

Tax Reform Today

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Part I - Tax Reform from the Administrative Branch:

Tax Proposals and Frameworks from President Obama, OMB, Treasury, PERAB and the National Commission on Fiscal Responsibility and Reform

The categories used in the following table are from the Administration's FY2013 Greenbook. The proposals listed for "PERAB" and "Deficit Commission" are not necessarily ones that President Obama has advocated, although these groups were derived assembled by him. The PERAB report primarily analyzes various proposals rather than advocates for any. For all but the Greenbook and PERAB, some assumptions were made due to lack of details. For example, the February 2012 business tax reform framework proposes to "eliminate oil and gas tax preferences" (page 9). It then lists two examples. In creating the chart, it was assumed that the intent was to eliminate all the items listed for repeal in the FY2013 Greenbook that was also released in February 2012. The proposals listed are mostly taken verbatim from the associated report. Where more than one revenue estimate was available, the most recent one is provided.

The first column – "principle," refers to the five "Principles for Tax Reform" that President Obama released in September 2011¹ (reproduced below).²

PRINCIPLES FOR TAX REFORM	
1.	Lower tax rates. The tax system should be simplified and work for all Americans with lower individual and corporate tax rates and fewer brackets.
2.	Cut Inefficient and Unfair Tax Breaks. Cut tax breaks that are inefficient, unfair, or both so that the American people and businesses spend less time and less money each year filing taxes and cannot avoid their responsibility by gaming the system.
3.	Cut the deficit. Cut the deficit by \$1.5 trillion over the next decade through tax reform, including the expiration of tax cuts for single taxpayers making over \$200,000 and married couples making over \$250,000.
4.	Increase job creation and growth in the United States. Make America stronger at home and more competitive globally by increasing the incentive to work and invest in the United States.
5.	Observe the Buffett Rule. No household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay. As Warren Buffett has pointed out, his effective tax rate is lower than his secretary's. No household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay. This rule will be achieved as part of an overall reform that increases the progressivity of the tax code.

Additional information about the reports and links to each are included at the end of the table.

¹ Office of Management and Budget (OMB), [Living Within Our Means and Investing in the Future - The President's Plan for Economic Growth and Deficit Reduction](#), September 2011, page 46.

² The numbering (assigned by the author) uses assumptions for why President Obama or a commission he established made each proposal in the chart. Thus, others may disagree with the assignment of the particular principle. For example, a one-year extension of 100% bonus depreciation is assumed to be offered for job creation and U.S. investment.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduction	Business Tax Reform	PERAB	Deficit Commission	Revenue estimate over 10 years (if available) (millions)
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TEMPORARY TAX RELIEF TO CREATE JOBS AND JUMPSTART GROWTH							
4	Extend 2 percentage point FICA reduction for employees and self-employed through 2012 (enacted, PL 112-96 (2/22/12))	X					-\$31,158
4	Temporarily cut employer payroll taxes in half for first \$5 million of wages and 100% payroll tax cut for new jobs/wages capped at \$50 million of new wages.		X-Act				-\$68,748
4	Cut employee payroll taxes in half in 2012		X-Act				-\$178,847
4	Extend 100% first-year depreciation deduction for one additional year	X	X-Act				-\$5,797 ³
4	Implement Veterans hiring initiative (temporary credit for hiring Veterans enacted by PL 112-56 (11/21/12))		X-Act				-\$90
4	Provide a temporary 10% tax credit for new jobs and wage increases	X					-\$18,448
4	Provide jobs tax credit for hiring long term unemployed individuals		X-Act				-\$10,595
	Provide additional tax credits for investment in qualified property used in a qualifying Advanced Energy Manufacturing Project	X					-\$3,484
	Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction	X					-\$1,655
	Reform and extend Build America Bonds	X					-\$1,101
	Extend exemption from AMT treatment for certain tax-exempt bonds		X-Act				-\$244
TAX CUTS FOR FAMILIES AND INDIVIDUALS							
	Extend the American Opportunity Tax Credit	X					-\$137,370

³ This revenue estimate is from the American Jobs Act for 2012-2021. The Greenbook estimate for 2013-2022 is \$30,922 million increase. But this revenue estimate for 100% bonus depreciation in 2012 excludes the \$35,046 million cost for 2012. With that cost considered, the Greenbook revenue estimate is closer to the estimate for the American Jobs Act.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	(AOTC)						
	Provide for automatic enrollment in Individual Retirement Accounts or Annuities (IRAs), including a small employer tax credit, and double the tax credit for small employer plan start-up costs	X					-\$15,022
	Expand the Earned Income Tax Credit (EITC) for larger families	X					-\$14,009
	Expand the child and dependent care tax credit	X					-\$10,217
	Extend exclusion from income for cancellation of certain home mortgage debt	X					-\$2,706
	Provide exclusion from income for student loan forgiveness for students after 25 years of income-based or income-contingent repayment	X					Negligible
	Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the Indian Health Service (IHS) Health Professions Programs	X					-\$20
1	Extend 2001/2003/2010 tax cuts for individuals with \$200,000 or less of income (\$250,000 if MFJ) (generally implied or included in baseline)	X	X	X			Baseline adjustment ⁴
1	Lower all tax rates to 12%, 22% and 28%					X	
1	Permanent AMT patch (included in baseline)	X					Baseline

⁴ The revenue estimates in the FY2013 Greenbook assume a baseline where the 2001 and 2003 tax cuts are permanently extended for all individuals. This then allows for showing a revenue increase if these tax cuts are not extended for upper-income individuals. Table 2 of the FY2013 Greenbook (page 206) shows that the cost of extending the tax cuts for all individuals for 2013 through 2022 (ten years) is \$2.2 trillion. The Joint Committee on Taxation has also estimated the budget effects of the FY2013 revenue provisions from President Obama. The dollar amounts are close to, but not exactly equal to those included in the Greenbook. See Joint Committee on Taxation, *Estimated Budget Effects Of The Revenue Provisions Contained In the President's Fiscal Year 2013 Budget Proposal*, JCX-27-12 (3/14/12); available at <https://www.jct.gov/publications.html?func=startdown&id=4413>. Note that the Greenbook baseline includes additional assumptions. Per page 197: "This baseline permanently continues the 2001 and 2003 tax cuts (as modified by subsequent legislation) for all taxpayers. The Administration's adjusted baseline also permanently continues estate, gift, and GST taxes at 2012 parameters and reflects permanent extension of relief from the AMT." See pages 197 to 199 of the FY 2013 Greenbook for further explanation of the baseline adjustment and rationale.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
							adjustment ⁵
1	Repeal the individual AMT				X	X	
INCENTIVES FOR EXPANDING MANUFACTURING AND INSOURCING JOBS IN AMERICA							
4	Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	X		X			-\$90
	Provide New Manufacturing Communities Tax Credit	X					-\$4,426
4	Target the Domestic Production Deduction to domestic manufacturing activities and double the deduction for Advanced Manufacturing Activities	X		X			Negligible
4	Enhance and make permanent the Research and Experimentation (R&E) tax credit	X		X			-\$108,535
	Provide a tax credit for the production of Advanced Technology Vehicles	X					-\$1,995
	Provide a tax credit for Medium- and Heavy-Duty Alternative-Fuel Commercial Vehicles	X					-\$1,697
	Extend and modify certain energy incentives	X					-\$3,870
	Make the renewable electricity production credit permanent			X			
TAX RELIEF FOR SMALL BUSINESS							
4	Eliminate capital gains taxation on investments in Small Business Stock	X					-\$7,991
4	Double the amount of expensed start-up expenditures	X		X			-\$3,073
	Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	X		X			-\$14,161
4	Section 179 expensing amount of \$125,000 with	X					Baseline

⁵ See prior footnote for further explanation of the baseline adjustment for Greenbook revenue estimates. Per Table 2 of the FY 2013 Greenbook, the ten year cost of extending and indexing the 2011 "parameters" of the AMT is \$1.9 trillion (page 206).

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduction	Business Tax Reform	PERAB	Deficit Commission	Revenue estimate over 10 years (if available) (millions)
	\$500,000 phase-out level (included in baseline)						adjustment ⁶
4	Allow expensing up to \$1 million of “qualified investment” per year			X			
	Allow cash method for businesses with \$10 million or less of gross receipts			X			
	Expand simplified cash accounting to more businesses				X		
INCENTIVES TO PROMOTE REGIONAL GROWTH							
	Extend and modify the New Markets Tax Credit (NMTC)	X					-\$3,370
	Designate Growth Zones	X					-\$3,150
	Restructure assistance to New York City, provide tax incentives for transportation infrastructure	X					-\$2,000
	Modify tax-exempt bonds for Indian tribal governments	X					-\$176
	Allow current refundings of state and local governmental bonds	X					0
Reform and Expand the Low-Income Housing Tax Credit (LIHTC):							
	Encourage mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income	X					-120
	Make the Low Income Housing Tax Credit (LIHTC) beneficial to Real Estate Investment Trusts (REITS)	X					Negligible
	Provide 30% basis “boost” to properties that receive an allocation of tax-exempt bond volume cap and that consume that allocation	X					-\$783
	Require LIHTC-supported housing to provide appropriate protections to victims of domestic	X					Negligible

⁶ See footnote 4 for further explanation of the baseline adjustment for Greenbook revenue estimates. Per Table 2 of the FY 2013 Greenbook, the ten year cost of extending expensing for small business is \$48.9 billion (page 206); this dollar amount is included in the \$2.2 trillion cost of extending the 2001 and 2003 tax cuts for all taxpayers. The extension leaves the \$179 expensing amount at \$125,000 with the phase-out starting at \$500,000.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	violence						
CONTINUE CERTAIN EXPIRING PROVISIONS THROUGH CALENDAR YEAR 2013 (See Table 4 of Greenbook)							
1	Expiring provisions to be continued through 2013. ⁷	X					-\$26,005
	Identify temporary provisions to either be eliminated or made permanent			X			
UPPER-INCOME TAX PROVISIONS							
Sunset the Bush Tax Cuts for Those with Income in Excess of \$250,000 (\$200,000 if Single)							
	Reinstate the limitation on itemized deductions for upper-income taxpayers	X	X*				\$122,985
	Reinstate the personal exemption phase-out for upper-income taxpayers	X	X*				\$41,942
	Reinstate the 36% and 39.6% tax rates for upper-income taxpayers	X	X*				\$441,554
	Tax qualified dividends as ordinary income for upper-income taxpayers	X	X*				\$206,415
	Tax net long-term capital gains at a 20% rate for upper-income taxpayers	X	X*				\$35,966
Reduce the Value of Certain Tax Expenditures							
	Reduce the value of certain tax expenditures (itemized deductions and tax expenditures including foreign excluded income, tax-exempt interest, employer-provided health insurance, and a few other items)	X	X-Act				\$584,197 (Greenbook)
5	"Asks the wealthiest to contribute more" / "Buffett rule" ⁸		X	X			\$46,714 ⁹

⁷ Per page 65 of the FY2013 Greenbook, the provisions extended include "the optional deduction for State and local general sales taxes; the deduction for qualified out-of-pocket classroom expenses; the deduction for qualified tuition and related expenses; the Subpart F "active financing" and "look-through" exceptions; the modified recovery period for qualified leasehold, restaurant, and retail improvements; and several trade agreements would be extended through December 31, 2013. Temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law." Also see Table 4 of the Greenbook.

⁸ The "Buffett Rule" applies to households with more than \$1 million of income. This group of individuals is a subset of "upper-income" individuals defined in the FY2013 Greenbook as single individuals with over \$200,000 of income (\$250,000 if married filing jointly; \$225,000 if head-of-household). The "Buffett Rule" is also mentioned in these reports and website from President Obama:

○ The White House, website on the Buffett Rule at <http://www.whitehouse.gov/economy/buffett-rule>.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduction	Business Tax Reform	PERAB	Deficit Commission	Revenue estimate over 10 years (if available) (millions)
1	Repeal phase-out of itemized deductions for high income taxpayers					X	
1	Repeal phase-out of personal exemptions for high income taxpayers					X	
MODIFY ESTATE AND GIFT TAX PROVISIONS							
	Restore estate and gift taxes and exemptions to 2009 levels.	X	X				\$118,797 ¹⁰
	Require consistency in value for transfer and income tax purposes	X					\$2,014
	Modify rules on valuation discounts	X					\$18.079
	Require a minimum term for Grantor Retained Annuity Trusts (GRATs)	X					\$3,334
	Limit duration of Generation-Skipping Transfer (GST) Tax exemption	X					Negligible
	Coordinate certain income and transfer tax rules applicable to grantor trusts	X					\$910
	Extend the lien on estate tax deferrals provided under Section 6166	X					\$160
REFORM U.S. INTERNATIONAL TAX SYSTEM							
2	Defer deduction of interest expense related to deferred income of foreign subsidiaries	X	X	X			\$37,253
2	Determine the Foreign Tax Credit on a pooling basis	X	X				\$60,835
2	Tax currently excess returns associated with transfers of intangibles offshore	X	X	X			\$22,973

○ The White House, [Blueprint for an America Built to Last](#), January 2012, pages 7 - 8.

○ The National Economic Council, The White House, [The Buffett Rule: A Basic Principle of Tax Fairness](#), April 2012.

On April 12, 2012, Senate Finance Committee Ranking Member Hatch released "[Fact Sheet: The Do's & Don'ts of the Buffett Tax](#)." The release related to a Senate vote on April 16, 2012 on [S. 2230](#), Paying a Fair Share Act of 2012. The vote on S. 2230 was insufficient for it to move forward.

⁹ The revenue estimate for the Buffett Rule is from the Joint Committee on Taxation's estimate prepared for [S. 2230](#), Paying a Fair Share Act of 2012. S. 2230 uses adjusted gross income (AGI) to determine if income exceeds \$1 million and includes an adjustment to consider charitable contributions made. The 30% tax is owed if greater than the total of regular tax, AMT and payroll taxes, less specified tax credits. Source: [JCX-33-12](#) (4/16/12).

¹⁰ See footnote 4 for further explanation of the baseline adjustment for Greenbook revenue estimates. Per Table 2 of the FY 2013 Greenbook, the ten year cost of extending estate, gift and GST taxes and portability of the unused estate and gift tax exclusion between spouses at 2012 "parameters" is \$431 billion (page 206). While the baseline assumes continuation of the 2012 "parameters," the Greenbook proposal is to restore estate, gift and GST parameters in effect in 2009. Thus, with the more generous baseline assumption, the estate, gift and GST proposal to restore to the less generous 2009 parameters, a revenue increase is indicated.

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
2	Limit shifting of income through intangible property transfers	X	X				\$1,623
2	Disallow the deduction for non-taxed reinsurance premiums paid to affiliates	X					\$2,449
2	Limit earnings stripping by expatriated entities	X	X				\$4,432
2	Modify tax rules for dual capacity taxpayers	X	X-Act				\$10,724
2	Tax gain from the sale of a partnership interest on look-through basis	X					\$2,561
2	Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment	X					\$3,323
2	Extend Section 338(h)(16) to certain asset acquisitions	X					\$960
2	Remove foreign taxes from a Section 902 corporation's foreign tax pool when earnings are eliminated	X					\$389
1	More to a territorial system but continue to tax passive foreign-source income under Subpart F				X	X	
1	Income of foreign subsidiaries of US companies subject to a minimum tax that can be reduced by foreign tax credit			X			
1	Move to a worldwide system with a lower corporate tax rate				X		
	Limit or end deferral with the current corporate tax rate				X		
1	Retain current system but lower the corporate tax rate				X		
REFORM TREATMENT OF FINANCIAL AND INSURANCE INDUSTRY INSTITUTIONS AND PRODUCTS							
	Impose a Financial Crisis Responsibility Fee	X					\$61,342
2	Require accrual of income on forward sale of corporate stock	X					\$303
2	Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	X					\$2,911
2	Modify the definition of	X					\$192

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	“control” for purposes of Section 249						
2	Modify rules that apply to sales of life insurance contracts	X	X				\$811
2	Modify proration rules for life insurance company general and separate accounts	X					\$7,706
2	Expand pro rata interest expense disallowance for Corporate-Owned Life Insurance	X	X				\$5,567
2	Reform "treatment of insurance companies and products to improve information reporting, simplify tax treatment, and close loopholes."			X			
2	Modify dividends received deduction for life insurance separate accounts		X				\$5,478
ELIMINATE FOSSIL FUEL PREFERENCES							
Eliminate Oil and Gas Preferences:							
2	Repeal Enhanced Oil Recovery (EOR) Credit	X	X-Act	X			\$0
2	Repeal credit for oil and gas produced from marginal wells	X	X-Act	X			\$0
2	Repeal expensing of Intangible Drilling Costs (IDCs)	X	X-Act	X			\$13,902
2	Repeal deduction for tertiary injectants	X	X-Act	X			\$100
2	Repeal exception to passive loss limitation for working interests in oil and natural gas properties	X	X-Act	X			\$82
2	Repeal percentage depletion for oil and natural gas wells	X	X-Act	X			\$11,465
2	Increase geological and geophysical amortization period for independent producers to 7 years	X	X-Act	X			\$1,400
2	Repeal the Section 199 deduction for production of oil and gas		X-Act				\$16,423
2	Separate basket treatment taxes paid on foreign oil and gas income		X-Act				
Eliminate Coal Preferences:							
2	Repeal expensing of exploration and	X	X	X			\$440

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	development costs						
2	Repeal percentage depletion for hard mineral fossil fuels	X	X	X			\$1,744
2	Repeal capital gains treatment for royalties	X	X	X			\$422
2	Repeal use of §199 deduction for production of coal and other hard mineral fossil fuels		X				\$389
OTHER REVENUE CHANGES AND LOOPHOLE CLOSERS							
	Increase Oil Spill Liability Trust Fund Financing Rate by One Cent and Update the Law to Include Other Sources of Crudes	X					\$717
	Reinstate and extend Superfund excise taxes	X	X				\$8,225
	Reinstate Superfund Environmental Income Tax	X					\$12,733
	Make Unemployment Insurance surtax permanent	X	X				\$13,936
4	Provide short-term tax relief to employers and expand FUTA base	X					\$47,843
2	Repeal Last-In, First-Out (LIFO) method of accounting for inventories	X	X	X		X	\$73,782
2	Repeal Lower-Of- Cost-or-Market (LCM) inventory accounting method	X	X				\$13,059
2	Repeal the Section 199 manufacturing deduction					X	
2	Eliminate special depreciation rules for purchases of general aviation passenger aircraft	X	X-Act	X			\$2,206
2	Repeal all business credits					X	
2	Repeal all business tax expenditures					X	
	Modify accelerated depreciation schedules to better reflect economic lives			X			
2	Repeal gain limitation for dividends received in reorganization exchanges	X					\$874
2	Tax carried (profits) interests as ordinary income	X	X-Act	X			\$13,496
2	Expand the definition of substantial built-in loss for purposes of partnership loss transfers	X					\$64

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
2	Extend partnership basis limitation rules to nondeductible expenditures	X					\$826
2	Limit the importation of losses under Section 267	X					\$767
2	Deny deduction for punitive damages	X					\$319
2	Eliminate the deduction for contributions of conservation easements on golf courses	X					\$593
2	Deny deductions for interest allocable to life insurance policies except where the policy is on an officer, director or employee who owns at least 20% of the business.			X			
	Reduce deductibility of interest expense by corporations to reduce bias for debt over equity			X			
2	“Greater parity between large corporations and their large non-corporate counterparts” to “improve equity, reduce distortions in how businesses organize themselves, and finance lower tax rates.”			X			
2	Repeal all itemized deductions, all individuals claim standard deduction					X	
2	Repeal mortgage interest deduction and replace it with 12% non-refundable credit for all taxpayers, capped based on \$500,000 mortgage amount. No credit for home equity loans or mortgage not on a principal residence.					X	
2	Repeal charitable contribution deduction and replace with 12% non-refundable credit for all taxpayers on contributions that exceed 2% of AGI					X	
2	Exclusion for employer-provided health insurance capped at 75th percentile of premium levels for 2014; cap frozen through 2018; phased out by 2038.					X	

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduction	Business Tax Reform	PERAB	Deficit Commission	Revenue estimate over 10 years (if available) (millions)
2	IRC Section 4980I, <i>Excise tax on high cost employer-sponsored health coverage</i> , with 40% tax on "excess benefit" effective starting in 2018 ("Cadillac" tax) reduced to 12%					X	
2	Tax capital gains and dividends at ordinary income tax rates					X	
2	Interest on newly issued state and municipal bonds subject to tax					X	
2	Retirement accounts consolidated with tax-preferred contributions capped at lower of \$20,000 or 20% of income.					X	
	Saver's credit expanded					X	
2	Most tax expenditures repealed					X	
2	Cut inefficient and unfair tax breaks (principle)		X				
2	Eliminate or reduce tax expenditures				X		
REDUCE THE TAX GAP AND MAKE REFORMS							
Expand Information Reporting:							
	Require information reporting for private separate accounts of life insurance companies	X	X				\$10
	Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding	X					\$1,413
	Delay application of withholding on government contractors (IRC §3402(t) was repealed by PL 112-56 (11/21/12))		X-Act				-\$497
Improve Compliance by Businesses:							
	Require greater electronic filing of returns	X					\$0
	Authorize Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports	X					\$0
	Implement standards clarifying when employee leasing companies can be held liable for their clients'	X					\$65

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	federal employment taxes						
	Increase certainty with respect to worker classification	X	X		X		\$8,372
2	Repeal special estimated tax payment provision for certain insurance companies	X					Negligible
	Eliminate special rules modifying the amount of estimated tax payments by corporations	X					\$300
Strengthen Tax Administration:							
	Streamline audit and adjustment procedures for large partnerships	X					\$1,714
	Revise offer-in-compromise rules	X					\$20
	Expand IRS access to information in the National Directory of New Hires for Tax Administration Purposes	X					\$0
	Make repeated willful failure to file a tax return a felony	X					\$10
	Facilitate tax compliance with local jurisdictions	X					\$8
	Extend statute of limitations where state adjustment affects federal tax liability	X					\$25
	Improve investigative disclosure statute	X					\$10
	Require taxpayers who prepare their returns electronically but file on paper to print their returns with a 2-D bar code	X					\$0
	Allow IRS to absorb credit and debit card processing fees for certain tax payments	X					\$19
	Improve and make permanent the provision authorizing IRS to disclose certain return information to certain prison officials	X					negligible
	Extend IRS math error authority in certain circumstances	X					\$173
	Impose a penalty on failure to comply with electronic filing requirements	X					\$10

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	Strengthen IRS tax enforcement and compliance		X				
	Dedicate more resources to enforcement and enhance enforcement tools				X		
	Increase information reporting and source withholding				X		
	Small business bank account reporting				X		
	Voluntary disclosure programs				X		
	Examine multiple tax years during certain audits				X		
SIMPLIFY THE TAX SYSTEM							
	Simplify the rules for claiming the Earned Income Tax Credit (EITC) for workers without qualifying children	X					-\$5,355
	Eliminate Minimum Required Distribution (MRD) rules for Individual Retirement Account or Annuity (IRA) plan balances of \$75,000 or less	X					-\$355
	Allow all inherited plan and Individual Retirement Account or annuity (IRA) balances to be rolled over within 60 days	X					Negligible
	Clarify exception to recapture unrecognized gain on sale of stock to an Employee Stock Ownership Plan (ESOP)	X					Negligible
	Repeal Non-Qualified Preferred Stock (NQPS) designation	X					\$388
	Repeal preferential dividend rule for publicly offered Real Estate Investment Trusts (REITS)	X					Negligible
	Reform excise tax based on investment income of private foundations	X					-\$54
	Remove bonding requirements for certain taxpayers subject to federal excise taxes on distilled spirits, wine and beer	X					Negligible
	Simplify arbitrage investment restrictions for	X					-\$431

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduct ion	Business Tax Reform	PERAB	Deficit Commis sion	Revenue estimate over 10 years (if available) (millions)
	tax-exempt bonds						
	Simplify single-family housing mortgage bond targeting requirements	X					-\$15
	Streamline private business limits on governmental bonds	X					-\$110
	Consolidate family credits and simplify eligibility rules				X		
	Simplify and consolidate tax incentives for education				X		
	Simplify the "kiddie tax"				X		
	Simplify rules for low-income credits, filing status, and divorced parents				X		
	Consolidate retirement accounts and harmonize statutory requirements				X		
	Simplify taxation of capital gains				X		
	Simplify capital gains rate structure				X		
	Limit or repeal Section 1031 like-kind exchanges				X		
	Adjust amount for gain exclusion on sale of a principal residence for inflation				X		
	Simplify tax filing for individuals				X		
	Simplified home office deduction				X		
	Simplify recordkeeping for cell phones, PDAs, and other devices (partially enacted by Small Business Jobs Act of 2010 (P.L. 111-240; 9/27/10))				X		
	Modify and simplify AMT				X		
USER FEES							
	Reform Inland Waterways Funding	X					\$1,100
OTHER INITIATIVES							
	Allow offset of federal income tax refunds to collect delinquent state income taxes for out-of-state residents	X					\$0
	Authorize the limited sharing of business tax return information to improve the accuracy of	X					\$0

Principle	Reports: Proposal:	Green book	Jobs Act and Deficit Reduction	Business Tax Reform	PERAB	Deficit Commission	Revenue estimate over 10 years (if available) (millions)
	important measures of our economy						
	Eliminate certain reviews conducted by the Treasury Inspector General for Tax Administration (TIGTA).	X					\$0
	Modify indexing to prevent deflationary adjustments	X					\$0
PROGRAM INTEGRITY INITIATIVES							
	Increase levy authority for payments to Medicare providers with delinquent tax debt	x					\$717
	Implement a program integrity statutory cap adjustment for IRS	x					\$43,652
ITEMS THAT DO NOT FIT WITHIN THE ABOVE CATEGORIES USED IN THE FY2013 GREENBOOK							
1	Lower corporate tax rate to 28%		X No rate specified		X	X	
1	Lower corporate tax rate to 28% (lower for manufacturers and even lower for advanced manufacturers via higher §199 deduction amounts)			X			
	“Improve transparency and reduce accounting gimmicks” and provide “greater disclosure of annual corporate income tax payments.”			X			
	Clarify and harmonize employment tax rules for businesses and self-employed (SECA conformity)				X		
	Extend holding period for capital gains exclusion on primary residences				X		
4	Increase incentives for new investment/direct expensing ¹¹				X		
	Provide more level treatment of debt and equity financing				X		
	Review the boundary between corporate and non-corporate taxation				X		

¹¹ Proposed for all businesses rather than only small businesses (so this proposal is not a duplicate of the proposals for small businesses listed earlier).

The Administration's Reports

- **Greenbook:** [*General Explanations of the Administration's Revenue Proposals*](#) for FY2013, FY2012, FY 2011 ("Greenbook"). The column in the chart is based on the FY2013 Greenbook. Additional information on the FY2013 proposals is provided in a report related to President Obama's January 2012 State-of-the-Union speech – [*Blueprint for An America Built to Last*](#), 1/24/12 ([8 pages](#)).
- **Jobs Act and Deficit Reduction:** In September 2011, the Office of Management and Budget (OMB) released an 80 page report: [*Living Within Our Means and Investing in the Future - The President's Plan for Economic Growth and Deficit Reduction*](#). This report lays out a plan to pay for President Obama's proposed American Jobs Act and allowing for net deficit reduction of \$3 trillion over ten years which President Obama hoped the [Joint Select Committee on Deficit Reduction](#) would incorporate into their proposal for how to reduce the deficit. President Obama's [American Jobs Act proposal](#), a 199 page proposal, included tax changes noted in this column. The 80-page OMB report includes chapters on the American Jobs Act and Tax Reform. It also includes revenue estimates for the American Jobs Act.

Key to additional information included in this column in the table:

Act – This item is specifically included in the American Jobs Act legislative language.

* - This item is implied based on page 47 to 80 of the 80-page report on allowing tax cuts for high income individuals to expire. There is also a revenue estimate for these items in the report.

- **Business Tax Reform:** White House and Treasury Department, [*The President's Framework for Business Tax Reform*](#), February 2012. This report includes some specific proposals as well as some more general ones, such as to eliminate oil and gas preferences. Information on these proposals was also included in the January 2012, [*Fact Sheet: President Obama's Blueprint to Support U.S. Manufacturing Jobs, Discourage Outsourcing, and Encourage Insourcing*](#), and the report, [*Blueprint for an America Built to Last*](#).
- **PERAB:** The President's Economic Recovery Advisory Board (PERAB), [*The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation*](#), Aug. 2010. The items analyzed in this report are not necessarily items that President Obama has indicated he advocates. The Board notes in the report that it is not part of the President's Administration (page v). Per the preface to the report, the report presents "options for changes in the current tax system to achieve three broad goals: simplifying the tax system, improving taxpayer compliance with existing tax laws, and reforming the corporate tax system."
- **Deficit Commission:** National Commission on Fiscal Responsibility and Reform, [*The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*](#), December 2010. This report was not endorsed by the requisite supermajority of Commission members, but did have bi-partisan support within the Commission. The Commission was created by President Obama.

Legislation Related to the Administration's Proposals

Several items included in the proposals listed in the table, particularly items from the Greenbook, have been introduced as legislation in the 112th Congress. These legislative proposals include the following bills.

- [H.R.3903](#) - Paying a Fair Share Act of 2012. This proposal would implement the "Buffett rule" by adding IRC Section 59B, the Fair Share Tax, which operates similarly to the AMT to ensure that those with over \$1 million of adjusted gross income (adjusted annually for inflation) pay taxes equal to at least 30% of their income. AGI is reduced for charitable contributions adjusted for any reduction under IRC §68. The amount of tax paid which is compared to 30% of modified AGI consists of regular tax plus AMT plus payroll taxes (amounts imposed under §§1401, 1411, 3101,

3201 and 3211(a) less the 164(f) deduction), less specified credits. Also see [H.R.5333](#), [H.R.5727](#), [S.2059](#), [S.2230](#), [S.2252](#). On April 16, 2012, a motion to proceed on S. 2230 was defeated in the Senate (51 – 45; 60 votes needed to proceed).

On April 16, 2012, the Joint Committee on Taxation issued a report estimating that S. 2230 would generate \$46.7 billion over ten years ([JCX-33-12](#)).

- [H.R.5542](#) and [S. 2884](#) - Bring Jobs Home Act.
- [S.940](#), [S. 258](#), [S. 2204](#) - Close Big Oil Tax Loopholes.
- [H.R.4108](#) - Clean Energy Jobs Act of 2012.

Part II - Other Frameworks and Proposals

Following is a sampling of tax reform proposals from the 112th Congress (2011-2012).

1. House Budget Committee / [House Report 112-421](#), Concurrent Resolution on the Budget – Fiscal Year 2013 (3/23/12) / [The Path to Prosperity](#) report (page references are to the House Report):
 - Repeal of all tax increases included in the 2010 health care legislation (page 94).
 - Social Security reform to "prevent severe cuts in future benefits."
 - "Responsible" reductions to the IRS to accompany creation of a simpler tax system (page 112).
 - Not allow the 2001/2003/2010 tax cuts to expire (page 123).
 - "Simplifying the Tax Code and Promoting Job Creation and Economic Growth" (page 124):
 - Reject President Obama's tax increase proposals.
 - Move to a 10% and 25% rate structure for individuals.
 - Reduce the top corporate rate to 25%.
 - Repeal AMT.
 - Broaden the income tax base to generate revenue at per the budget resolution for the next ten years and at 18 – 19% of GDP thereafter.
 - Move from a worldwide to a territorial system.
 - A 20% deduction for small businesses (page 148).
2. [H.R. 25](#), Fair Tax Act of 2011, is a national retail sales tax to replace the income, payroll and estate/gift taxes; 23% tax inclusive rate.
3. [H.R. 86](#) - End Tax Uncertainty Act of 2011 - "To prevent pending tax increases, permanently repeal estate and gift taxes, and permanently repeal the alternative minimum tax on individuals, as for other purposes."
4. [H.R. 99](#), Fair and Simple Tax Act of 2011, lowers individual and corporate rates, repeals estate/gift taxes, makes the 2001/2003 tax cuts permanent, provides for a 10% capital gains tax rate, permanent research credit and AMT patch, and other changes.
5. [H.R. 934](#) - provides for a flat corporate tax rate of 18% with no other changes.
6. [H.R. 1040](#), Freedom Flat Tax Act, calls for an elective flat tax for individuals and other changes. This flat tax is modeled on the original idea of Drs. Hall and Rabushka and is a form of consumption tax.

The 2010 "[Roadmap](#)" proposed by Congressman Paul Ryan included some elements of the flat tax. Key provisions of the proposal ([H.R. 4529](#) (111th Congress), Roadmap for America's Future Act of 2010):

- a. Allow individuals to compute their taxes using either (A) the current income tax, or (B) a computation based two tax rates and almost no deductions, exclusions or credits. The alternative tax system rate structure would be 10% on income up to \$100,000 for married taxpayers filing jointly (\$50,000 if single) and 25% on taxable income above these amounts. The standard deduction and personal exemption amount for a family of four would be \$39,000 (compared to \$26,400 in 2011).
 - b. AMT is repealed.
 - c. No income tax imposed on investment income.
 - d. Estate tax repealed.
 - e. The corporate income tax is replaced with a border-adjustable, subtraction method consumption tax with a rate of 8.5%.
7. In June 2011, Senator Rockefeller laid out a [plan](#) to generate \$1.29 trillion over ten years. Elements of this plan include a tax increase for companies that move jobs offshore, repeal of tax breaks for oil companies, repeal of ethanol subsidies, closing the "Reverse Morris Trust" corporate tax "loophole," not renewing the 2001/2003 tax cuts on upper income individuals, creating new tax brackets for millionaires and billionaires that is 3% high than current rates, making the capital gains tax rate 28%, and capping itemized deductions at a 28% benefit rate. Senator Rockefeller also suggests considering a temporary tax at a rate of 3 cents per 12-ounce soda to help reduce the deficit. He suggests the soda tax would generate \$24 billion over four years.
8. [S. 727](#) (112th Congress), Bipartisan Tax Fairness and Simplification Act, introduced by Senators Wyden (D-OR) and Coats (R-IN), calls for reforms to both the individual and corporate income taxes. Per the sponsors, the proposal is intended to make the income tax "simpler, fairer, and more fiscally responsible" (157 *Cong. Rec.* S2132 (4/5/11)).
9. [S. 1960](#) calls for a FICA reduction for employees and self-employed and a surtax on millionaires.

Part III - Areas of Common Ground

A lot of tax reform attention tends to center around areas of bi-partisan disagreement. This includes whether to extend the 2001/2003 tax cuts for all individuals or only for those below a certain income threshold. President Obama proposes extending the cuts only for those with income under \$200,000 (\$250,000 if married filing jointly). This represents about 98% of individuals. Despite significant differences there are also some areas of common ground among the proposals and frameworks. Some of these areas are summarized in the following chart.

Reform	President Obama, Democrats	Republicans
Tax expenditures and base broadening	Reduce or eliminate.	Congressman Camp stated in October 2011: "Specific base broadening policies" would be identified later to support a 25% corporate tax rate. Governor Romney calls for "a conservative overhaul of the tax system over the long term that includes lower,

		flatter rates on a broader base." ¹²
Lower the corporate tax rate	28%	25% per Congressman Camp's tax reform proposal of October 2011. Governor Romney proposes a 25% corporate tax rate.
Increase parity among all forms of business.	The February 2012 business tax reform framework suggests consideration of reforms included in the 2005 final report of President Bush's Advisory Panel on Tax Reform and options analyzed by PERAB in 2010.	In announcing a May 2012 hearing, Congressman Camp stated that it would "consider how and under which sets of rules closely-held entities should be taxed." A December 2007 Treasury Department report on tax reform included discussion of a business activities tax (BAT) that would be imposed on all business entities regardless of form.
Repeal individual AMT	PERAB and Deficit Commission call for repeal. The FY 2013 Greenbook calls for a permanent "AMT patch" that would remove about 20 million individuals from the AMT.	House Budget Committee report , <i>The Path to Prosperity</i> , March 2012, page 57. Governor Romney proposes to repeal both the individual and corporate AMT.
Research tax credit	Simplified credit rate increased and made permanent per the business tax reform plan. Note that any efforts to lower the corporate tax rate in a revenue neutral manner could result in the removal of business credits and perhaps even expensing of R&D under Section 174. ¹³	S. 1577 (112th Congress) co-sponsored by Senators Baucus and Hatch proposes to increase and make permanent the simplified research tax credit.
Global tax base ¹⁴	Business tax reform plan would be change deferral by imposing a minimum tax rate (unspecified in the report) on income earned by subsidiaries of U.S. corporations operating outside of the U.S. A foreign tax credit would be allowed. Deficit Commission report (page 43) calls for moving to a territorial system.	Congressman Camp proposal of October 2011 calls for territorial system includes a minimum tax on earnings of foreign subsidiaries. Governor Romney proposes to transition to a territorial system.
Social Security reform	The Deficit Commission report (pages 48 – 55) called for "a balanced plan that eliminates the	The March 2012 House Budget Committee report notes that lawmakers must work together to ensure solvency

¹² Mitt Romney, *Believe in America: Plan for Jobs and Economic Growth*, pages 154; available at

<http://www.mittromney.com/sites/default/files/shared/BelieveInAmerica-PlanForJobsAndEconomicGrowth-Full.pdf>.

¹³ See Joint Committee on Taxation [report](#) of October 27, 2011 on revenue estimates to obtain a revenue neutral corporate tax rate reduction.

¹⁴ For one perspective on the similarities and differences, see Reuven Avi-Yonah, "Vive la Petite Difference: Camp, Obama, and Territoriality Reconsidered," 66 *Tax Notes Int'l* 617 (5/14/12); available at <http://taxprof.typepad.com/files/66ti0617.pdf>.

	75-year Social Security shortfall and puts the program on a sustainable path thereafter."	of the program (pages 103 - 104). It observes that a bipartisan approach is possible and refers to the proposal of President Obama's Deficit Reduction Commission.
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Part IV - Areas of Difference

The following questions represent areas of difference between the Administration and Republican plans.

- Should 2001/2003 tax cuts be preserved for all taxpayers or only those below a specified income level? If only for those below a specified income level, should that level be \$1 million or \$200,000 (\$250,000 if MFJ)?
- Should the estate and gift tax system be repealed? If not, what should the exemption and rate structure be?
- What international tax reforms are needed and how should they be structured?
- How should entity taxation be modified? What should be done, if anything, to address the reality that some non-corporate businesses may convert to C corporations should the corporate tax rate be dropped below the top individual tax rate? What modifications should be made, if any, to personal holding company and accumulated earnings tax rules to prevent corporations from accumulating earnings rather than paying dividends? How should corporate tax reform tie to the tax rate on qualified dividends and capital gains?
- What is considered a "loophole" to repeal?
- How will tax changes be paid for?

Part V - Evaluating Frameworks and Proposals

General Areas to Consider

- What is the goal of the proposal?
- Is that goal likely to be met by the proposal?
- What is the revenue effect of the proposal (over 5 years, 10 years and beyond)? What is the effect on the general fund and any special funds (such as Social Security Trust Fund or Highway Trust Fund)?
- What is the distributional effect of the proposal on individuals (how will it change tax liabilities within various income groups)?
- How does the proposal change tax obligations among different types and sizes of entities?
- Does the proposal change the tax burden on capital and labor?
- What is the effect on state and local governments? Will there be a direct effect (such as H.R. 1040 requiring governments to pay tax on fringe benefits of employees, or any proposal that exempts all interest income from tax)? Will there be indirect effects (such as by loss of provisions that indirectly benefit subnational governments, such as low-income housing credits)?
- What is the effect on employers (for example, might they be inclined to stop offering an employee benefit that employees would then pick up themselves at additional cost to them)?
- What transitional rules, if any, are provided?

- How does the proposal stack up against principles of good tax policy (such as equity, neutrality, simplicity, transparency and economic efficiency)?¹⁵ Where can improvements be made?
- What is missing from the reform (for example, does it change the treatment of a wage deduction but not address worker classification rules)?

Commonly overlooked areas of tax reform include: corporate integration, depreciation/amortization reform, worker classification, retirement plan reform for equity and simplicity and to better encourage savings, penalty reform, improved use of technology for administration, and reducing the tax gap.

- If intended to be comprehensive reform, does it address taxes beyond income taxes?
- Were sufficient hearings held to obtain and evaluate input from all stakeholders?

To Evaluate the Effects on a Particular Taxpayer

The author has created a few templates that can be used to estimate the tax effect of some of the proposals. The templates can be found at <http://www.21stcenturytaxation.com>.¹⁶

Example: Data for 2011 for the Smith family who are married and file jointly. They have two children ages 7 and 11.

Wage income	\$180,000
Interest income	1,000
Dividend income	2,000
Capital gain	4,000
Fringe benefits (excluded)	6,000
State income taxes	6,400
Mortgage interest deduction	12,700
Charitable contributions	3,000
Taxable income	\$150,100
Tax	\$ 29,318

(no AMT owed; income is too high to qualify for the child tax credit)

H.R. 1040, Freedom Flat Tax Act

Calculation of the individual flat tax:

Wages	\$180,000
Retirement distributions	---
Unemployment compensation	---
Taxable income of dependent children under age 14	---
Less standard deduction	<u>(\$43,380)</u>
Taxable income	\$136,620
	<u> x 17%</u>

¹⁵ There are a variety of formulations of "principles of good tax policy." For a comparison chart of some of these formulations, see "Policy Approach to Analyzing Tax Proposals, by the author; available at http://www.cob.sjsu.edu/facstaff/nellen_a/TaxReform/PolicyApproachToAnalyzingTaxSystems.pdf.

¹⁶ While this information is helpful, it is important to bear in mind that tax reform must be evaluated beyond the direct effects to a taxpayer. The effects to employers, individuals within different income groups, and state and local governments must be considered. In addition, the effects on the federal budget, borrowing, and the economy must be considered.

Tax

\$ 23,225

S. 727 - Bipartisan Tax Fairness and Simplification Act

Taxable income	\$150,100
+ Qualified dividends	2,000
+ Capital gains	4,000
+ Miscellaneous itemized deduction amount	--
- Standard deduction adjustment (\$18,400 if MFJ, \$14,000 if HH, and \$9,200 if single) if claimed instead of itemized deductions [For the Smiths, an adjustment is made here because the S. 727 standard deduction (\$30,000) is greater than their itemized deductions.]	- 7,900
+ Amounts excluded for:	
Certain employee achievement awards (§74(c))	--
Group-term life insurance for employees (§79)	--
Meals and lodging furnished for convenience of employer (§119)	--
Cafeteria plan benefits (§135)	--
Fringe benefits (§132 other than (a)(5) for qualified transportation benefit)	6,000
Earned income of U.S. citizens or residents living abroad (§911)	--
Certain allowances (§912)	--
Tax-exempt bond interest	--
+ Moving expense deduction (§217)	--
- 35% of qualified dividends and gains from capital assets held over 6 months	-2,100
- 35% of other capital gains (limited to \$500,000 of such gains)	--
Revised taxable income	\$152,100
Tax	\$31,235

Summary of tax liabilities:

Current tax rules for 2011	\$29,318
H.R. 1040	\$23,225
S. 727	\$31,235

The range will vary depending on the particular facts of the taxpayer. Because H.R. 1040 includes no tax credits, a low-income worker will likely find that loss of the Earned Income Tax Credit results in a tax increase. Individuals with a significant portion of their income derived from investment will likely find that their H.R. 1040 liability is much less than their tax under current law because investment income is not subject to tax at the individual level. S. 727 should compare more favorably to current tax rules if the 2001/2003 reduced tax brackets were not still in effect.

Additional Reading

Reports by Annette Nellen:

- [Tax Reform Calculations: Helping Clients See Direct Financial Effects](#), *AICPA Tax Insider*, 5/10/12
- [Client service idea for the 2012 filing season](#), *AICPA Tax Insider*, 4/12/12
- [Many Questions about the Path to Prosperity](#), *AICPA Corporate Taxation Insider*, 4/26/12

- [President Obama's Business Tax Reform Plan](#), *AICPA Tax Insider*, 3/8/12
- [The Rough Road to a 28% Corporate Tax Rate](#), *AICPA Corporate Taxation Insider*, 11/10/11
- [Pushing for Specifics on Tax Reform Proposals](#), *AICPA Tax Insider*, 11/10/11
- [Tax Reform: Incentives for Innovation](#), *AICPA Corporate Taxation Insider*, 9/29/11
- Testimony before Senate Finance Committee - [Tax Reform and Incentives for Innovation](#), 9/20/11
- [Tax Code's Burdens on Individuals and Families Demonstrate the Need for Comprehensive Tax Reform](#) - written testimony from the AICPA for a 4/13/11 House Ways and Means Committee hearing
- [Small Businesses and Tax Reform](#) - written testimony submitted for the 3/3/11 House Ways & Means Committee hearing on this topic
- [VAT Lessons for U.S. Tax Reform](#), *AICPA Corporate Taxation Insider*, 8/25/11
- [The Journey to a Lower Corporate Tax Rate](#), *AICPA Corporate Taxation Insider*, 3/24/11
- [Rethinking the Income Tax Calculation - A Look At Tax Expenditures](#), *AICPA Tax Insider*, 2/10/11
- [Can the President's Deficit Commission's Proposals Lead to Corporate Tax Reform?,"](#) *AICPA Corporate Taxation Insider*, 1/27/11
- [Remembering Forgotten Tax Issues](#), *AICPA Corporate Taxation Insider*, 1/29/09
- [Strategy for Major Tax Reform](#), *AICPA Tax Insider*, 11/8/07
- Others – <http://www.21stcenturytaxation.com>

Tax Reform Hearings of the 112th (and earlier) Congresses - http://www.cob.sjsu.edu/nellen_a/112th-hearings.htm

Joint Committee on Taxation reports – <http://www.jct.gov>

Congressional Budget Office, *Economic Outlook: Fiscal Years 2012 to 2022*, January 2012; available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-31-2012_Outlook.pdf. Provides helpful information on cost of extending 2001/2003 tax cuts.

AICPA Tax Reform website -

<http://www.aicpa.org/interestareas/tax/resources/taxlegislationpolicy/pages/taxreform.aspx>