations language, which overrides the Energy Policy Act fee prohibition.

Department of Labor (DOL): Employment and Training Administration

Foreign labor certification fee. Under the Immigration and Nationality Act, employers seeking to hire foreign workers must certify that qualified U.S. workers are not available for the job being offered to a foreign worker and that such hiring would not affect adversely the wages or working conditions of similarly employed U.S. workers.

DOL must approve the certification. The Administration proposes to establish a cost-based user fee to be paid by employers requesting permanent labor certifications and H–2B temporary visas for non-agricultural temporary workers. In addition, the Administration proposes to have the fees currently collected for H–2A temporary agricultural visas credited to a DOL account rather than to the general fund.

Environmental Protection Agency (EPA)

Pesticide user charges. All pesticides marketed in the United States must be registered with EPA. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their registrations. The Administration proposes to better cover the costs of EPA's pesticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs. In addition, although the Federal Food, Drug, and Cosmetic Act requires EPA to collect fees for the establishment and reassessment of pesticide tolerances, the collection of these fees has been blocked through 2012 by statute. The Administration proposes to eliminate this prohibition and collect the tolerance fee beginning in 2011.

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

Federal Communications Commission (FCC)

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

Extension of spectrum auction authority. The Administration proposes to extend indefinitely the authority of the FCC to auction spectrum licenses, which expires on September 30, 2012.

Domestic satellite spectrum auctions. The Administration proposes to ensure that spectrum licenses for predominantly domestic satellite services are assigned efficiently and effectively through competitive bidding. Services such as Direct Broadcast Satellite and Satellite Digital Audio Radio Services were assigned by auction prior to a 2005 court decision. The Administration proposes to authorize through legislation auctions of licenses for these and similar domestic satellite services.

C. User Charge Proposals that are Governmental Receipts

Department of the Interior

Migratory bird hunting and conservation stamp fees. Federal Migratory Bird Hunting and Conservation Stamps, known as "duck stamps," are required for hunting migratory waterfowl. Proceeds from the sale of the stamps are available without further appropriation to acquire important migratory bird breeding areas, migration resting places, and wintering areas.[7] The land and water interests acquired with the duck stamp proceeds establish or supplement existing National Wildlife Refuges. If the price of the duck stamp had been indexed to inflation since 1991, when it was last increased, it would cost $23 today. The Budget includes a proposal to increase the duck stamp price to $25 in 2011.

Department of State

Retention of consular fees. As discussed above, the Budget includes a proposal to reclassify consular fees. Consular fees currently recorded as governmental receipts would be recorded as discretionary offsetting collections.

Corps of Engineers—Civil Works

Preserving cost-sharing of inland waterways capital costs. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams and of the other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs. The Budget proposes to replace the fuel tax with a new funding mechanism that raises the needed revenue in a way that is more efficient and more equitable than the fuel tax. It will preserve the landmark cost-sharing reform established by the Congress in 1986, while supporting inland waterways construction, replacement, expansion, and rehabilitation work.

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

16. TAX EXPENDITURES

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

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

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

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2009–2015 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

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

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2009. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2009. The estimates reflect 2010 Budget Midsession Review economic assumptions. Legislation enacted in 2010 is not reflected in these estimates.

The total revenue effects for tax expenditures for fiscal years 2009–2015 are displayed according to the Budget's functional categories in Table 16–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

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

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

Table 16–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 16–3 ranks the major tax expenditures by the size of their 2011–2015 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 16–1 and 16–2, as well as to the descriptions below.

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

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 16–1, 16–2, and 16–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

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

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 16–1 are the totals of individual and corporate income tax revenue effects reported in Table 16–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 16–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 16–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 16–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments that follow from activities undertaken during calendar year 2009 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2009 would cause a deferral of tax payments on wages in 2009 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2009 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

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

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

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

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

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2009-2015
(In millions of dollars)

		Total from corporations and individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	11,930	12,570	11,530	11,570	11,920	12,370	12,860	60,250
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	5,320	5,590	5,870	6,160	6,470	6,790	7,130	32,420
3	Exclusion of certain allowances for Federal employees abroad	920	970	1,020	1,070	1,120	1,180	1,240	5,630
4	Inventory property sales source rules exception	2,420	2,620	2,830	3,070	3,320	3,590	3,890	16,700
5	Deferral of income from controlled foreign corporations (normal tax method)	31,580	30,960	32,720	33,870	34,490	33,930	34,130	35,840
6	Deferred taxes for financial firms on certain income earned overseas	5,570	5,460	5,770	5,980	6,090	5,990	6,020	6,320
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	3,820	3,500	4,560	5,720	6,690	6,930	7,710	31,610
8	Credit for increasing research activities	8,010	5,890	3,850	3,080	2,460	1,964	1,568	12,922
Energy:									
9	Expensing of exploration and development costs, fuels	1,640	2,040	1,180	920	900	680	340	4,020
10	Excess of percentage over cost depletion, fuels	340	610	670	940	1,130	1,160	1,190	5,090
11	Alternative fuel production credit	60	50	20	10	0	0	0	30
12	Exception from passive loss limitation for working interests in oil and gas properties	20	20	20	20	20	20	20	100
13	Capital gains treatment of royalties on coal	70	60	60	60	70	80	100	370
14	Exclusion of interest on energy facility bonds	10	10	30	30	30	30	30	150
15	New technology credit	430	880	1,160	1,430	1,530	1,530	1,500	7,150
16	Energy investment credit	270	530	600	680	420	370	450	2,520
17	Alcohol fuel credits [1]	50	1,200	8,870	10,940	6,690	3,610	2,030	32,140
18	Bio-Diesel and small agri-biodiesel producer tax credits [2]	30	10	10	0	0	0	0	10
19	Tax credit and deduction for clean-fuel burning vehicles	130	240	260	130	170	230	390	1,180
20	Exclusion of utility conservation subsidies	140	140	130	120	120	120	120	610
21	Credit for holding clean renewable energy bonds	70	80	100	120	140	140	140	640
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–10	–150	–400	–460	–490	–500	–470	–2,320
23	Credit for investment in clean coal facilities	180	290	480	550	440	360	250	2,080
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	770	1,140	930	760	630	–300	–790	1,230
25	Natural gas distribution pipelines treated as 15-year property	80	110	120	110	90	80	80	480
26	Amortize all geological and geophysical expenditures over 2 years	40	150	240	240	190	140	90	900
27	Allowance of deduction for certain energy efficient commercial building property	60	80	90	90	130	80	10	400
28	Credit for construction of new energy efficient homes	30	20	20	20	0	0	0	40
29	Credit for energy efficiency improvements to existing homes	570	1,950	1,460	0	0	0	0	1,460
30	Credit for energy efficient appliances	130	130	50	0	0	0	0	50
31	Credit for residential purchases/installations of solar and fuel cells	110	180	180	180	190	190	190	930
32	Qualified energy conservation bonds	0	10	40	80	110	120	120	470
Natural resources and environment:									
33	Expensing of exploration and development costs, nonfuel minerals	50	90	90	100	100	100	100	490
34	Excess of percentage over cost depletion, nonfuel minerals	700	710	740	750	770	810	830	3,900
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	340	310	420	520	550	580	610	2,680
36	Capital gains treatment of certain timber income	70	60	60	60	70	80	100	370
37	Expensing of multiperiod timber growing costs	210	260	290	290	320	310	310	1,520
38	Tax incentives for preservation of historic structures	430	440	470	490	520	540	570	2,590
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	10	0	0	0	0	0	0	0
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	70	60	40	30	10	0	140
41	Industrial CO2 capture and sequestration tax credit	0	0	0	0	0	60	130	190
42	Deduction for endangered species recovery expenditures	0	20	30	30	30	50	50	190
Agriculture:									
43	Expensing of certain capital outlays	70	70	70	80	90	90	90	420
44	Expensing of certain multiperiod production costs	120	110	110	110	120	120	120	580
45	Treatment of loans forgiven for solvent farmers	20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income	700	610	590	550	680	830	970	3,620
47	Income averaging for farmers	90	90	90	90	90	90	100	460
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15
	Commerce and housing:								
	Financial institutions and insurance:								
49	Exemption of credit union income	650	650	710	790	880	960	1,030	4,370
50	Exclusion of interest on life insurance savings	20,280	21,140	23,070	24,700	26,420	28,220	29,860	132,270
51	Special alternative tax on small property and casualty insurance companies	40	40	40	50	50	50	60	250
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	190	200	200	210	210	220	220	1,060
53	Small life insurance company deduction	50	50	50	50	50	50	50	250
54	Exclusion of interest spread of financial institutions	–120	520	960	1,070	1,160	1,250	1,330	6,170
	Housing:								
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	960	870	1,190	1,470	1,540	1,610	1,710	7,520
56	Exclusion of interest on rental housing bonds	810	730	1,010	1,240	1,300	1,370	1,450	6,370
57	Deductibility of mortgage interest on owner-occupied homes	79,400	92,180	104,540	116,620	127,840	139,000	149,560	637,560
58	Deductibility of State and local property tax on owner-occupied homes	29,010	18,860	23,710	29,730	31,340	32,700	33,690	151,170
59	Deferral of income from installment sales	720	720	810	880	1,020	1,150	1,260	5,120
60	Capital gains exclusion on home sales	23,500	23,860	31,300	39,510	43,640	48,200	53,230	215,880
61	Exclusion of net imputed rental income	27,040	32,530	37,630	40,810	41,020	48,330	56,100	223,890
62	Exception from passive loss rules for $25,000 of rental loss	6,020	5,910	7,330	8,510	9,670	11,120	13,010	49,640
63	Credit for low-income housing investments	3,800	5,680	6,170	6,660	7,540	7,910	8,030	36,310
64	Accelerated depreciation on rental housing (normal tax method)	3,860	4,640	5,870	7,100	8,380	9,360	9,970	40,680
65	Discharge of mortgage indebtedness	360	260	200	180	120	0	0	500
66	Credit for homebuyer	9,730	16,540	1,530	–1,980	–1,210	–800	–490	–2,950
	Commerce:								
67	Cancellation of indebtedness	300	130	–10	–50	–30	0	40	–50
68	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
69	Treatment of qualified dividends	22,425	38,012	26,869	0	0	0	0	26,869
70	Capital gains (except agriculture, timber, iron ore, and coal) [3]	52,590	45,360	44,290	41,090	51,120	62,230	72,180	270,910
71	Capital gains exclusion of small corporation stock	50	50	170	290	300	470	690	1,920
72	Step-up basis of capital gains at death	41,370	36,740	44,520	53,270	57,260	61,560	66,180	282,790
73	Carryover basis of capital gains on gifts	1,630	1,430	4,790	2,050	2,740	2,940	3,160	15,680
74	Ordinary income treatment of loss from small business corporation stock sale	50	60	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–9,350	–11,080	–12,860	–13,960	–15,530	–16,360	–17,540	–76,250
76	Accelerated depreciation of machinery and equipment (normal tax method)	57,400	10,470	1,170	14,120	30,710	44,310	56,400	146,710
77	Expensing of certain small investments (normal tax method)	–130	410	–3,200	–2,820	–710	210	760	–5,760
78	Graduated corporation income tax rate (normal tax method)	2,720	2,860	3,120	3,070	3,150	3,420	3,600	16,360
79	Exclusion of interest on small issue bonds	250	230	320	400	420	430	460	2,030
80	Deduction for US production activities	9,020	11,530	13,640	14,420	15,290	16,210	17,120	76,680
81	Special rules for certain film and TV production	60	50	–60	–110	–90	–60	–50	–370
	Transportation:								
82	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
83	Exclusion of reimbursed employee parking expenses	2,960	3,020	3,100	3,190	3,320	3,460	3,590	16,660
84	Exclusion for employer-provided transit passes	540	560	530	560	600	640	670	3,000
85	Tax credit for certain expenditures for maintaining railroad tracks	80	110	70	30	10	10	0	120
86	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	90	100	100	90	60	60	60	370
	Community and regional development:								
87	Investment credit for rehabilitation of structures (other than historic)	30	30	30	30	30	30	30	150
88	Exclusion of interest for airport, dock, and similar bonds	680	610	850	1,040	1,090	1,140	1,210	5,330
89	Exemption of certain mutuals' and cooperatives' income	110	110	110	110	120	120	120	580
90	Empowerment zones and renewal communities	1,130	750	430	580	680	740	730	3,160
91	New markets tax credit	580	720	800	810	780	740	660	3,790
92	Expensing of environmental remediation costs	290	20	–140	–140	–140	–130	–120	–670
93	Credit to holders of Gulf Tax Credit Bonds.	30	80	80	70	50	50	50	300
94	Recovery Zone Bonds [4]	0	0	30	40	40	40	40	190
95	Tribal Economic Development Bonds	0	140	390	470	490	520	550	2,420

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15
	Education, training, employment, and social services:								
	Education:								
96	Exclusion of scholarship and fellowship income (normal tax method)	2,080	2,160	2,250	2,340	2,440	2,540	2,650	12,220
97	HOPE tax credit	2,920	0	840	4,250	4,460	4,680	4,900	19,130
98	Lifetime Learning tax credit	3,860	2,910	3,360	4,780	5,010	5,250	5,510	23,910
99	American Opportunity Tax Credit	2,460	13,590	11,380	0	0	0	0	11,380
100	Education Individual Retirement Accounts	40	60	70	80	80	90	100	420
101	Deductibility of student-loan interest	1,250	1,260	1,130	590	610	640	660	3,630
102	Deduction for higher education expenses	1,790	520	0	0	0	0	0	0
103	State prepaid tuition plans	1,200	1,390	1,580	1,750	1,860	1,950	2,050	9,190
104	Exclusion of interest on student-loan bonds	440	400	550	670	710	740	780	3,450
105	Exclusion of interest on bonds for private nonprofit educational facilities	1,780	1,610	2,220	2,720	2,850	3,000	3,170	13,960
106	Credit for holders of zone academy bonds	190	220	260	290	280	250	230	1,310
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	20	20	20	100
108	Parental personal exemption for students age 19 or over	4,440	2,710	2,780	3,140	2,950	2,750	2,550	14,170
109	Deductibility of charitable contributions (education)	4,170	4,290	4,940	5,370	5,800	6,190	6,610	28,910
110	Exclusion of employer-provided educational assistance	660	690	30	0	0	0	0	30
111	Special deduction for teacher expenses	180	160	0	0	0	0	0	0
112	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
113	Qualified school construction bonds	20	110	310	630	940	1,060	1,060	4,000
	Training, employment, and social services:								
114	Work opportunity tax credit	870	910	830	540	260	130	60	1,820
115	Welfare-to-work tax credit	50	30	10	10	0	0	0	20
116	Employer provided child care exclusion	770	1,210	1,370	1,410	1,480	1,550	1,630	7,440
117	Employer-provided child care credit	10	20	10	0	0	0	0	10
118	Assistance for adopted foster children	450	460	490	520	550	580	610	2,750
119	Adoption credit and exclusion	530	580	460	90	90	90	90	820
120	Exclusion of employee meals and lodging (other than military)	1,010	1,060	1,110	1,170	1,230	1,300	1,370	6,180
121	Child credit [5]	25,640	23,450	18,550	10,870	10,610	10,320	9,990	60,340
122	Credit for child and dependent care expenses	4,330	3,750	2,200	1,890	1,830	1,730	1,650	9,300
123	Credit for disabled access expenditures	20	20	20	30	30	30	30	140
124	Deductibility of charitable contributions, other than education and health	36,710	37,720	43,850	47,730	51,570	55,140	58,850	257,140
125	Exclusion of certain foster care payments	440	420	400	390	390	390	370	1,940
126	Exclusion of parsonage allowances	580	620	660	700	740	790	840	3,730
127	Employee retention credit for employers in certain federal disaster areas	140	40	0	0	0	0	0	0
128	Exclusion for benefits provided to volunteer EMS and firefighters	80	80	60	0	0	0	0	60
129	Temporary income exclusion for employer provided lodging in Midwestern disaster area	20	0	0	0	0	0	0	0
130	Making work pay tax credit [6]	9,340	23,450	14,160	0	0	0	0	14,160
	Health:								
131	Exclusion of employer contributions for medical insurance premiums and medical care [7]	144,412	159,868	176,964	191,540	208,650	228,040	248,600	1,053,794
132	Self-employed medical insurance premiums	4,870	5,250	5,740	6,150	6,580	7,120	7,780	33,370
133	Medical Savings Accounts / Health Savings Accounts	1,930	2,030	2,130	2,240	2,350	2,470	2,590	11,780
134	Deductibility of medical expenses	8,760	9,090	10,030	10,980	11,970	13,260	14,910	61,150
135	Exclusion of interest on hospital construction bonds	2,690	2,440	3,350	4,110	4,310	4,540	4,790	21,100
136	Deductibility of charitable contributions (health)	4,150	4,260	4,950	5,380	5,810	6,230	6,640	29,010
137	Tax credit for orphan drug research	270	290	320	350	380	410	450	1,910
138	Special Blue Cross/Blue Shield deduction	760	890	690	660	590	530	690	3,160
139	Tax credit for health insurance purchased by certain displaced and retired individuals [8]	10	10	10	10	10	10	10	50
140	Distributions from retirement plans for premiums for health and long-term care insurance	260	300	330	360	400	440	490	2,020
	Income security:								
141	Exclusion of railroad retirement system benefits	330	320	300	280	260	250	250	1,340
142	Exclusion of workers' compensation benefits	5,810	5,870	5,940	6,070	6,170	6,270	6,370	30,820
143	Exclusion of public assistance benefits (normal tax method)	600	640	670	710	740	760	790	3,670
144	Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
145	Exclusion of military disability pensions	110	110	110	110	110	110	120	560

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15
	Net exclusion of pension contributions and earnings:								
146	Employer plans	40,670	41,360	44,630	47,870	49,050	51,950	53,980	247,480
147	401(k) plans	44,126	53,549	67,061	70,168	72,716	74,712	76,183	360,840
148	Individual Retirement Accounts	12,090	12,780	14,080	15,770	16,190	16,400	16,500	78,940
149	Low and moderate income savers credit	1,050	1,180	1,170	1,130	1,060	1,000	960	5,320
150	Keogh plans	12,770	13,890	15,120	17,190	19,740	21,100	22,610	95,760
	Exclusion of other employee benefits:								
151	Premiums on group term life insurance	2,160	2,110	2,160	2,280	2,320	2,350	2,390	11,500
152	Premiums on accident and disability insurance	320	330	340	350	360	360	360	1,770
153	Income of trusts to finance supplementary unemployment benefits	30	40	50	50	50	50	60	260
154	Special ESOP rules	1,700	1,700	1,800	1,900	2,000	2,100	2,200	10,000
155	Additional deduction for the blind	40	30	40	50	50	50	50	240
156	Additional deduction for the elderly	2,230	2,030	2,600	3,100	3,300	3,550	3,690	16,240
157	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	50
158	Deductibility of casualty losses	510	560	640	680	720	750	780	3,570
159	Earned income tax credit [9]	4,420	6,190	6,200	8,380	8,540	8,790	9,090	41,000
160	Additional exemption for housing Hurricane Katrina displaced individuals	10	0	0	0	0	0	0	0
161	Exclusion of unemployment insurance benefits	1,310	5,220	0	0	0	0	0	0
	Social Security:								
	Exclusion of social security benefits:								
162	Social Security benefits for retired workers	20,970	21,410	20,240	21,380	22,560	24,160	26,810	115,150
163	Social Security benefits for disabled workers	6,460	6,950	7,160	7,450	7,750	8,080	8,580	39,020
164	Social Security benefits for spouses, dependents and survivors	3,650	3,850	3,140	3,150	3,170	3,200	3,330	15,990
165	Tax Credit for Certain Government Retirees [10]	40	110	0	0	0	0	0	0
	Veterans benefits and services:								
166	Exclusion of veterans death benefits and disability compensation	3,900	4,130	4,370	4,630	4,910	5,200	5,510	24,620
167	Exclusion of veterans pensions	190	200	220	250	260	270	270	1,270
168	Exclusion of GI bill benefits	300	470	770	1,010	1,270	1,570	1,910	6,530
169	Exclusion of interest on veterans housing bonds	20	30	30	40	50	60	60	240
	General purpose fiscal assistance:								
170	Exclusion of interest on public purpose State and local bonds	22,990	20,810	28,660	35,130	36,900	38,780	40,910	180,380
171	Build America Bonds [11]	–200	–1,300	–2,120	–2,110	–2,030	–1,960	–1,880	–10,100
172	Deductibility of nonbusiness state and local taxes other than on owner-occupied homes	45,310	33,920	46,500	58,100	61,890	65,320	68,250	300,060
	Interest:								
173	Deferral of interest on U.S. savings bonds	1,270	1,180	1,220	1,300	1,320	1,330	1,340	6,510
	Addendum: Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	29,010	18,860	23,710	29,730	31,340	32,700	33,690	151,170
	Nonbusiness State and local taxes other than on owner-occupied homes	45,310	33,920	46,500	58,100	61,890	65,320	68,250	300,060
	Exclusion of interest on State and local bonds for:								
	Public purposes	22,990	20,810	28,660	35,130	36,900	38,780	40,910	180,380
	Energy facilities	10	10	30	30	30	30	30	150
	Water, sewage, and hazardous waste disposal facilities	340	310	420	520	550	580	610	2,680
	Small-issues	250	230	320	400	420	430	460	2,030
	Owner-occupied mortgage subsidies	960	870	1,190	1,470	1,540	1,610	1,710	7,520
	Rental housing	810	730	1,010	1,240	1,300	1,370	1,450	6,370
	Airports, docks, and similar facilities	680	610	850	1,040	1,090	1,140	1,210	5,330
	Student loans	440	400	550	670	710	740	780	3,450
	Private nonprofit educational facilities	1,780	1,610	2,220	2,720	2,850	3,000	3,170	13,960
	Hospital construction	2,690	2,440	3,350	4,110	4,310	4,540	4,790	21,100
	Veterans' housing	10	10	20	20	20	20	20	100
	GO Zone and GO Zone mortgage	80	70	90	110	120	120	130	610
	Credit for holders of zone academy bonds	190	220	260	290	280	250	230	1,310

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

The effect of the grant on outlays (in millions of dollars) is as follows: 2009 $1,050; 2010 $3,090; 2011 $4,460; 2012 $4,240; 2013 $2,360; 2014 $230; 2015 $30.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2009 $5,160; 2010 $6,100; 2011 $1,940; 2012 $0; 2013 $0; 2014 $0; 2015 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2009 $810; 2010 $200; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0.

[4] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2009 $0; 2010 $80; 2011 $150; 2012 $170; 2013 $170; 2014 $170; and 2015 $170.

[5] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $19,150; 2010 $30,290; 2011 $29,790; 2012 $1,490; 2013 $1,460; 2014 $1,420; and 2015 $1,380.

[6] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $645; 2010 $32,528; and 2011 $31,490.

[7] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2009 $97,130; 2010 $101,710; 2011 $106,730; 2012 $113,570; 2013 $121,770; 2014 $130,860; and 2015 $140,400.

[8] The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $100; 2010 $110; 2011 $110; 2012 $120; 2013 $130; 2014 $140; and 2015 $150.

[9] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $44,370; 2010 $51,500; 2011 $51,450; 2012 $43,980; 2013 $43,860; 2014 $44,130; and 2015 $44,380.

[10] The figures in the table indicate the effect of the tax credit for certain government retirees on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $99.

[11] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2009 $20; 2010 $2,900; 2011 $3,050; 2012 $2,960; 2013 $2,850; 2014 $2,740; and 2015 $2,640.

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015

(In millions of dollars)

		Corporations								Individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
National Defense:																	
1	Exclusion of benefits and allowances to armed forces personnel									11,930	12,570	11,530	11,570	11,920	12,370	12,860	60,250
International affairs:																	
2	Exclusion of income earned abroad by U.S. citizens									5,320	5,590	5,870	6,160	6,470	6,790	7,130	32,420
3	Exclusion of certain allowances for Federal employees abroad									920	970	1020	1070	1120	1180	1240	5,630
4	Inventory property sales source rules exception	2,420	2,620	2,830	3,070	3,320	3,590	3,890	16,700								
5	Deferral of income from controlled foreign corporations (normal tax method)	31,580	30,960	32,720	33,870	34,490	33,930	34,130	35,840								
6	Deferred taxes for financial firms on certain income earned overseas	5,570	5,460	5,770	5,980	6,090	5,990	6,020	6,320								
General science, space, and technology:																	
7	Expensing of research and experimentation expenditures (normal tax method)	3,560	3,220	4,250	5,390	6,330	6,550	7,310	29,830	260	280	310	330	360	380	400	1,780
8	Credit for increasing research activities	7,620	5,770	3,850	3,080	2,460	1,964	1,568	12,922	390	120	0	0	0	0	0	0
Energy:																	
9	Expensing of exploration and development costs, fuels	1,370	1,710	990	770	760	570	290	3,380	270	330	190	150	140	110	50	640
10	Excess of percentage over cost depletion, fuels	310	560	610	860	1,030	1,060	1,090	4,650	30	50	60	80	100	100	100	440
11	Alternative fuel production credit	60	50	20	10	0	0	0	30	0	0	0	0	0	0	0	0
12	Exception from passive loss limitation for working interests in oil and gas properties									20	20	20	20	20	20	20	100
13	Capital gains treatment of royalties on coal									70	60	60	60	70	80	100	370
14	Exclusion of interest on energy facility bonds	0	0	10	10	10	10	10	50	10	10	20	20	20	20	20	100
15	Energy production credit [1]	380	770	1,010	1,230	1,300	1,290	1,260	6,090	50	110	150	200	230	240	240	1,060
16	Energy investment credit [1]	230	430	480	540	350	330	400	2,100	40	100	120	140	70	40	50	420
17	Alcohol fuel credits [2]	40	1,190	8,850	10,900	6,640	3,590	2,020	32,000	10	10	20	40	50	20	10	140
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	10	0	0	0	0	10	10	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	80	180	220	120	160	210	340	1,050	50	60	40	10	10	20	50	130
20	Exclusion of utility conservation subsidies	10	10	0	0	0	0	0	0	130	130	130	120	120	120	120	610
21	Credit for holding clean renewable energy bonds	20	20	30	30	40	40	40	180	50	60	70	90	100	100	100	460
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–10	–150	–400	–460	–490	–500	–470	–2,320								
23	Credit for investment in clean coal facilities	180	290	480	550	440	360	250	2,080	0	0	0	0	0	0	0	0
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	770	1140	930	760	630	–300	–790	1,230	0	0	0	0	0	0	0	0
25	Natural gas distribution pipelines treated as 15-year property	80	110	120	110	90	80	80	480	0	0	0	0	0	0	0	0
26	Amortize all geological and geophysical expenditures over 2 years	30	120	190	190	150	110	70	710	10	30	50	50	40	30	20	190
27	Allowance of deduction for certain energy efficient commercial building property	50	60	70	70	100	60	10	310	10	20	20	20	30	20	0	90
28	Credit for construction of new energy efficient homes	10	10	10	10	0	0	0	20	20	10	10	10	0	0	0	20
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	570	1,950	1,460	0	0	0	0	1,460
30	Credit for energy efficient appliances	130	130	50	0	0	0	0	50	0	0	0	0	0	0	0	0
31	Credit for residential energy efficient property	0	0	0	0	0	0	0	0	110	180	180	180	190	190	190	930
32	Qualified energy conservation bonds	0	0	10	20	30	30	30	120	0	10	30	60	80	90	90	350

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Corporations								Individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
Natural resources and environment:																	
33	Expensing of exploration and development costs, nonfuel minerals	50	90	90	100	100	100	100	490								0
34	Excess of percentage over cost depletion, nonfuel minerals	680	690	720	730	750	780	800	3,780	20	20	20	20	20	30	30	120
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	70	80	140	180	180	190	200	890	270	230	280	340	370	390	410	1,790
36	Capital gains treatment of certain timber income									70	60	60	60	70	80	100	370
37	Expensing of multiperiod timber growing costs	130	170	180	180	210	200	200	970	80	90	110	110	110	110	110	550
38	Tax incentives for preservation of historic structures	330	340	360	380	400	420	440	2,000	100	100	110	110	120	120	130	590
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	10	0	0	0	0	0	0	0								
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	30	50	40	30	20	10	0	100	10	20	20	10	10	0	0	40
41	Industrial CO2 capture and sequestration tax credit	0	0	0	0	0	60	130	190								
42	Deduction for endangered species recovery expenditures	0	10	20	20	20	30	30	120	0	10	10	10	10	20	20	70
Agriculture:																	
43	Expensing of certain capital outlays	10	10	10	10	10	10	10	50	60	60	60	70	80	80	80	370
44	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	110	100	100	100	110	110	110	530
45	Treatment of loans forgiven for solvent farmers									20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income									700	610	590	550	680	830	970	3,620
47	Income averaging for farmers									90	90	90	90	90	90	100	460
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
Commerce and housing:																	
	Financial institutions and insurance:																
49	Exemption of credit union income	650	650	710	790	880	960	1,030	4,370								
50	Exclusion of interest on life insurance savings	1,530	1590	1680	1770	1860	1970	2070	9,350	18750	19550	21390	22930	24560	26250	27790	122,920
51	Special alternative tax on small property and casualty insurance companies	40	40	40	50	50	50	60	250								
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	190	200	200	210	210	220	220	1,060								
53	Small life insurance company deduction	50	50	50	50	50	50	50	250								
54	Exclusion of interest spread of financial institutions									–120	520	960	1,070	1,160	1,250	1,330	6,170
	Housing:																
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	200	220	400	510	510	520	550	2,490	760	650	790	960	1,030	1,090	1,160	5,030
56	Exclusion of interest on rental housing bonds	170	180	340	430	430	440	470	2,110	640	550	670	810	870	930	980	4,260
57	Deductibility of mortgage interest on owner-occupied homes									79,400	92,180	104,540	116,620	127,840	139,000	149,560	637,560
58	Deductibility of State and local property tax on owner-occupied homes									29,010	18,860	23,710	29,730	31,340	32,700	33,690	151,170
59	Deferral of income from installment sales									720	720	810	880	1,020	1,150	1,260	5,120
60	Capital gains exclusion on home sales									23,500	23,860	31,300	39,510	43,640	48,200	53,230	215,880
61	Exclusion of net imputed rental income									27,040	32,530	37,630	40,810	41,020	48,330	56,100	223,890
62	Exception from passive loss rules for $25,000 of rental loss									6,020	5,910	7,330	8,510	9,670	11,120	13,010	49,640
63	Credit for low-income housing investments	3,610	5,400	5,860	6,330	7,160	7,510	7,630	34,490	190	280	310	330	380	400	400	1,820

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Corporations								Individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
64	Accelerated depreciation on rental housing (normal tax method)	500	750	890	1,020	1,350	1,410	1,480	6,150	3,360	3,890	4,980	6,080	7,030	7,950	8,490	34,530
65	Discharge of mortgage indebtedness									360	260	200	180	120	0	0	500
66	Credit for homebuyer									9,730	16,540	1,530	–1,980	–1,210	–800	–490	–2,950
	Commerce:																
67	Cancellation of indebtedness									300	130	–10	–50	–30	0	40	–50
68	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
69	Treatment of qualified dividends									22,425	38,012	26,869	0	0	0	0	26,869
70	Capital gains (except agriculture, timber, iron ore, and coal)									52,590	45,360	44,290	41,090	51,120	62,230	72,180	270,910
71	Capital gains exclusion of small corporation stock									50	50	170	290	300	470	690	1,920
72	Step-up basis of capital gains at death									41,370	36,740	44,520	53,270	57,260	61,560	66,180	282,790
73	Carryover basis of capital gains on gifts									1,630	1,430	4,790	2,050	2,740	2,940	3,160	15,680
74	Ordinary income treatment of loss from small business corporation stock sale									50	60	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–2,380	–3,420	–3,760	–3,880	–4,740	–4,730	–5,020	–22,130	–6,970	–7,660	–9,100	–10,080	–10,790	–11,630	–12,520	–54,120
76	Accelerated depreciation of machinery and equipment (normal tax method)	23,040	320	–5,160	1,750	11,810	18,490	24,770	51,660	34,360	10,150	6,330	12,370	18,900	25,820	31,630	95,050
77	Expensing of certain small investments (normal tax method)	–170	190	–350	–360	–50	70	150	–540	40	220	–2,850	–2,460	–660	140	610	–5,220
78	Graduated corporation income tax rate (normal tax method)	2,720	2,860	3,120	3,070	3,150	3,420	3,600	16,360	0	0	0	0	0	0	0	0
79	Exclusion of interest on small issue bonds	50	60	110	140	140	140	150	680	200	170	210	260	280	290	310	1,350
80	Deduction for US production activities	6,930	8,770	10,320	10,910	11,570	12,260	12,950	58,010	2,090	2,760	3,320	3,510	3,720	3,950	4,170	18,670
81	Special rules for certain film and TV production	50	40	–50	–90	–70	–50	–40	–300	10	10	–10	–20	–20	–10	–10	–70
Transportation:																	
82	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
83	Exclusion of reimbursed employee parking expenses									2,960	3,020	3,100	3,190	3,320	3,460	3,590	16,660
84	Exclusion for employer-provided transit passes									540	560	530	560	600	640	670	3,000
85	Tax credit for certain expenditures for maintaining railroad tracks	70	100	60	30	10	10	0	110	10	10	10	0	0	0	0	10
86	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	20	30	30	20	10	10	10	80	70	70	70	70	50	50	50	290
Community and regional development:																	
87	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
88	Exclusion of interest for airport, dock, and similar bonds	140	150	290	360	360	370	390	1,770	540	460	560	680	730	770	820	3,560
89	Exemption of certain mutuals' and cooperatives' income	110	110	110	110	120	120	120	580								
90	Empowerment zones and renewal communities	270	140	80	110	130	150	140	610	860	610	350	470	550	590	590	2,550
91	New markets tax credit	520	650	720	730	700	660	590	3,400	60	70	80	80	80	80	70	390
92	Expensing of environmental remediation costs	240	20	–120	–120	–120	–110	–100	–570	50	0	–20	–20	–20	–20	–20	–100
93	Credit to holders of Gulf Tax Credit Bonds.	0	20	20	20	10	10	10	70	30	60	60	50	40	40	40	230
94	Recovery Zone Bonds [4]	0	0	10	10	10	10	10	50	0	0	20	30	30	30	30	140
95	Tribal Economic Development Bonds	0	50	130	160	160	170	180	800	0	90	260	310	330	350	370	1,620
Education, training, employment, and social services:																	
	Education:																

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Corporations								Individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
96	Exclusion of scholarship and fellowship income (normal tax method)									2,080	2,160	2,250	2,340	2,440	2,540	2,650	12,220
97	HOPE tax credit									2,920	0	840	4,250	4,460	4,680	4,900	19,130
98	Lifetime Learning tax credit									3,860	2,910	3,360	4,780	5,010	5,250	5,510	23,910
99	American Opportunity Tax Credit									2,460	13,590	11,380	0	0	0	0	11,380
100	Education Individual Retirement Accounts									40	60	70	80	80	90	100	420
101	Deductibility of student-loan interest									1,250	1,260	1,130	590	610	640	660	3,630
102	Deduction for higher education expenses									1,790	520	0	0	0	0	0	0
103	State prepaid tuition plans									1,200	1,390	1,580	1,750	1,860	1,950	2,050	9,190
104	Exclusion of interest on student-loan bonds	90	100	190	230	230	240	250	1,140	350	300	360	440	480	500	530	2,310
105	Exclusion of interest on bonds for private nonprofit educational facilities	380	400	750	940	940	970	1,020	4,620	1400	1210	1470	1780	1910	2030	2150	9,340
106	Credit for holders of zone academy bonds	190	220	260	290	280	250	230	1,310								
107	Exclusion of interest on savings bonds redeemed to finance educational expenses									20	20	20	20	20	20	20	100
108	Parental personal exemption for students age 19 or over									4,440	2,710	2,780	3,140	2,950	2,750	2,550	14,170
109	Deductibility of charitable contributions (education)	590	610	640	690	740	780	830	3,680	3,580	3,680	4,300	4,680	5,060	5,410	5,780	25,230
110	Exclusion of employer-provided educational assistance									660	690	30	0	0	0	0	30
111	Special deduction for teacher expenses									180	160	0	0	0	0	0	0
112	Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
113	Qualified school construction bonds	10	40	90	170	240	260	260	1,020	10	70	220	460	700	800	800	2,980
	Training, employment, and social services:																
114	Work opportunity tax credit	680	700	620	440	230	110	50	1,450	190	210	210	100	30	20	10	370
115	Welfare-to-work tax credit	40	20	10	10	0	0	0	20	10	10	0	0	0	0	0	0
116	Employer provided child care exclusion									770	1210	1370	1410	1480	1550	1630	7,440
117	Employer-provided child care credit	10	20	10	0	0	0	0	10								0
118	Assistance for adopted foster children									450	460	490	520	550	580	610	2,750
119	Adoption credit and exclusion									530	580	460	90	90	90	90	820
120	Exclusion of employee meals and lodging (other than military)									1,010	1,060	1,110	1,170	1,230	1,300	1,370	6,180
121	Child credit [5]									25,640	23,450	18,550	10,870	10,610	10,320	9,990	60,340
122	Credit for child and dependent care expenses									4,330	3,750	2,200	1,890	1,830	1,730	1,650	9,300
123	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	20	20	20	20	90
124	Deductibility of charitable contributions, other than education and health	1,350	1,370	1,430	1,510	1,600	1,690	1790	8,020	35,360	36,350	42,420	46,220	49,970	53,450	57,060	249,120
125	Exclusion of certain foster care payments									440	420	400	390	390	390	370	1,940
126	Exclusion of parsonage allowances									580	620	660	700	740	790	840	3,730
127	Employee retention credit for employers in certain federal disaster areas	70	20	0	0	0	0	0	0	70	20	0	0	0	0	0	0
128	Exclusion for benefits provided to volunteer EMS and firefighters									80	80	60	0	0	0		60
129	Temporary income exclusion for employer provided lodging in Midwestern disaster area									20	0	0	0	0	0	0	0
130	Making work pay tax credit [6]									9,340	23,450	14,160	0	0	0	0	14,160
Health:																	
131	Exclusion of employer contributions for medical insurance premiums and medical care [7]									144,412	159,868	176,964	191,540	208,650	228,040	248,600	1,053,794
132	Self-employed medical insurance premiums									4,870	5,250	5,740	6,150	6,580	7,120	7,780	33,370

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

		Corporations								Individuals							
		2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
133	Medical Savings Accounts / Health Savings Accounts									1,930	2,030	2,130	2,240	2,350	2,470	2,590	11,780
134	Deductibility of medical expenses									8,760	9,090	10,030	10,980	11,970	13,260	14,910	61,150
135	Exclusion of interest on hospital construction bonds	570	610	1,130	1,420	1,420	1,470	1,550	6,990	2,120	1,830	2,220	2,690	2,890	3,070	3,240	14,110
136	Deductibility of charitable contributions (health)	180	180	190	200	210	230	240	1,070	3,970	4,080	4,760	5,180	5,600	6,000	6,400	27,940
137	Tax credit for orphan drug research	270	290	320	350	380	410	450	1,910								
138	Special Blue Cross/Blue Shield deduction	760	890	690	660	590	530	690	3,160								
139	Tax credit for health insurance purchased by certain displaced and retired individuals [8]									10	10	10	10	10	10	10	50
140	Distributions from retirement plans for premiums for health and long-term care insurance									260	300	330	360	400	440	490	2,020
	Income security:																
141	Exclusion of railroad retirement system benefits									330	320	300	280	260	250	250	1,340
142	Exclusion of workers' compensation benefits									5,810	5,870	5,940	6,070	6,170	6,270	6,370	30,820
143	Exclusion of public assistance benefits (normal tax method)									600	640	670	710	740	760	790	3,670
144	Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
145	Exclusion of military disability pensions									110	110	110	110	110	110	120	560
	Net exclusion of pension contributions and earnings:																
146	Employer plans									40,670	41,360	44,630	47,870	49,050	51,950	53,980	247,480
147	401(k) plans									44,126	53,549	67,061	70,168	72,716	74,712	76,183	360,840
148	Individual Retirement Accounts									12,090	12,780	14,080	15,770	16,190	16,400	16,500	78,940
149	Low and moderate income savers credit									1,050	1,180	1,170	1,130	1,060	1,000	960	5,320
150	Keogh plans									12,770	13,890	15,120	17,190	19,740	21,100	22,610	95,760
	Exclusion of other employee benefits:																
151	Premiums on group term life insurance									2,160	2,110	2,160	2,280	2,320	2,350	2,390	11,500
152	Premiums on accident and disability insurance									320	330	340	350	360	360	360	1,770
153	Income of trusts to finance supplementary unemployment benefits									30	40	50	50	50	50	60	260
154	Special ESOP rules	1,280	1,250	1,330	1,410	1,480	1,550	1,620	7,390	420	450	470	490	520	550	580	2,610
155	Additional deduction for the blind									40	30	40	50	50	50	50	240
156	Additional deduction for the elderly									2,230	2,030	2,600	3,100	3,300	3,550	3,690	16,240
157	Tax credit for the elderly and disabled									10	10	10	10	10	10	10	50
158	Deductibility of casualty losses									510	560	640	680	720	750	780	3,570
159	Earned income tax credit [9]									4,420	6,190	6,200	8,380	8,540	8,790	9,090	41,000
160	Additional exemption for housing disaster related displaced individuals									10	0	0	0	0	0	0	0
161	Exclusion of unemployment insurance benefits									1,310	5,220	0	0	0	0	0	0
	Social Security:																
	Exclusion of social security benefits:																
162	Social Security benefits for retired workers									20,970	21,410	20,240	21,380	22,560	24,160	26,810	115,150
163	Social Security benefits for disabled workers									6,460	6,950	7,160	7,450	7,750	8,080	8,580	39,020
164	Social Security benefits for spouses, dependents and survivors									3,650	3,850	3,140	3,150	3,170	3,200	3,330	15,990
165	Tax Credit for Certain Government Retirees [10]									40	110	0	0	0	0	0	
	Veterans benefits and services:																
166	Exclusion of veterans death benefits and disability compensation									3,900	4,130	4,370	4,630	4,910	5,200	5,510	24,620
167	Exclusion of veterans pensions									190	200	220	250	260	270	270	1,270

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2009-2015—Continued

(In millions of dollars)

	Corporations								Individuals							
	2009	2010	2011	2012	2013	2014	2015	2011–15	2009	2010	2011	2012	2013	2014	2015	2011–15
168 Exclusion of GI bill benefits									300	470	770	1,010	1,270	1,570	1,910	6,530
169 Exclusion of interest on veterans housing bonds	10	10	10	10	20	20	20	80	10	20	20	30	30	40	40	160
General purpose fiscal assistance:																
170 Exclusion of interest on public purpose State and local bonds	4,850	5,180	9,690	12,140	12,170	12,570	13,200	59,770	18,140	15,630	18,970	22,990	24,730	26,210	27,710	120,610
171 Build America Bonds [11]	–40	–390	–540	–570	–550	–530	–510	–2,700	–160	–910	–1,580	–1,540	–1,480	–1,430	–1,370	–7,400
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									45,310	33,920	46,500	58,100	61,890	65,320	68,250	300,060
Interest:																
173 Deferral of interest on U.S. savings bonds									1,270	1,180	1,220	1,300	1,320	1,330	1,340	6,510
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									29,010	18,860	23,710	29,730	31,340	32,700	33,690	151,170
Nonbusiness State and local taxes other than on owner-occupied homes									45,310	33,920	46,500	58,100	61,890	65,320	68,250	300,060
Exclusion of interest on State and local bonds for:																
Public purposes	4,850	5,180	9,690	12,140	12,170	12,570	13,200	59,770	18,140	15,630	18,970	22,990	24,730	26,210	27,710	120,610
Energy facilities	0	0	10	10	10	10	10	50	10	10	20	20	20	20	20	100
Water, sewage, and hazardous waste disposal facilities	70	80	140	180	180	190	200	890	270	230	280	340	370	390	410	1,790
Small-issues	50	60	110	140	140	140	150	680	200	170	210	260	280	290	310	1,350
Owner-occupied mortgage subsidies	200	220	400	510	510	520	550	2,490	760	650	790	960	1,030	1,090	1,160	5,030
Rental housing	170	180	340	430	430	440	470	2,110	640	550	670	810	870	930	980	4,260
Airports, docks, and similar facilities	140	150	290	360	360	370	390	1,770	540	460	560	680	730	770	820	3,560
Student loans	90	100	190	230	230	240	250	1,140	350	300	360	440	480	500	530	2,310
Private nonprofit educational facilities	380	400	750	940	940	970	1,020	4,620	1,400	1,210	1,470	1,780	1,910	2,030	2,150	9,340
Hospital construction	570	610	1,130	1,420	1,420	1,470	1,550	6,990	2,120	1,830	2,220	2,690	2,890	3,070	3,240	14,110
Veterans' housing	0	0	10	10	10	10	10	50	10	10	10	10	10	10	10	50
GO Zone and GO Zone mortgage	20	20	30	40	40	40	40	230	60	50	60	70	80	80	90	380
Credit for holders of zone academy bonds	190	220	260	290	280	250	230	1,310								

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2009 $1,050; 2010 $3,090; 2011 $4,460; 2012 $4,240; 2013 $2,360; 2014 $230; 2015 $30.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2009 $5,160; 2010 $6,100; 2011 $1,940; 2012 $0; 2013 $0; 2014 $0; 2015 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2009 $810; 2010 $200; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0.

[4] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2009 $0; 2010 $80; 2011 $150; 2012 $170; 2013 $170; 2014 $170; and 2015 $170.

[5] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $19,150; 2010 $30,290; 2011 $29,790; 2012 $1,490; 2013 $1,460; 2014 $1,420; and 2015 $,1380.

[6] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $645; 2010 $32,528; and 2011 $31,490.

[7] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2009 $97,130; 2010 $101,710; 2011 $106,730; 2012 $113,570; 2013 $121,770; 2014 $130,860; and 2015 $140,400.

[8] The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2009 $100; 2010 $110; 2011 $110; 2012 $120; 2013 $130; 2014 $140; and 2015 $150.

[9] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:2009 $44,370; 2010 $51,500; 2011 $51,450; 2012 $43,980; 2013 $43,860; 2014 $44,130; and 2015 $44,380.

[10] The figures in the table indicate the effect of the tax credit for certain government retirees on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $99.

[11] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2009 $20; 2010 $2,900; 2011 $3,050; 2012 $2,960; 2013 $2,850; 2014 $2,740; and 2015 $2,640.

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

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

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2011-2015 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2011	2011–15
131	Exclusion of employer contributions for medical insurance premiums and medical care	176,964	1,053,794
57	Deductibility of mortgage interest on owner-occupied homes	104,540	637,560
147	401(k) plans	67,061	360,840
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	46,500	300,060
72	Step-up basis of capital gains at death	44,520	282,790
70	Capital gains (except agriculture, timber, iron ore, and coal)	44,290	270,910
124	Deductibility of charitable contributions, other than education and health	43,850	257,140
146	Employer plans	44,630	247,480
61	Exclusion of net imputed rental income	37,630	223,890
60	Capital gains exclusion on home sales	31,300	215,880
170	Exclusion of interest on public purpose State and local bonds	28,660	180,380
58	Deductibility of State and local property tax on owner-occupied homes	23,710	151,170
76	Accelerated depreciation of machinery and equipment (normal tax method)	1,170	146,710
50	Exclusion of interest on life insurance savings	23,070	132,270
162	Social Security benefits for retired workers	20,240	115,150
150	Keogh plans	15,120	95,760
148	Individual Retirement Accounts	14,080	78,940
80	Deduction for US production activities	13,640	76,680
134	Deductibility of medical expenses	10,030	61,150
121	Child credit	18,550	60,340
1	Exclusion of benefits and allowances to armed forces personnel	11,530	60,250
62	Exception from passive loss rules for $25,000 of rental loss	7,330	49,640
159	Earned income tax credit	6,200	41,000
64	Accelerated depreciation on rental housing (normal tax method)	5,870	40,680
163	Social Security benefits for disabled workers	7,160	39,020
63	Credit for low-income housing investments	6,170	36,310
5	Deferral of income from controlled foreign corporations (normal tax method)	32,720	35,840
132	Self-employed medical insurance premiums	5,740	33,370
2	Exclusion of income earned abroad by U.S. citizens	5,870	32,420
17	Alcohol fuel credits	8,870	32,140
7	Expensing of research and experimentation expenditures (normal tax method)	4,560	31,610
142	Exclusion of workers' compensation benefits	5,940	30,820
136	Deductibility of charitable contributions (health)	4,950	29,010
109	Deductibility of charitable contributions (education)	4,940	28,910
69	Treatment of qualified dividends	26,869	26,869
166	Exclusion of veterans death benefits and disability compensation	4,370	24,620
98	Lifetime Learning tax credit	3,360	23,910
135	Exclusion of interest on hospital construction bonds	3,350	21,100
97	HOPE tax credit	840	19,130
4	Inventory property sales source rules exception	2,830	16,700
83	Exclusion of reimbursed employee parking expenses	3,100	16,660
78	Graduated corporation income tax rate (normal tax method)	3,120	16,360
156	Additional deduction for the elderly	2,600	16,240
164	Social Security benefits for spouses, dependents and survivors	3,140	15,990
73	Carryover basis of capital gains on gifts	4,790	15,680
108	Parental personal exemption for students age 19 or over	2,780	14,170
130	Making work pay tax credit	14,160	14,160
105	Exclusion of interest on bonds for private nonprofit educational facilities	2,220	13,960
8	Credit for increasing research activities	3,850	12,922
96	Exclusion of scholarship and fellowship income (normal tax method)	2,250	12,220
133	Medical Savings Accounts / Health Savings Accounts	2,130	11,780
151	Premiums on group term life insurance	2,160	11,500
99	Lifetime Learning tax credit	11,380	11,380
154	Special ESOP rules	1,800	10,000
122	Credit for child and dependent care expenses	2,200	9,300
103	State prepaid tuition plans	1,580	9,190
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,190	7,520
116	Employer provided child care exclusion	1,370	7,440
15	New technology credit	1,160	7,150
168	Exclusion of GI bill benefits	770	6,530

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2011-2015 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2011	2011–15
173	Deferral of interest on U.S. savings bonds	1,220	6,510
56	Exclusion of interest on rental housing bonds	1,010	6,370
6	Deferred taxes for financial firms on certain income earned overseas	5,770	6,320
120	Exclusion of employee meals and lodging (other than military)	1,110	6,180
54	Exclusion of interest spread of financial institutions	960	6,170
3	Exclusion of certain allowances for Federal employees abroad	1,020	5,630
88	Exclusion of interest for airport, dock, and similar bonds	850	5,330
149	Low and moderate income savers credit	1,170	5,320
59	Deferral of income from installment sales	810	5,120
10	Excess of percentage over cost depletion, fuels	670	5,090
49	Exemption of credit union income	710	4,370
9	Expensing of exploration and development costs, fuels	1,180	4,020
113	Qualified school construction bonds	310	4,000
34	Excess of percentage over cost depletion, nonfuel minerals	740	3,900
91	New markets tax credit	800	3,790
126	Exclusion of parsonage allowances	660	3,730
143	Exclusion of public assistance benefits (normal tax method)	670	3,670
101	Deductibility of student-loan interest	1,130	3,630
46	Capital gains treatment of certain income	590	3,620
158	Deductibility of casualty losses	640	3,570
104	Exclusion of interest on student-loan bonds	550	3,450
90	Empowerment zones, Enterprise communities, and Renewal communities	430	3,160
138	Special Blue Cross/Blue Shield deduction	690	3,160
84	Exclusion for employer-provided transit passes	530	3,000
118	Assistance for adopted foster children	490	2,750
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	420	2,680
38	Tax incentives for preservation of historic structures	470	2,590
16	Energy investment credit	600	2,520
95	Tribal Economic Development Bonds	390	2,420
23	Credit for investment in clean coal facilities	480	2,080
79	Exclusion of interest on small issue bonds	320	2,030
140	Distributions from retirement plans for premiums for health and long-term care insurance	330	2,020
125	Exclusion of certain foster care payments	400	1,940
71	Capital gains exclusion of small corporation stock	170	1,920
137	Tax credit for orphan drug research	320	1,910
114	Work opportunity tax credit	830	1,820
152	Premiums on accident and disability insurance	340	1,770
37	Expensing of multiperiod timber growing costs	290	1,520
29	Credit for energy efficiency improvements to existing homes	1,460	1,460
141	Exclusion of railroad retirement system benefits	300	1,340
106	Credit for holders of zone academy bonds	260	1,310
167	Exclusion of veterans pensions	220	1,270
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	930	1,230
19	Tax credit and deduction for clean-fuel burning vehicles	260	1,180
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	1,060
31	30% credit for residential purchases/installations of solar and fuel cells	180	930
26	Amortize all geological and geophysical expenditures over 2 years	240	900
119	Adoption credit and exclusion	460	820
21	Credit for holding clean renewable energy bonds	100	640
20	Exclusion of utility conservation subsidies	130	610
44	Expensing of certain multiperiod production costs	110	580
89	Exemption of certain mutuals' and cooperatives' income	110	580
145	Exclusion of military disability pensions	110	560
65	Discharge of mortgage indebtedness	200	500
33	Expensing of exploration and development costs, nonfuel minerals	90	490
25	Natural gas distribution pipelines treated as 15-year property	120	480
32	Qualified energy conservation bonds	40	470
47	Income averaging for farmers	90	460
43	Expensing of certain capital outlays	70	420
100	Education Individual Retirement Accounts	70	420

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2011-2015 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2011	2011–15
27	Allowance of deduction for certain energy efficient commercial building property	90	400
13	Capital gains treatment of royalties on coal	60	370
36	Capital gains treatment of certain timber income	60	370
86	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	100	370
74	Ordinary income treatment of loss from small business corporation stock sale	60	300
93	Credit to holders of Gulf Tax Credit Bonds.	80	300
153	Income of trusts to finance supplementary unemployment benefits	50	260
51	Special alternative tax on small property and casualty insurance companies	40	250
53	Small life insurance company deduction	50	250
68	Exceptions from imputed interest rules	50	250
155	Additional deduction for the blind	40	240
169	Exclusion of interest on veterans housing bonds	30	240
144	Exclusion of special benefits for disabled coal miners	40	200
41	Industrial CO2 capture and sequestration tax credit	0	190
42	Deduction for endangered species recovery expenditures	30	190
94	Recovery Zone Bonds	30	190
14	Exclusion of interest on energy facility bonds	30	150
87	Investment credit for rehabilitation of structures (other than historic)	30	150
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	60	140
123	Credit for disabled access expenditures	20	140
85	Tax credit for certain expenditures for maintaining railroad tracks	70	120
12	Exception from passive loss limitation for working interests in oil and gas properties	20	100
45	Treatment of loans forgiven for solvent farmers	20	100
48	Deferral of gain on sale of farm refiners	20	100
82	Deferral of tax on shipping companies	20	100
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	100
112	Discharge of student loan indebtedness	20	100
128	Exclusion for benefits provided to volunteer EMS and firefighters	60	60
30	Credit for energy efficient appliances	50	50
139	Tax credit for health insurance purchased by certain displaced and retired individuals	10	50
157	Tax credit for the elderly and disabled	10	50
28	Credit for construction of new energy efficient homes	20	40
11	Alternative fuel production credit	20	30
110	Exclusion of employer-provided educational assistance	30	30
115	Welfare-to-work tax credit	10	20
18	Bio-Diesel and small agri-biodiesel producer tax credits	10	10
117	Employer-provided child care credit	10	10
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	0	0
102	Deduction for higher education expenses	0	0
111	Special deduction for teacher expenses	0	0
127	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	0	0
129	Temporary income exclusion for employer provided lodging in Midwestern disaster area	0	0
160	Additional exemption for housing Hurricane Katrina displaced individuals	0	0
161	Exclusion of unemployment insurance benefits	0	0
165	Tax Credit for Certain Government Retirees	0	0
67	Cancellation of indebtedness	–10	–50
81	Special rules for certain film and TV production	–60	–370
92	Expensing of environmental remediation costs	–140	–670
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–400	–2,320
67	Credit for homebuyer	1,530	–2,950
77	Expensing of certain small investments (normal tax method)	–3,200	–5,760
171	Build America Bonds	–2,120	–10,100
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–12,860	–76,250

Table 16–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2009
(In millions of dollars)

	Provision	2009 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	20,060
6	Deferred taxes for financial firms on income earned overseas	3,540
7	Expensing of research and experimentation expenditures (normal tax method)	2,750
21	Credit for holding clean renewable energy bonds	350
9	Expensing of exploration and development costs—fuels	275
33	Expensing of exploration and development costs—nonfuels	130
37	Expensing of multiperiod timber growing costs	90
44	Expensing of certain multiperiod production costs—agriculture	180
43	Expensing of certain capital outlays—agriculture	120
50	Deferral of income on life insurance and annuity contracts	19,400
64	Accelerated depreciation on rental housing	6,980
75	Accelerated depreciation of buildings other than rental	–15,850
76	Accelerated depreciation of machinery and equipment	3,150
77	Expensing of certain small investments (normal tax method)	–40
82	Deferral of tax on shipping companies	20
106	Credit for holders of zone academy bonds	610
63	Credit for low-income housing investments	5,420
103	Deferral for state prepaid tuition plans	7,100
146	Exclusion of pension contributions—employer plans	74,280
147	Exclusion of 401(k) contributions	113,000
148	Exclusion of IRA contributions and earnings	4,000
148	Exclusion of Roth earnings and distributions	11,200
148	Exclusion of non-deductible IRA earnings	510
150	Exclusion of contributions and earnings for Keogh plans	6,270
170	Exclusion of interest on public-purpose bonds	26,470
	Exclusion of interest on non-public purpose bonds	11,460
173	Deferral of interest on U.S. savings bonds	270

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

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

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

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

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

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

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

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

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2009, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2009, such as the American Recovery and Reinvestment Act of 2009, and the Worker, Homeownership and Business Assistance Act of 2009, introduced many changes which for the most part expanded the scope of existing provisions in the Tax Code. New provisions include recovery zone bonds, tribal economic development bonds, American opportunity tax credit, qualified school construction bonds, making work pay tax credits, credits for certain government retirees, and Build America Bonds. Provisions significantly expanded include the child and earned income tax credits, energy and investment related incentives, housing related subsidies, and health insurance premiums for the unemployed. In addition, a number of provisions which were set to expire were expected to be extended for another year, but the extensions had not yet occurred and are not included in these estimates.

National Defense

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

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may deduct against their U.S. taxes that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS–14, step 1 ($83,445 in 2009, which excludes regional pay adjustments).

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

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

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

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

General Science, Space, and Technology

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

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

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

Energy

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

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

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

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

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities placed in service before January 1, 2010.

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

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of working interests in oil and gas properties from "passive income" limitations, such that the working interest-holder who manages the development of wells and incurs all operating costs on behalf of himself and all other owners may aggregate negative taxable income (i.e., losses) from such interests with his other income. Thus, these taxpayers are able to fully deduct passive losses against nonpassive income, in contradiction to the general prohibition against such deductions.

13. ***Capital gains treatment of royalties on coal.***—For individuals in 2009, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

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

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

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

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

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin

sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures.

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

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

21. ***Credit to holders of clean renewable energy bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009 is $2.4 billion.

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company.

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

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

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

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

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

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

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

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

31. ***Credit for residential energy efficient property.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified pho-

tovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

32. ***Credit for qualified energy conservation bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009 is $3.2 billion.

Natural Resources and Environment

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

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

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

36. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2009, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent.

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

38. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities.

39. ***Expensing of capital costs with respect to complying with EPA sulfur regulations.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code allows small refiners to deduct 75 percent of qualified capital costs incurred during the taxable year, thereby accelerating cost recovery relative to economic depreciation.

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

41. ***Industrial CO2 capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of $20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of $10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

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

Agriculture

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

44. ***Expensing multi-period livestock and crop production costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and

crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

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

46. ***Capital gains treatment of certain income.***—For individuals in 2009, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

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

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

Commerce and Housing

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

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

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

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

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

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

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

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

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

57. ***Interest on owner-occupied homes.***—The baseline tax system would allow the write-off of expenses incurred in earning income. It would not allow the deductibility of expenses when income or the return on investments are not taxed. In contrast, the Tax Code provides that owner-occupants of homes may deduct mortgage interest on their primary and secondary residences as itemized nonbusiness deductions even though the value of owner-occupied housing services is not included in a taxpayer's taxable income. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the debt does not exceed the fair market value of the residence.

58. ***Taxes on owner-occupied homes.***—The Tax Code allows owner-occupants of homes to deduct property taxes on their primary and secondary residences even though they are not required to report the value of owner-occupied housing services as gross income.

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

60. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, under current law, a homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

61. ***Imputed net rental income on owner-occupied housing.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, the implicit rental value of home ownership, net of expenses such as mortgage interest and depreciation, is excluded from income.

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

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

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

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

65. ***Discharge of mortgage indebtedness.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from the income of a taxpayer any discharge of

indebtedness of a qualified principal residence. The provision sunsets on December 31, 2012.

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

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

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

69. ***Treatment of qualified dividends.***—For individuals in 2009, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows qualified dividends to be taxed at a preferentially low rate that is no higher than 15 percent.

70. ***Capital gains (other than agriculture, timber, and coal).***—For individuals in 2009, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains on assets held for more than one year to be taxed at a preferentially low rate that is no higher than 15 percent.

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

72. ***Step-up in basis of capital gains at death.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death.

73. ***Carryover basis of capital gains on gifts.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

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

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

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

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

78. ***Graduated corporation income tax rate schedule.***—Because the corporate rate schedule is part of refer-

ence tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

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

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

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

Transportation

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

83. ***Exclusion of employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, under current law employee parking expenses that are paid for by the employer or that are received in lieu of wages are excludable from the income of the employee. In 2009, the maximum amount of the parking exclusion is $230 (indexed) per month. The tax expenditure estimate does not include parking at facilities owned by the employer.

84. ***Exclusion of employee transit pass expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, under current law transit passes, tokens, fare cards, and vanpool expenses paid for by an employer or provided in lieu of wages to defray an employee's commuting costs are excludable from the employee's income. The recent stimulus legislation included a provision that equalized the transit subsidy maximum to that for employee parking expenses through the end of 2010. In 2009, the maximum amount of the exclusion is $230 (indexed) per month.

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

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

Community and Regional Development

87. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

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

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

90. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives.

91. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. The total equity investment available for the credit across all CDEs is $5 billion in 2009.

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

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

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

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

Education, Training, Employment, and Social Services

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

97. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2009, the credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed.

98. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. The credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed. The credit applies to both undergraduate and graduate students.

99. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code was modified in 2009 to provide a tax credit in 2009 and 2010 of up to $2,500 per eligible student for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return).

100. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's tuition

and fees. The maximum contribution to an education IRA in 2008 is $2,000 per beneficiary. The maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 ($95,000 and $110,000 for singles).

101. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. In 2009, the maximum deduction is phased down ratably for taxpayers with modified AGI between $110,000 and $140,000 ($55,000 and $70,000 for singles), indexed.

102. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2009 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for singles). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for singles) may deduct up to $2,000.

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

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

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

106. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued is limited to $1.4 billion in 2009 and 2010.

107. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $100,650 and $130,650 ($67,100 and $81,100 for singles) in 2009.

108. ***Dependent students age 19 or older.***—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers personal exemptions for dependent children who are over the age of 18 or under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns. However, under current law, the dependent/student is not eligible to claim a personal exemption on his or her own tax return.

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

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

111. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired at end of December 31, 2008.

112. ***Discharge of student loan indebtedness.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code al-

lows certain professionals who perform in underserved areas, and as a consequence get their student loans discharged, not to recognize such discharge as income.

113. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22 billion over 2009 and 2010.

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

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

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

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

118. ***Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses. These payments are excluded from gross income under current law.

119. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a nonrefundable tax credit for qualified adoption expenses under current law. The maximum credit is $12,150 per child for 2009, and is phased-out ratably for taxpayers with modified AGI between $182,180 and $220,180. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

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

121. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. The maximum credit declines to $500 in 2011 and later years. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles).

122. ***Child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides married couples with child and dependent care expenses a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by single parents and by divorced or separated parents who have custody of children. In 2009, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

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

remove access barriers for disabled persons. The credit is limited to $5,000.

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

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

126. ***Parsonage allowances.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the value of a clergyman's housing allowance and the rental value of parsonages are not included in a minister's taxable income under current law.

127. ***Provide an employee retention credit to employers affected by hurricanes Katrina, Rita, Wilma, and Ike.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in areas affected by natural disasters such as hurricanes Katrina, Rita, Wilma, and Ike.

128. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code provides that certain benefits received by volunteer EMS and firefighters excluded from income.

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

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

Health

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

132. ***Self-employed medical insurance premiums.***—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct a percentage of their family health insurance premiums. Taxpayers without self-employment income are not eligible for the special percentage deduction. The deductible percentage is 60 percent in 2001, 70 percent in 2002, and 100 percent in 2003 and thereafter.

133. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2009, $3000 for taxpayers with individual coverage and $5,950 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

134. ***Medical care expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible.

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

136. ***Charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for con-

tributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

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

138. ***Blue Cross and Blue Shield.***—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce (or even eliminate) their tax liabilities.

139. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients.

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

Income Security

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

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

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

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

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

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

147. ***401(k) plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2009, an employee could exclude up to $16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,000 in contributions (indexed). The tax on the investment income earned by 401(k)-type plans is deferred until withdrawn.

148. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of several different IRAs to defer or otherwise reduce the tax on the return to their retirement savings. These arrangements include deductible IRAs, nondeductible IRAs and Roth IRAs. The IRA contribution limit is $5,000 in 2009 (indexed thereafter) and allows taxpayers over age 50 to make additional "catch-up" contributions of $1,000. Taxpayers can make a deductible IRA contribution only up to certain levels of AGI depending on whether they are active participants in employer plans. Above those AGI limits, the amount that may be deducted is reduced and eventually phased out. There is no income limit for nondeductible IRA contributions, which still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation under certain conditions. AGI limits also apply to Roth IRA contributions.

149. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for par-

ticular activities or targeted at specific group. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $55,500 for joint filers and $27,750 for single filers.

150. ***Keogh plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $49,000 in 2009. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

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

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

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

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

155. ***Additional deduction for the blind.***—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers who are blind an additional $1,400 standard deduction if single, or $1,100 if married in 2009.

156. ***Additional deduction for the elderly.***—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers who are 65 years or older an additional $1,400 standard deduction if single, or $1,100 if married in 2009.

157. ***Tax credit for the elderly and disabled.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. Under current law, however, individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Income is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

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

159. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 40 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $8,950 of earned income in 2009. The credit is 40 percent of the first $12,570 of income for a family with two or more qualifying children. The credit is 45 percent of the first $12,570 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $5,970 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

160. ***Additional exemption for housing natural disaster displaced individuals.***—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides additional exemption to persons displaced by natural disasters such as hurricane Katrina.

161. ***Exclusion of unemployment benefits.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast the Tax Code was modified in 2009 to allow an exclusion of up to $2,400 of unemployment insurance benefits from gross income for taxable year 2009.

Social Security

162. ***Social Security benefits for retired workers.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions out of taxed income. These additional retirement benefits are paid for partly by employers' contributions that were not included in employees' taxable compensation and partly by earnings on employee and employer contributions. Portions of benefits (reaching as much as 85 percent) of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased-in) the income tax base, however, if the recipient's provisional income exceeds certain base amounts. Provisional income is equal to adjusted gross income plus foreign or U.S. possession income and tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits. The tax expenditure is limited to the portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable.

163. ***Social Security benefits for the disabled.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 156, Social Security benefits for retired workers.)

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

165. ***Tax Credit for Certain Government Retirees.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code was modified in 2009 to provide a tax credit of $250 for certain government retirees who do not receive social security benefits. This credit is provided so as to equalize the treatment with social security beneficiaries who received $250 in stimulus payments in 2009.

Veterans Benefits and Services

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

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

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

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

General Government

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

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

lenders receive the 35 percent credit which is included in taxable income.[4]

172. ***Deductibility of certain nonbusiness State and local taxes.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers who itemize a deduction for State and local income taxes and property taxes (or at the taxpayer's election state and local sales taxes) even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

Interest

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

APPENDIX A

PERFORMANCE MEASURES AND THE ECONOMIC EFFECTS OF TAX EXPENDITURES

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures, however, may also contribute to achieving these goals. This Appendix responds to the report of the Senate Governmental Affairs Committee on GPRA[5] calling on the Executive Branch to undertake a series of analyses to assess the effect of specific tax expenditures on the achievement of agencies' performance objectives.

Comparison of tax expenditure, spending, and regulatory policies. Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[6] Because there is an existing public administrative and private compliance structure for the tax system, the incremental administrative and compliance costs for a tax expenditure may be low in many cases. In addition, some tax expenditures actually simplify the operation of the tax system, (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals, floors, ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

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

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

[4] This payment is treated as an outlay and has no direct revenue effects. To the extent that these bonds displace traditional tax exempt bonds, the outlays are in part offset by revenue gains from such displacement. Following tax expenditure estimating conventions on behavioral effects, the reported revenue gain estimates in the Tables should be set to zero. Nevertheless, such estimates are provided to highlight the dynamics of these new bonds in substituting for traditional bonds as well as reflecting on the keen public interest in this provision.

[5] Committee on Government Affairs, United States Senate, "Government Performance and Results Act of 1993" (Report 103–58, 1993).

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

to changing activity levels and economic conditions than tax expenditures.

Regulations have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor) generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. However, major regulations are subjected to a formal regulatory analysis that goes well beyond the analysis required for outlays and tax-expenditures. To some extent, the GPRA requirement for performance evaluation will address this lack of formal analysis.

Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers.

Tax expenditures, like spending and regulatory programs, have a variety of objectives and effects. When measured against a comprehensive income tax, for example, these include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales); and promoting tax neutrality (e.g., accelerated depreciation in the presence of inflation). Some of these objectives are well suited to quantitative measurement, while others are less well suited. Also, many tax expenditures, including those cited above, may have more than one objective. For example, accelerated depreciation may encourage investment. In addition, the economic effects of particular provisions can extend beyond their intended objectives (e.g., a provision intended to promote an activity or raise certain incomes may have positive or negative effects on tax neutrality).

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs.

Thus, for a provision that reduces taxes on certain investment activity, an increase in the amount of investment would likely be a key output. The resulting production from that investment, and, in turn, the associated improvements in national income, welfare, or security, could be the outcomes of interest. For other provisions, such as those designed to address a potential inequity or unintended consequence in the Tax Code, an important performance measure might be how they change effective tax rates (the discounted present value of taxes owed on new investments or incremental earnings) or excess burden (an economic measure of the distortions caused by taxes). Effects on the incomes of members of particular groups may be an important measure for certain provisions.

An Overview of Evaluation Issues by Budget Function

The discussion below considers the types of measures that might be useful for some major programmatic groups of tax expenditures. The discussion is intended to be illustrative and not all encompassing. However, it is premised on the assumption that the data needed to perform the analysis are available or can be developed. In practice, data availability is likely to be a major challenge, and data constraints may limit the assessment of the effectiveness of many provisions. In addition, such assessments can raise significant challenges in economic modeling.

National defense. Some tax expenditures are intended to assist governmental activities. For example, tax preferences for military benefits reflect, among other things, the view that benefits such as housing, subsistence, and moving expenses are intrinsic aspects of military service, and are provided, in part, for the benefit of the employer, the U.S. Government. Tax benefits for combat service are intended to reduce tax burdens on military personnel undertaking hazardous service for the Nation. A portion of the tax expenditure associated with foreign earnings is targeted to benefit U.S. Government civilian personnel working abroad by offsetting the living costs that can be higher than those in the United States. These tax expenditures should be considered together with direct agency budget costs in making programmatic decisions.

International affairs. Tax expenditures are also aimed at goals such as tax neutrality. These include the exclusion for income earned abroad by nongovernmental employees and exclusions for income of U.S.-controlled foreign corporations. Measuring the effectiveness of these provisions raises challenging issues.

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

Housing investment also benefits from tax expenditures. The imputed net rental income from owner-occupied housing is excluded from the tax base. The mortgage interest deduction and property tax deduction on personal residences also are reported as tax expenditures because the value of owner-occupied housing services is not included in a taxpayer's taxable income. Taxpayers also may exclude up to $500,000 of the capital gains from the sale of personal residences. Measures of the effectiveness of these provisions could include their effects on increasing the extent of home ownership and the quality of housing. Similarly, analysis of the extent of accumulated inflationary gains is likely to be relevant to evaluation of the capital gains for home sales. Deductibility of State and local property taxes assists with making housing more affordable as well as easing the cost of providing community services through these taxes. Provisions intended to promote investment in rental housing could be evaluated for their effects on making such housing more available and affordable. These provisions should then be compared with alternative programs that address housing supply and demand.

Transportation. Employer-provided parking is a fringe benefit that, for the most part, is excluded from taxation. The tax expenditure estimates reflect the cost of parking that is leased by employers for employees; an estimate is not currently available for the value of parking owned by employers and provided to their employees. The exclusion for employer-provided transit passes is intended to promote use of this mode of transportation, which has environmental and congestion benefits. The tax treatments of these different benefits could be compared with alternative transportation policies.

Community and regional development. A series of tax expenditures is intended to promote community and regional development by reducing the costs of financing specialized infrastructure, such as airports, docks, and stadiums. Empowerment zone and enterprise community provisions are designed to promote activity in disadvantaged areas. These provisions can be compared with grants and other policies designed to spur economic development.

Education, training, employment, and social services. Major provisions in this function are intended to promote post-secondary education, to offset costs of raising children, and to promote a variety of charitable activities. The education incentives can be compared with loans, grants, and other programs designed to promote higher education and training. The child credits are intended to adjust the tax system for the costs of raising children; as such, they could be compared to other Federal tax and spending policies, including related features of the tax system, such as personal exemptions (which are not defined as a tax expenditure). Evaluation of charitable activities requires consideration of the beneficiaries of these activities, who are generally not the parties receiving the tax reduction.

Health. Individuals also benefit from favorable treatment of employer-provided health insurance. Measures of these benefits could include increased coverage and pooling of risks. The effects of insurance coverage on final outcome measures of actual health (e.g., infant mortality, days of work lost due to illness, or life expectancy) or intermediate outcomes (e.g., use of preventive health care or health care costs) could also be investigated.

Income security, Social Security, and veterans benefits and services. Major tax expenditures in the income security function benefit retirement savings, through employer-provided pensions, individual retirement accounts, and Keogh plans. These provisions might be evaluated in terms of their effects on boosting retirement incomes, private savings, and national savings (which would include the effect on private savings as well as public savings or deficits). Interactions with other programs, including Social Security, also may merit analysis. As in the case of employer-provided health insurance, analysis of employer-provided pension programs requires imputing the value of benefits funded at the firm level to individuals.

Other provisions principally affect the incomes of members of certain groups, rather than affecting incentives. For example, tax-favored treatment of Social Security benefits, certain veterans' benefits, and deductions for the blind and elderly provide increased incomes to eligible parties. The earned-income tax credit, in contrast, should be evaluated for its effects on labor force participation as well as the income it provides lower-income workers.

General purpose fiscal assistance and interest. The tax-exemption for public purpose State and local bonds reduces the costs of borrowing for a variety of purposes (borrowing for non-public purposes is reflected under other budget functions). The deductibility of certain State and local taxes reflected under this function primarily relates to personal income taxes (property tax deductibility is reflected under the commerce and housing function). Tax preferences for Puerto Rico and other U.S. possessions are also included here. These provisions can be compared with other tax and spending policies as means of benefiting fiscal and economic conditions in the States, localities, and possessions. Finally, the tax deferral for interest on U.S. savings bonds benefits savers who invest in these instruments. The extent of these benefits and any effects on Federal borrowing costs could be evaluated.

The above illustrative discussion, although broad, is nevertheless incomplete, omitting important details both for the provisions mentioned and the many that are not explicitly cited. Developing a framework that is sufficiently comprehensive, accurate, and flexible to reflect the objectives and effects of the wide range of tax expenditures will be a significant challenge. OMB, Treasury, and other agencies will work together, as appropriate, to address this challenge. As indicated above, over the next few years the Executive Branch's focus will be on the availability of the data needed to assess the effects of the tax expenditures designed to increase savings.