CTJ Citizens for Tax Justice

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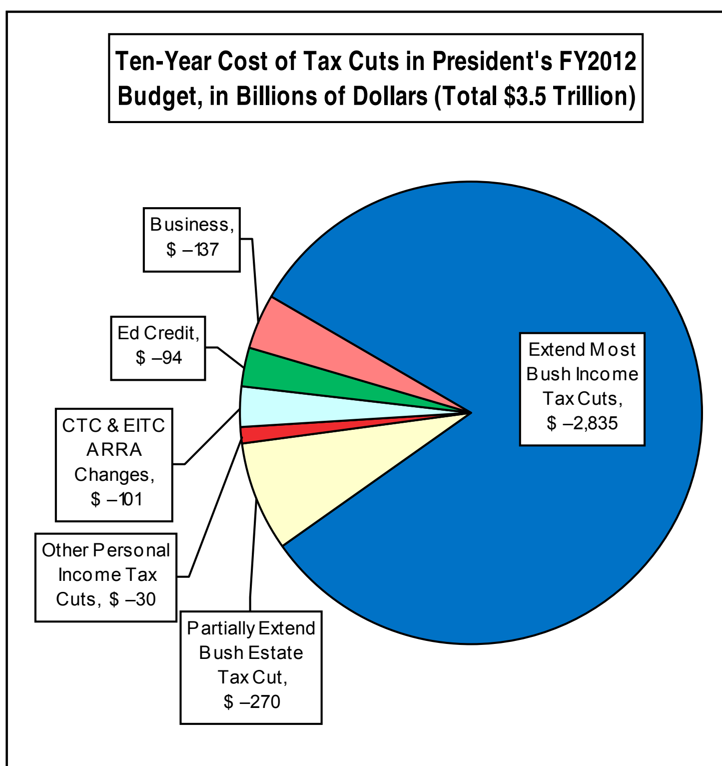
Tax Proposals in President Obama's Fiscal Year 2012 Budget: Plan Would Make Permanent 81 Percent of the Bush Tax Cuts

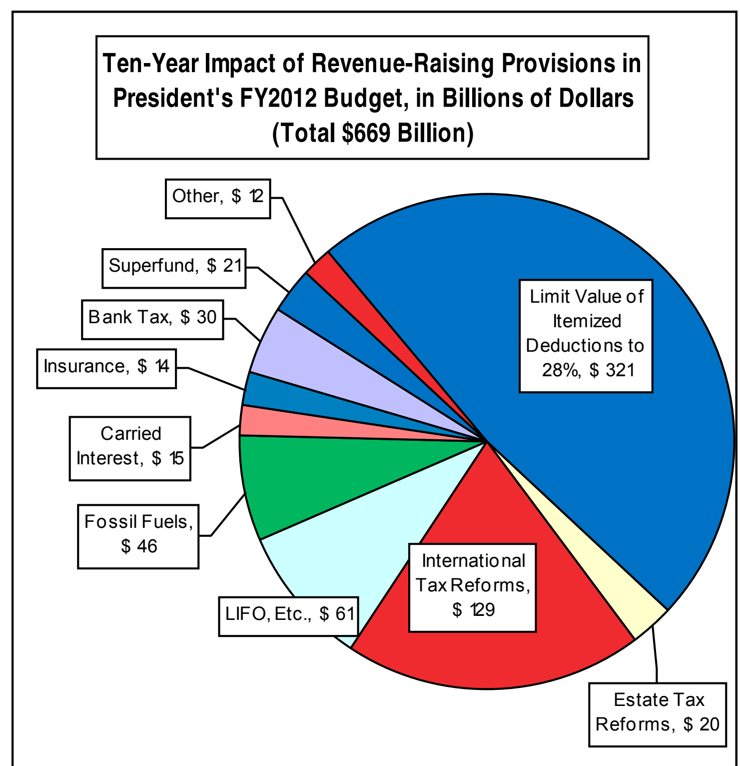
(Detailed Tables in Appendix)

President Obama's fiscal year 2012 budget outline, like the proposal he submitted to Congress last year, includes about $3.5 trillion in tax cuts over ten years. Most of those tax cuts reflect his $3.1 trillion proposal to make permanent 81 percent of the Bush tax cuts. Counting added interest on the national debt, the President's proposed Bush tax cut extensions will cost $3.7 trillion over 9 years.

The President's budget outline does include several laudable provisions to raise revenue, but not nearly enough to offset the revenue losses from his proposed tax cuts.

The net effect of the tax proposals in the budget plan would be to reduce federal revenues by $2.8 trillion over ten years, compared to current law.





We urge Congress to approve a budget resolution that raises _at least_ as much revenue as the President's budget outline, and to plan to raise much more revenue in the future. To achieve that goal, Congress should consider allowing most or all of the Bush tax cuts to expire.

I. Tax Cuts in the President's Budget

A. Extending 81 Percent of the Bush Tax Cuts

President George W. Bush and his allies in Congress enacted income tax cuts and estate tax cuts that were scheduled to expire at the end of 2010. President Obama's first budget included a proposal to permanently extend all the Bush income tax cuts for over 97 percent of taxpayers, and partially extend the income tax cuts for even the richest taxpayers. President Obama also proposed cutting the estate tax in half rather than making permanent the Bush provision that repealed the estate tax entirely.

As part of the compromise legislation President Obama and Congress enacted at the end of 2010, the Bush income tax cuts were extended for two years (through 2012) for all income levels, and the estate tax was cut much more than Obama originally proposed, also through 2012.

President Obama's budget outline proposes that Congress enact his original plan, for a partial extension of the Bush tax cuts, for years after 2012. The President's partial extension of the Bush tax cuts would cost 81 percent as much as extending all of the Bush tax cuts.

This is too high a cost to pay for policies that have failed to help our economy. President Bush and his allies in Congress were adamant that lower taxes are good for the economy, and they enacted tax cuts in 2001, 2002, 2003, 2004 and 2006, and most of these tax cuts were extended under President Obama at the end of 2010. Many conservative lawmakers and pundits still argue that continuing the Bush tax cuts is the key to economic prosperity. This view seems bizarre and incredible given the state of the economy in the years following the enactment of the Bush tax cuts.

Indeed, one might reasonably conclude that we could safely allow most or all of the Bush tax cuts to expire at the end of 2012, as they are scheduled to under current law.

Percentage of Taxpayers Who Could Lose Some of The Bush Income Tax Cuts in 2013 Under Obama's Tax Plan
(listed by state, in alphabetical order)

State	%	State	%
Alabama	1.7%	Montana	1.5%
Alaska	2.4%	Nebraska	1.7%
Arizona	2.0%	Nevada	2.1%
Arkansas	1.5%	New Hampshire	2.8%
California	3.5%	New Jersey	4.7%
Colorado	2.7%	New Mexico	1.7%
Connecticut	4.9%	New York	3.5%
Delaware	2.3%	North Carolina	1.9%
District of Columbia	5.8%	North Dakota	2.0%
Florida	2.6%	Ohio	1.6%
Georgia	2.2%	Oklahoma	1.7%
Hawaii	2.3%	Oregon	1.9%
Idaho	1.5%	Pennsylvania	2.3%
Illinois	3.1%	Rhode Island	2.2%
Indiana	1.5%	South Carolina	1.6%
Iowa	1.5%	South Dakota	1.7%
Kansas	2.0%	Tennessee	1.8%
Kentucky	1.4%	Texas	2.7%
Louisiana	2.2%	Utah	2.1%
Maine	1.7%	Vermont	2.0%
Maryland	3.5%	Virginia	3.3%
Massachusetts	3.9%	Washington	2.8%
Michigan	1.8%	West Virginia	1.1%
Minnesota	2.7%	Wisconsin	1.7%
Mississippi	1.2%	Wyoming	2.4%
Missouri	1.8%	**United States**	**2.6%**

Source: ITEP Microsimulation Tax Model, February 2011

1. Extend Most of the Bush Income Tax Cuts Ten-Year Cost: $2.8 Trillion

In his latest budget outline, President Obama proposes to enact his original approach to the Bush income tax cuts for years after 2012. This

approach would extend the income tax cuts for the first $250,000 of adjusted gross income (AGI) for a married couple and for the first $200,000 of AGI for an unmarried taxpayer. The result would be that fewer than three percent of taxpayers would lose any portion of their income tax cuts.

The largest part of the Bush income tax cuts for upper-income people is the reduction in income tax rates. President Obama's proposal would make these tax-rate cuts permanent except for the top two rates, which would be allowed to revert from 33 percent and 35 percent to their pre-Bush levels of 36 percent and 39.6 percent. Obama's plan would make an adjustment to the tax brackets so that taxpayers could not possibly be affected by the top two income tax rates unless their AGI exceeds $250,000 (or $200,000 if they are unmarried).

The $250,000/$200,000 threshold (which would be indexed for inflation from 2009) is quite high. Only 2.6 percent of taxpayers in the nation will have AGI over this threshold in 2013, meaning only 2.6 percent of taxpayers are rich enough to lose some portion of their Bush income tax cuts in 2013 under Obama's plan.

GOP Proposal to Extend All Bush Income Tax Cuts
Impact in 2013 in the United States

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Lowest 20%	$ 14,267	$ 131	0.9%	1.2%
Second 20%	28,837	533	1.8%	5.0%
Middle 20%	46,467	844	1.8%	7.9%
Fourth 20%	76,742	1,649	2.1%	15.4%
Next 10%	117,479	3,381	2.9%	15.8%
Next 5%	165,777	4,973	3.0%	11.6%
Next 4%	291,443	8,551	2.9%	16.0%
Top 1%	1,653,986	57,926	3.5%	27.1%
ALL	**$ 80,289**	**$ 2,110**	**2.6%**	**100.0%**

Source: ITEP Microsimulation Tax Model, February 2011

Obama's Proposal to Extend Most Bush Income Tax Cuts
Impact in 2013 in the United States

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Lowest 20%	$ 14,267	$ 154	1.1%	1.6%
Second 20%	28,837	637	2.2%	6.6%
Middle 20%	46,467	1,050	2.3%	10.9%
Fourth 20%	76,742	2,098	2.7%	21.8%
Next 10%	117,479	3,794	3.2%	19.7%
Next 5%	165,777	5,272	3.2%	13.7%
Next 4%	291,443	8,574	2.9%	17.8%
Top 1%	1,653,986	15,097	0.9%	7.8%
ALL	**$ 80,289**	**$ 1,898**	**2.4%**	**100.0%**

Source: ITEP Microsimulation Tax Model, February 2011

One common misconception is that taxpayers with AGI just above the $250,000/$200,000 threshold will lose all of their Bush income tax cuts under Obama's plan. The reality is that Obama's plan would only allow the rate reductions to end for that portion of income in excess of the $250,000/$200,000 level. In fact, many taxpayers with AGI in excess of that threshold would still continue to enjoy all of the Bush income taxes they do now.[1] This also means that even very high-income people would continue to enjoy some tax cuts, since the first $250,000 or $200,000 (at least) of their AGI would continue to be taxed at the reduced rates enacted under Bush.

Some lawmakers have argued that Congress should extend the rate reductions even in the top two brackets because the large number of businesses that are taxed under the personal income tax (rather than the corporate income tax) will be less likely to hire and create jobs if they are subjected to higher tax rates.

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[1] Citizens for Tax Justice, "Married Couples with Incomes Between $250,000 and $300,000 Would Lose Only 1% of Their Bush Tax Cuts under Obama Plan versus GOP Plan," December 3, 2010.
http://www.ctj.org/pdf/obamavsgoptax.pdf

However, the truth is that of the taxpayers who rely on this type of business for the majority of their income, very few (three to five percent) have incomes high enough to even be affected by the top two income tax rates. In any event, it is extremely unlikely that even those business taxpayers rich enough to lose some portion of their income tax cuts would respond by changing their hiring decisions, which are usually based on whether or not there is demand for whatever good or service the business provides.[2]

Currently, lower income tax rates apply to certain types of investment income (capital gains and corporate stock dividends). Before George W. Bush took office, capital gains were subject to lower rates than other income, with the top rate set at 20 percent. Stock dividends were taxed as "ordinary" income, meaning no special rates applied to dividends. The Bush tax cuts law enacted in 2003 reduced the income tax rates for capital gains, most notably by lowering the top rate on capital gains to 15 percent, and applied the same reduced rates to stock dividends. These rate reductions were (like all the Bush income tax cuts) extended through 2012 in the tax compromise enacted at the end of 2010.

For years after 2012, President Obama proposes to allow the top capital gains rate to revert to its pre-Bush level of 20 percent for taxpayers with AGI in excess of $250,000/$200,000. (These taxpayers have the vast majority of the capital gains income). He would also set the top rate on stock dividends at 20 percent, which is a tax cut compared to current law (because stock dividends will be taxed as ordinary income in 2013 if Congress does nothing).

Other parts of the Bush tax cuts that affect high-income people are the repeal of the personal exemption phase-out and the limit on itemized deductions, which President Obama would allow to come back into effect for taxpayers with AGI in excess of the $250,000/$200,000 threshold.

Our tables include relief from the Alternative Minimum Tax (AMT) as part of the Bush income tax cuts. The AMT is a backstop tax originally meant to ensure that well-off taxpayers pay some income taxes no matter how many deductions, credits and other breaks they manage to find to reduce or wipe out their income tax under the regular rules. To try to cover up the true cost of his tax cuts, President Bush reduced the regular income tax without permanently adjusting the AMT. The result was that many more people would have been affected by the AMT if Congress did not adjust it. But, predictably, Congress found this result intolerable, and has repeatedly enacted "temporary" "patches" to the AMT to prevent it from affecting more taxpayers.

President Obama's budget outline would make permanent the type of AMT relief that Congress has provided over the past decade, which consists of increasing the exemptions in the AMT so that the number of people affected by the AMT will not increase.

For whatever reason, the administration says it would offset the cost of the first three years of AMT relief with revenue that would be raised over ten years by further limiting the benefit of

[2]Citizens for Tax Justice, "The Bush Tax Cuts and Small Business," November 12, 2010.
http://www.ctj.org/pdf/smallbiztalk.pdf

itemized deductions for high-income taxpayers (which is explained later in this report).

2. Partially Extend the Bush Estate Tax Cut
Ten-Year Cost: $270.2 Billion

The tax cuts enacted by President Bush and his allies in Congress included a gradual elimination of the federal estate tax, shrinking the tax over several years (by increasing the amount of assets exempt from the tax and decreasing the estate tax rate), and then repealing the estate tax entirely in 2010. After 2010, however, the estate tax was scheduled to return to its pre-Bush levels.

If the Bush estate tax cut is simply allowed to expire, the estate tax will exempt the first $1 million in assets per spouse (meaning $2 million for a married couple), and tax the taxable portion of the estate at a top rate of 55 percent (39 percent federal and 16 percent going to the states). By 2009, the Bush provisions had increased the exemption to $3.5 million in assets per spouse and lowered the top rate to 45 percent, while sharply reducing the amount of the tax going to state governments. President Obama proposed to make the 2009 rules permanent, which would have cost about half as much as making the full repeal of the estate tax (which took effect in 2010) permanent.

The compromise enacted by President Obama and Congress at the end of last year allowed the estate tax to come back into effect but cut it even further than President Obama had proposed. The estate tax in effect for 2011 and 2012 exempts the first $5 million in assets per spouse and has a top rate of just 35 percent.

President Obama's estate tax proposal was overly generous to families with large estates. The December 2010 temporary "compromise" is even more generous and unaffordable.

President Obama proposes that Congress enact his original estate tax proposal for years after 2012, but Congress should consider enacting a far more robust estate tax.

The most recent data from the IRS show that only 0.6 percent of deaths in the U.S. in 2008 resulted in estate tax liability in 2009. (Estate taxes are usually filed during the year after the year in which a person dies.) The estate tax that would exist under President Obama's tax plan would affect even fewer estates.[3]

The richest Americans are those who benefit the most from the public services that taxes make possible. The massive fortunes that are accumulated by Americans who are industrious, clever or just lucky would never materialize if not for the infrastructure, educated workforce, public safety and stability that government provides. It is therefore reasonable that the extremely wealthy contribute more in taxes than the middle-class. It's also reasonable to tax the transfer of

[3]Citizens for Tax Justice, "State-by-State Estate Tax Figures: Number of Deaths Resulting in Estate Tax Liability Continues to Drop," October 20, 2010. http://www.ctj.org/pdf/estatetax2010.pdf

enormous estates — most of which consists of income that was never taxed — from one generation of a super-rich family to the next.[4]

B. Additional Tax Cuts for Working Families

America's tax system overall (including federal, state and local taxes) is not particularly progressive. State and local taxes take a greater share of income from low- and middle-income taxpayers than rich taxpayers in almost every state.[5] It is therefore vital that the federal tax system be significantly progressive to offset the regressive impact of state and local taxes.

This requires some federal income tax provisions that benefit the poorest Americans. Families too poor to owe federal income taxes can benefit from refundable federal tax credits like the Child Tax Credit and the Earned Income Tax Credit.

1. Make Permanent Enhanced Refundability of Child Tax Credit
Ten-Year Cost: $75.8 Billion
The American Recovery and Reinvestment Act (ARRA) of 2009 expanded the refundability of the Child Tax Credit (CTC) to make it more accessible for low-income working people for two years. The compromise enacted at the end of last year extended this expansion through 2012.

If not for this expansion, a parent earning less than $12,750 in 2011 would not benefit from the $1,000 per-child tax credit because the refundable portion of the CTC was limited to 15 percent of earnings above $12,750. The change in ARRA and the recent compromise reduced the earnings threshold from $12,750 to $3,000, making more working families eligible for the refundable portion of the credit. Obama's budget would make this change permanent.

2. Make the American Opportunity Tax Credit Permanent
Ten-Year Cost: $93.6 Billion
The ARRA included an expansion of the HOPE credit for higher education, called the American Opportunity Tax Credit (AOTC), which was extended through 2012 in the tax compromise enacted at the end of last year. The AOTC allows a credit of 100 percent of the first $2,000 spent on higher education and 25 percent of the next $2,000; the maximum credit is $2,500. The provision allows the credit for the first four years of post-secondary education (compared to only the first two years under prior law). The provision also allows the credit to be used for amounts paid for course materials (in addition to tuition and fees) and makes 40 percent of the credit refundable. The President's Budget would make the AOTC provisions permanent.

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[4] James Poterba and Scott Weisbenner, "The Distributional Burden of Taxing Estates and Unrealized Capital Gains At the Time of Death," p. 19, NBER, July 2000. http://papers.nber.org/papers/w7811.pdf

[5] See Citizens for Tax Justice, "All Americans Pay Taxes," April 15, 2010. http://www.ctj.org/pdf/taxday2010.pdf. See also Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," November 2009. http://www.itepnet.org/whopays.htm.

3. Make Expansion of Earned Income Tax Credit Permanent
Ten-Year Cost: $25 Billion

In 2008, the maximum Earned Income Tax Credit (EITC) for families with children was 34 percent of earnings (up to a maximum amount of earnings) for those with one child and 40 percent of earnings (up to the maximum) for those with two or more children. (A smaller EITC is provided for childless workers with very low incomes.)

Obama's Proposals Make Permanent ARRA Expansion in CTC & EITC, Impact in 2013 in the United States				
Income Group	Average Income	Average Tax Cut	Percent with Tax Cut	Share of Tax Cut
Lowest 20%	$ 14,267	$ 146	14.6%	46.4%
Second 20%	28,837	108	10.8%	34.3%
Middle 20%	46,467	54	5.4%	17.3%
Fourth 20%	76,742	5	0.5%	1.7%
Next 10%	117,479	1	0.1%	0.1%
Next 5%	165,777	0	0.0%	0.0%
Next 4%	291,443	0	0.0%	0.0%
Top 1%	1,653,986	0	0.0%	0.0%
ALL	**$ 80,289**	**$ 62**	**6.2%**	**100.0%**

Source: ITEP Microsimulation Tax Model, February 2011

The ARRA included two provisions that expanded the EITC and which were extended through 2012 in the tax compromise enacted by Congress at the end of last year. The first increases the amount of EITC available to families with three or more children to 45 percent of earnings (up to the maximum). The second increases the additional EITC benefit available to low-income married couples (further reducing the "marriage penalty") by increasing the income level at which the credit begins to phase out for joint filers. Under the President's budget, these two improvements in the EITC would be made permanent.[6]

C. Tax Breaks for Businesses

1. Make the Research and Experimentation Tax Credit Permanent
Ten-Year Cost: $106.3 Billion

President Obama's budget includes a proposal to make permanent the credit that businesses take against their taxes for increasing their research and experimentation (very broadly defined). This credit is on a list of provisions that Congress extends every year or two (often retroactively). On the one hand, making the credit permanent would make the budget honestly reflect that the R&E Credit will cost the government revenue in every year for the next decade, instead of just this year. But since the benefit of the credit itself is highly questionable, Congress should just allow it to expire.

The R&E credit, introduced during the Reagan administration, has been the subject of many tax scandals as companies have tried, often successfully, to treat activities that are obviously not scientific research — such as developing hamburger recipes or accounting software — as qualified R&E. In fact, early in the Bush administration, the Treasury Department tried to redefine "research and experimentation" to require neither of those activities. Thankfully, that effort didn't succeed. Nonetheless, Congress votes to "extend" the tax credit every year.

The R&E credit has a curious following among politicians who normally style themselves as

[6]For information on how many families and children benefit in each state from the expansions of the EITC and CTC, see Citizens for Tax Justice, "Refundable Tax Credits Expanded in the Economic Recovery Act," November 30, 2010. http://www.ctj.org/pdf/arracredits.pdf

free-market advocates, but who nevertheless maintain that big business needs to be subsidized to do research. The fact that the tax breaks from the R&E credit are narrowly concentrated on a relative handful of very large corporations probably explains the intensity of the lobbying to keep extending this tax break, and perhaps the enthusiasm in Congress for doing so.

There is little persuasive evidence that the credit actually encourages research. Instead, it is a federal subsidy to companies for research they likely would have undertaken anyway, and for non-research activities that companies call "research." In fact, a recent report from the Government Accountability Office found that "a substantial portion of credit dollars is a windfall for taxpayers, earned for spending they would have done anyway, instead of being used to support potentially beneficial new research."[7]

2. Other Business Tax Breaks
Ten-Year Cost: $30.4 Billion
The President's budget includes other business tax breaks that will do little or nothing to create jobs or improve the economy.

One particularly ill-advised proposal is a tax break for offshore financial services that is oxymoronically called the "subpart F active financing exception." It allows indefinite "deferral" of taxes on certain kinds of passive investment income.

In most cases, companies are allowed to defer U.S. taxes on profits earned by their offshore subsidiaries. But deferral is generally not allowed for income from financial activities, because such income is too easy to shift offshore. In 1997, however, an exception was made for activities styled as "active" financing, including certain insurance and banking income and income from manufacturers' financing of sales of their products (such as cars). This exception has been extended several times, and the President proposes to extend it again through 2012.

II. Revenue-Raising Provisions in the President's Budget

A. Limit Itemized Deductions for the Wealthy
Ten-Year Revenue Gain: $321.3 Billion

The President's budget includes a proposal to limit the tax benefit of itemized deductions for wealthy taxpayers. The proposal would limit the tax savings from itemized deductions to 28 percent of the amount deducted for people in tax brackets above 28 percent. This would only impact 1.3 percent of taxpayers, almost all of whom are among the very richest Americans.

President's Proposal to Limit Itemized Deductions to 28%, Impact in 2013 in the United States

Income Group	Average Income	Percent with Tax Increase	Average Tax Increase	Share of Tax Increase
Lowest 20%	$ 14,267	0.0%	$ 0	0.0%
Second 20%	28,837	0.0%	0	0.0%
Middle 20%	46,467	0.0%	0	0.0%
Fourth 20%	76,742	0.0%	2	0.3%
Next 10%	117,479	0.3%	2	0.1%
Next 5%	165,777	1.3%	19	0.7%
Next 4%	291,443	15.0%	419	11.7%
Top 1%	1,653,986	66.5%	12,472	87.2%
ALL	**$ 80,289**	**1.3%**	**$ 141**	**100.0%**

Source: ITEP Microsimulation Tax Model, February 2011

[7] Government Accountability Office, "The Research Tax Credit's Design and Administration Can Be Improved," GAO-10-136, November 6, 2009. http://www.gao.gov/products/GAO-10-136

Itemized deductions provide subsidies for certain activities (like buying a home or giving to charity) through the tax system. But they subsidize these activities at higher rates for wealthy families than they do for middle-income families. The President's proposal would reduce, but not eliminate, this unfairness.

People filing their federal income taxes are allowed deductions to lower their taxable income. They can either take a "standard deduction" or choose to "itemize" their deductions. Most people take the standard deduction, but better-off families typically itemize.

The problem is that itemized deductions subsidize certain activities at a higher rate for high-income taxpayers. For example, the itemized deduction for home mortgage interest is supposed to encourage home ownership, but it provides more average dollar benefits to higher-income people. People rich enough to be in the 39.6 percent income tax bracket in 2013 will save almost 40 cents for each dollar they can deduct in mortgage interest.[8] Middle-income families are generally in the 15 or 25 percent tax bracket. These families save only 15 cents or 25 cents for each dollar they deduct in mortgage interest.

Percentage of Taxpayers w/Tax Increase Under President's Proposal to Limit Itemized Deductions to 28% in 2013
(listed by state, in alphabetical order)

State	%	State	%
Alabama	1.3%	Montana	0.8%
Alaska	2.1%	Nebraska	0.8%
Arizona	1.3%	Nevada	2.1%
Arkansas	0.8%	New Hampshire	2.1%
California	1.6%	New Jersey	2.0%
Colorado	1.7%	New Mexico	1.0%
Connecticut	3.0%	New York	1.4%
Delaware	1.4%	North Carolina	1.0%
District of Columbia	2.9%	North Dakota	1.0%
Florida	1.9%	Ohio	0.7%
Georgia	1.4%	Oklahoma	1.1%
Hawaii	1.5%	Oregon	0.8%
Idaho	0.6%	Pennsylvania	1.3%
Illinois	1.9%	Rhode Island	1.0%
Indiana	1.0%	South Carolina	0.9%
Iowa	0.9%	South Dakota	1.3%
Kansas	1.2%	Tennessee	1.6%
Kentucky	0.8%	Texas	2.0%
Louisiana	1.0%	Utah	1.3%
Maine	0.8%	Vermont	0.5%
Maryland	1.6%	Virginia	1.9%
Massachusetts	2.3%	Washington	2.1%
Michigan	1.2%	West Virginia	0.8%
Minnesota	1.1%	Wisconsin	0.9%
Mississippi	0.7%	Wyoming	1.5%
Missouri	0.9%	**United States**	**1.3%**

Source: ITEP Microsimulation Tax Model, February 2011

If a member of Congress proposed a program to encourage home ownership through direct subsidies, with larger percentage subsidies going to rich families than middle-income families, we would say that's absurd. But that's exactly how itemized deductions work as subsidies.[9]

The President would limit the savings for each dollar of deductions to 28 cents. So someone in the 39.6 percent tax bracket would save 28 cents (instead of nearly 40 cents) for each dollar of itemized deductions. That's still more than the family in the 15 percent bracket would save, but the difference would be reduced.

We estimate the impact of the proposal in 2013, when its full impact will be felt (because President Obama would allow the top income tax rates to revert to their pre-Bush levels in 2013). Only 1.3 percent of taxpayers would be impacted in any way. Over 87 percent of the resulting tax

[8]The mortgage interest deduction is limited to the interest on $1 million in mortgage debt, so high-income people may not be able to deduct all of their mortgage interest.

[9]Some itemized deductions, such as the deduction for state and local taxes, can be defended as appropriate in determining taxpayers' ability to pay taxes.

increase would be paid by the richest one percent of taxpayers and almost 99 percent would be paid by the richest 5 percent of taxpayers.

The percentage of taxpayers impacted varies by state, but not by much. The state with the largest percentage of taxpayers affected is Connecticut, with 3 percent receiving a tax increase as a result of this reform. The state with the lowest percentage of taxpayers impacted is Vermont, with 0.5 percent of taxpayers receiving a tax increase.

B. Reform the U.S International Tax System
Ten-Year Revenue Gain: $129.2 Billion

The President proposes to reduce tax subsidies that encourage U.S. corporations to shift profits and jobs offshore.

In some cases, these tax subsidies encourage the use of offshore transactions that exist on paper only, meaning no productive activities are actually being carried out in the foreign country. The investments or transactions are merely schemes to avoid U.S. taxes.

In other cases, these tax subsidies can encourage corporations to move real operations and jobs offshore.

The President's proposals would crack down on multinational tax subsidies that are blatantly abusive and unfair, even if they are supposedly legal under current law. Some of these subsidies effectively provide a *negative* tax rate on U.S. profits that corporations shift offshore. But members of Congress are often fearful to take on the multinational corporations who seem to have limitless resources to lobby, make political donations and finance political advertisements.

The President's proposals to reform the international tax system are weaker than the versions put forth in his first budget two years ago. That first budget plan included a vitally important proposal to reform the so-called "check-the-box" rules.[10] It also included a stronger proposal to limit deductions against U.S. taxable income for expenses of earning foreign income, as explained below.

The following are some of the largest (in terms of revenue impact) components of the President's proposal to reform the U.S.'s international tax rules.

1. Determine Foreign Tax Credit on a "Pooling" Basis
Ten-Year Revenue Gain: $51.4 Billion

Individuals or companies with income generated abroad get a credit against their U.S. taxes for taxes paid to a foreign government, in order to prevent double-taxation. This makes sense in theory. But, unfortunately, corporations sometimes get foreign tax credits that exceed the U.S. taxes that apply to such income, meaning that the U.S. corporations are using foreign tax

[10] For more on the Administration's original proposal to reform the "check-the-box" rules, see Citizens for Tax Justice, "Obama's Proposals to Address Offshore Tax Abuses Are a Good Start, but More Is Needed," May 20, 2009. http://www.ctj.org/pdf/offshoretax20090508.pdf

credits to reduce their U.S. taxes on their U.S. profits, not just avoiding double taxation on their foreign income.

For example, a U.S. corporation that owns several foreign corporations can manipulate which of those foreign corporations pays it dividends. In some circumstances, the U.S. company receiving these dividends is "deemed" to have paid a share of the foreign taxes paid by the foreign corporation. The U.S. corporation simply chooses to have a dividend paid by a foreign corporation with a lot of income that has not yet been repatriated and which resides in a high-tax jurisdiction. The resulting foreign tax credit is greater than the U.S. tax that would have been paid on that income if it was generated in the U.S.

The President's proposal would require that the deemed paid foreign tax credit be calculated on a consolidated basis, or "pooling basis." In other words, a U.S. corporation must compute the foreign tax credit as if the dividend was paid proportionately from all of its foreign subsidiaries.

2. Limit U.S. Deductions for the Interest Expenses Related to Earning Untaxed Foreign Profits
Ten-Year Revenue Gain: $37.7 Billion

U.S. multinational companies are allowed to "defer" the U.S. taxes on income generated by their foreign subsidiaries until that income is brought back to the U.S. ("repatriated"). There are numerous problems with deferral, but it's particularly problematic when a U.S. company defers U.S. taxes on foreign income even while it deducts the expenses of earning that foreign income to reduce its U.S. taxable profits. To better protect the U.S. tax base on U.S. profits, the President's proposal would require that U.S. companies defer deductions for interest expenses related to earning income abroad until that income is subject to U.S. taxation (if ever).

The version of this proposal included in the President's first budget was stronger because it would have required that U.S. companies defer deductions for *all* expenses (other than research and experimentation) relating to earning income abroad until that income is subject to U.S. taxation. The current proposal only applies to interest expenses.

3. Tax Currently Excess Returns Associated with Transfers of Intangibles Offshore
Ten-Year Revenue Gain: $20.8 Billion

U.S. multinational companies are allowed to "defer" the U.S. taxes on income generated by their foreign subsidiaries until that income is brought back to the U.S. ("repatriated"). If a multinational company can characterize most of its income as "foreign," it can reduce or even eliminate the U.S. taxes on that income.

Multinational corporations can often use intangible assets to make their U.S. income appear to be "foreign" income. For example, a U.S. corporation might transfer a patent for some product it produces to its subsidiary in another country, say the Cayman Islands, that does not tax the income generated from this sort of asset. The U.S. parent corporation will then "pay" large fees to its subsidiary in the Cayman Islands for the use of this patent.

When it comes time to pay U.S. taxes, the U.S. parent company will claim that it's subsidiary made huge profits by charging for the use of the patent it holds, and that because those profits were allegedly earned in the Cayman Islands, U.S. taxes on those profits are deferrable (not due). Meanwhile, the parent company says that it made little or no profit because of the huge fees it had to pay to the subsidiary in the Cayman Islands (i.e., to itself).

The President proposes to reduce the incentives to engage in these abuses by ending the ability of U.S. corporations to defer their U.S. taxes on "excess income" from intangible property. There is already a category of income (including interest and other passive income) that U.S. corporations must pay U.S. taxes on even if it is generated offshore. This proposal would, reasonably, add "excess income" from intangibles to that category.

C. Financial Crisis Responsibility Fee on Financial Institutions
Ten-Year Revenue Gain: $30 Billion

The President proposes a tax of 0.075 percent of the value of the riskier assets held by the 50 largest financial institutions (those with assets of more than $50 billion each). The Administration estimates that the fee would collect around $30 billion over a decade. The purpose of the fee would be to pay back taxpayer money used by the Bush Administration to bail out financial institutions and to reduce the excessive risk-taking that necessitated the bailout.

This proposal is scaled back from the version President Obama put forth last year, which would have raised $90 billion over a decade.

The reason offered by the Obama Administration for scaling back the proposal is that most of the cost of the bailout has been paid back by the financial institutions already. But that actually seems besides the point. Banks should pay a hefty fee to help pay for the implicit government guarantee that they now seem to have.

Excessive risk-taking by the financial industry as a whole led to a systemic meltdown. As a result, the banking system as a whole began to fail, meaning businesses were unable to obtain credit, making it impossible for them to function. The bailout propped up the banking system to avoid a deeper recession, but the distasteful side effect is that the largest banks know full well that they are now considered "too big to fail."

So now the biggest banks have insufficient incentive to avoid the sort of risk-taking that led to the collapse. The implicit government guarantee gives them a special advantage that smaller banks don't have, since banks that are not considered "too big to fail" are less likely to be bailed out by the federal government. The proposed fee would seem to address these problems at least to some extent, by reducing the incentive for risk-taking as well as the advantage that the largest banks have over smaller banks.

Progressive supporters of the original, larger, proposed bank fee have been joined by some noted conservatives. Greg Mankiw, Chairman of President George W. Bush's Council of

Economic Advisers, and David Stockman, director of the Office and Management and Budget under President Reagan, both supported the original (bigger) proposed bank fee.[11]

D. Repeal Last-In, First-Out (LIFO) Accounting
Ten-Year Revenue Gain: $52.9 Billion

The President's budget includes a proposal to repeal the "last-in, first-out" (LIFO) method of accounting for inventories. This accounting method allows companies to deduct the higher cost of recently acquired or produced inventory, rather than the lower cost of older inventory.

For example, we normally think of profit this way: You buy something for $30 and sell it for $50 and your profit is $20 (ignoring any other expenses). But corporations, notably oil companies, use an accounting method that doesn't fit this picture. They might buy oil for $30 a barrel, and when the price rises they might buy some more for $45 a barrel. But when they sell a barrel of oil for $50, they get to assume that they sold the very last barrel they bought, the one that cost $45. That means the profit they report to the IRS is $5 instead of $20.

This "last-in, first-out" rule (LIFO) has been in place for decades, and critics have long called for its repeal. In 2005, the then-Republican-led Senate tried to repeal it for oil and gas companies. (The provision was dropped from the tax bill in conference, so oil companies still get to use LIFO.)

E. Eliminate Breaks for Oil and Gas
Ten-Year Revenue Gain: $43.6 Billion

The budget proposal takes aim at several tax provisions that benefit the oil and gas industry. Repealing these special rules — subsidies to this industry paid for by everyone else — would raise $43.6 billion over ten years. Here are a few of the largest (in terms of revenue impact) tax breaks for oil and gas that the President proposes to eliminate.

1. Bar Oil and Gas Companies from Using the Manufacturing Tax Deduction
Ten-Year Revenue Gain: $18.3 Billion
The manufacturing tax deduction was added to the law in 2004 and allows companies to deduct 9 percent of their net income from domestic production. Some might wonder why oil and gas companies can use a deduction for "manufacturing" in the first place. But Congress specifically included "extraction" in the definition of manufacturing so that it included oil and gas production, obviously at the behest of the industry.

2. Repeal Expensing of Intangible Drilling Costs
Ten-Year Revenue Gain: $12.4 Billion
The "intangible" costs of exploration and development include wages, costs of using equipment for drilling, and the costs of materials that get used up during the process of building wells.

[11] Greg Mankiw, "The Bank Tax," January 15, 2010, *Greg Mankiw's Blog*. http://gregmankiw.blogspot.com/2010/01/bank-tax.html; David Stockman, "Taxing Wall Street Down to Size," January 19, 2010, *New York Times*. http://www.nytimes.com/2010/01/20/opinion/20stockman.html

Most businesses write off such expenses over the useful life of the property, but oil companies, thanks to their lobbying clout, get to deduct these expenses immediately.

3. Repeal Percentage Depletion for Oil and Natural Gas
Ten-Year Revenue Gain: $11.2 Billion
Most businesses must write off the actual costs of equipment and other property that declines in value over a period of time (albeit faster than things actually wear out). If oil companies had to do the same, they would write off the cost of oil fields until the oil was depleted. Instead, percentage depletion allows certain types of oil and gas producers to simply deduct a flat percentage of gross revenues — 15 percent in the case of oil and 22 percent in the case of natural gas. The percentage depletion deductions continue even after all of the costs of the property have been written off.

F. Close the "Carried Interest" Loophole
Ten-Year Revenue Gain: $14.8 Billion

Some businesses, primarily private equity, real estate, and venture capital, use a technique called a "carried interest" to compensate their managers. Instead of receiving wages, the managers get a share of the profits from investments that they manage without having to invest their own money. The tax effect of this arrangement is that the managers pay taxes on their compensation at the 15 percent rate for capital gains instead of the ordinary income tax rates (up to 35 percent in 2011 and 2012) that normally apply to wages and other compensation.

Income in the form of carried interest can run into the hundreds of millions (or even in excess of a billion dollars) a year for individual fund managers. How do we know that "carried interest" is compensation, and not capital gain? There are several reasons:

The fund managers don't invest their own money. They get a share of the profits in exchange for their financial expertise. If the fund loses money, the managers can walk away without any cost.

A "carried interest" is much like executive stock options. When corporate executives get stock options, it gives them the right to buy their company's stock at a fixed price. If the stock goes up in value, the executives can cash in the options and pocket the difference. If the stock declines, then the executives get nothing. But they never have a loss. When corporate executives make money from their stock options, they pay both income taxes at the regular rates and payroll taxes on their earnings.

Private equity managers (sometimes) even admit that "carried interest" is compensation. In a filing with the Securities and Exchange Commission in connection with taking its management partnership public, the Blackstone Group, a leading private equity firm, had this to say in 1997 about its activities (in order to avoid regulation under the Investment Act of 1940):

> "We believe that we are engaged primarily in the business of asset management and financial advisory services and not in the business of investing, reinvesting, or trading in securities.

> We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services."

The President's budget proposes to close this loophole, raising $14.8 billion over a decade, about ten billion less than the version of the proposal offered last year. This version clarifies that only "investment partnerships," as opposed to any other partnerships that provide services, would be affected.

President Obama's Feb 2011 Tax Proposals, Fiscal 2012–2021 Revenue Estimates

fiscal years, $-billions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
TOTAL PROPOSED NET TAX REDUCTIONS	**–36.5**	**–164.5**	**–293.2**	**–256.5**	**–236.8**	**–307.9**	**–334.6**	**–368.0**	**–382.9**	**–416.5**	**–2,797.5**
Tax Cuts											
Personal Tax Cuts:											
Reenact 81 percent of all otherwise-expiring Bush tax cuts											
Reenact all Bush personal income tax cuts for everyone except the rich and extend AMT relief permanently (indexed)	–34.0	–175.6	–237.0	–256.3	–277.1	–299.1	–320.7	–344.9	–370.2	–396.8	–2,711.6
Extend most of the Bush tax cut on qualified dividends (set a 20% top rate) for high-income taxpayers after 2012	–7.9	–9.6	–5.4	–9.4	–13.0	–14.7	–15.1	–15.6	–16.2	–16.9	–123.7
Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters	–1.9	–4.8	–24.0	–26.4	–29.2	–31.7	–34.5	–36.9	–39.2	–41.6	–270.2
Total expiring Bush tax cuts reenacted	**–43.8**	**–190.0**	**–266.4**	**–292.1**	**–319.3**	**–345.5**	**–370.4**	**–397.3**	**–425.5**	**–455.3**	**–3,105.5**
Additional personal tax cuts											
Make college tuition credit ("American Opportunity Tax Credit") permanent	—	–0.7	–10.8	–10.8	–11.6	–11.5	–11.4	–12.1	–12.1	–12.7	–93.6
Make $3,000 threshold for child tax credit refunds permanent*	—	—	–9.8	–9.7	–9.6	–9.5	–9.4	–9.3	–9.2	–9.2	–75.8
Retirement plans for workers at small businesses, etc.	—	–0.6	–1.0	–1.1	–1.2	–1.4	–1.7	–2.0	–2.4	–2.8	–14.4
Make earned income tax credit $5K marriage penalty relief permanent*	—	–0.0	–1.5	–1.5	–1.6	–1.6	–1.6	–1.6	–1.6	–1.6	–12.7
Make earned income tax credit expansion for 3 or more children permanent	—	–0.1	–1.4	–1.4	–1.5	–1.5	–1.5	–1.6	–1.6	–1.7	–12.3
Expand child-and-dependent-care credit	–0.3	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0	–9.6
Continue sales tax deduction and other expiring tax subsidies through 2012	–2.2	–3.8	–0.1	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–6.1
Total additional personal tax cuts	**–2.4**	**–6.2**	**–25.7**	**–25.7**	**–26.5**	**–26.6**	**–26.7**	**–27.7**	**–28.0**	**–29.0**	**–224.6**
Total Personal Tax Cuts	**–46.2**	**–196.2**	**–292.1**	**–317.9**	**–345.8**	**–372.1**	**–397.1**	**–425.0**	**–453.5**	**–484.2**	**–3,330.1**
Business Tax Cuts:											
Make research and experimentation tax credit permanent (expanded)	–4.6	–8.1	–8.9	–9.7	–10.5	–11.3	–12.1	–12.9	–13.7	–14.5	–106.3
Continue subsidies for offshore financial companies, ethanol producers and other special interests through 2012	–6.9	–6.4	–0.7	–0.4	–0.1	–0.0	–0.1	–0.1	–0.2	–0.2	–15.0
Eliminate capital gains taxes on sales of small business stock	—	—	—	—	—	–0.2	–0.6	–1.1	–1.6	–2.0	–5.4
Add to tax subsidies for particular U.S. geographic areas, etc.	–0.3	–1.0	–1.1	–1.1	–1.2	–0.6	—	–0.0	–0.0	+0.0	–5.3
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	–0.3	–0.7	–1.1	–1.1	–0.6	–0.1	+0.1	+0.1	+0.1	+0.0	–3.7
Provide tax credit for energy efficient commercial building property expenditures in place of existing tax deduction	–0.5	–0.4	–0.1	–0.0	–0.0	—	—	—	—	—	–1.0
Total Business Tax Cuts	**–12.6**	**–16.6**	**–11.8**	**–12.4**	**–12.4**	**–12.2**	**–12.7**	**–13.9**	**–15.4**	**–16.7**	**–136.7**
Total Proposed Tax Cuts (gross)	**–58.8**	**–212.8**	**–303.9**	**–330.2**	**–358.2**	**–384.3**	**–409.7**	**–438.9**	**–468.9**	**–500.9**	**–3,466.7**
Loophole Closers & Miscellaneous Revenue Changes											
Individual reforms:											
Limit the value of itemized deductions for high-income individuals after 2011	+6.0	+19.0	+26.4	+29.8	+32.7	+35.7	+38.6	+41.5	+44.4	+47.2	+321.3
Reduce estate tax avoidance & treat spouses fairly (net change)	+0.9	+1.1	+1.7	+1.8	+1.9	+2.1	+2.2	+2.4	+2.6	+2.8	+19.5
Modify rules on valuation discounts	+0.8	+0.9	+1.6	+1.7	+1.8	+2.0	+2.1	+2.3	+2.4	+2.6	+18.2
Require a minimum term for grantor retained annuity trusts (GRATs)	+0.0	+0.0	+0.1	+0.2	+0.2	+0.3	+0.4	+0.5	+0.6	+0.7	+3.0
Require consistency in value for transfer and income tax purposes	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+2.1
Make permanent the portability of unused exemption between spouses	—	—	–0.1	–0.2	–0.3	–0.4	–0.5	–0.6	–0.7	–0.8	–3.7
Total individual reforms	**+7.0**	**+20.1**	**+28.1**	**+31.6**	**+34.6**	**+37.8**	**+40.9**	**+43.9**	**+47.0**	**+50.0**	**+340.8**
Business reforms:											
Reduce subsidies that move jobs & shift profits out of the United States	+7.7	+13.3	+14.0	+14.7	+15.3	+15.8	+13.1	+11.3	+11.7	+12.2	+129.2
Determine the foreign tax credit on a pooling basis	+2.7	+4.6	+4.8	+5.0	+5.2	+5.4	+5.6	+5.8	+6.1	+6.3	+51.4
Defer deduction of interest expense related to deferred income	+3.0	+5.1	+5.4	+5.6	+5.9	+6.1	+3.1	+1.1	+1.1	+1.2	+37.7
Tax currently excess returns associated with transfers of intangibles offshore	+1.2	+2.0	+2.1	+2.2	+2.3	+2.3	+2.2	+2.2	+2.1	+2.2	+20.8
Modify tax rules for dual capacity taxpayers	+0.5	+0.9	+1.0	+1.0	+1.1	+1.1	+1.2	+1.2	+1.3	+1.4	+10.8
Limit earnings stripping by expatriated entities	+0.2	+0.4	+0.4	+0.4	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+4.2
Disallow deduction for excess nontaxed reinsurance prem. paid to affiliates	+0.1	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+2.6
Limit shifting of income through intangible property transfers	+0.0	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.3	+0.3	+1.7
Repeal LIFO and lower-of-cost-market inventory accounting methods	—	+2.8	+7.1	+8.8	+8.0	+7.8	+6.7	+6.7	+6.6	+6.6	+61.0
Repeal LIFO method of accounting for inventories	—	+2.6	+5.6	+6.5	+6.5	+6.4	+6.4	+6.3	+6.3	+6.2	+52.9
Repeal lower-of-cost-or-market inventory accounting method	—	+0.2	+1.4	+2.3	+1.5	+1.4	+0.3	+0.3	+0.3	+0.4	+8.2
Eliminate oil and gas tax subsidies	+3.5	+5.4	+4.9	+4.6	+4.6	+4.4	+4.2	+4.0	+4.0	+4.1	+43.6
Repeal domestic manufacturing deduction for oil and natural gas companies	+0.9	+1.6	+1.7	+1.7	+1.8	+1.9	+2.0	+2.1	+2.2	+2.3	+18.3
Repeal expensing of intangible drilling costs	+1.9	+2.5	+1.8	+1.4	+1.3	+1.1	+0.8	+0.6	+0.5	+0.4	+12.4
Repeal percentage depletion for oil and natural gas wells	+0.6	+1.0	+1.1	+1.1	+1.1	+1.2	+1.2	+1.2	+1.3	+1.3	+11.2
Increase geological & geophysical amortization period for independent producers to 7 years	+0.1	+0.2	+0.3	+0.3	+0.2	+0.2	+0.1	+0.0	+0.0	+0.0	+1.4
Repeal exception to passive loss limitations for working interests in oil & gas properties	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.2
Repeal deduction for tertiary injectants	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
Tax compensation ("carried profit interests") of investment fund managers as earned income	+2.3	+2.1	+2.2	+1.9	+1.6	+1.3	+1.1	+0.9	+0.8	+0.6	+14.8

(continued on next page)

President Obama's Tax Proposals, February 2011, page 2 of 2

fiscal years, $-billions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
Business reforms, continued:											
Reform treatment of insurance companies and products	+0.2	+0.6	+0.8	+0.9	+1.2	+1.4	+1.6	+2.0	+2.4	+2.9	+14.1
Expand pro-rata interest expense disallowance for corporate-owned life insurance (COLI)	+0.0	+0.1	+0.2	+0.3	+0.4	+0.7	+0.9	+1.3	+1.7	+2.2	+7.7
Modify dividends-received deduction for life insurance company separate accounts	+0.2	+0.5	+0.5	+0.6	+0.6	+0.6	+0.6	+0.6	+0.5	+0.5	+5.1
Modify rules that apply to sales of life insurance contracts	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+1.2
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	+0.1	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.4	+2.7
Eliminate coal tax subsidies	+0.1	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+2.6
Repeal percentage depletion for hard mineral fossil fuels	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+1.4
Repeal expensing of exploration and development costs	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.4
Repeal domestic manufacturing deduction for coal and other hard mineral fossil fuels	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1	+0.4
Repeal capital gains treatment for royalties	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1	+0.4
Repeal certain corporate subsidies involving stock activities	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+1.3
Repeal gain limitation for dividends received in reorganization exchanges	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.8
Require accrual of income on forward sale of corporate stock	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.3
Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.2
Total business reforms	**+14.0**	**+24.7**	**+29.5**	**+31.6**	**+31.3**	**+31.4**	**+27.4**	**+25.7**	**+26.4**	**+27.3**	**+269.4**
Miscellaneous revenue changes:											
Impose a financial crisis responsibility fee on large financial firms	—	+1.0	+3.0	+3.0	+3.0	+4.0	+4.0	+4.0	+4.0	+4.0	+30.0
Reinstate Superfund taxes	+1.4	+1.9	+2.0	+2.1	+2.1	+2.2	+2.2	+2.2	+2.3	+2.3	+20.8
Make unemployment insurance surtax permanent	+1.4	+1.4	+1.4	+1.5	+1.5	+1.5	+1.5	+1.6	+1.6	+1.6	+15.0
Increase certainty with respect to worker classification	+0.0	+0.2	+1.2	+1.0	+0.8	+0.9	+1.0	+1.1	+1.2	+1.3	+8.7
Require a certified Taxpayer Identification Number from contractors and allow certain withholding	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.2	+1.2
Increase Oil Spill Liability Trust Fund financing by one cent	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.5
Deny deduction for punitive damages	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.3
Strengthen tax administration	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.3
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
Require information reporting for private separate accounts of life insurance cos.	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
Impose a penalty on failure to comply with electronic filing requirements	—	—	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
Increase penalty imposed on paid preparers who fail to comply with EITC due diligence requirements	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.3
Move some corporate estimated tax payments from FY 2014 to FY 2016	—	—	–53.6	+4.3	+49.3	—	—	–5.6	+5.6	—	—
Simplify the tax code	+0.0	+0.0	–0.0	–0.0	+0.1	+0.1	–0.3	–0.2	–0.1	–0.1	–0.4
Trade provisions	–1.1	–0.6	–0.5	–0.6	–0.8	–0.8	–0.9	–1.0	–1.1	–1.1	–8.5
Repeal or modify 1099 reporting on payments to corporations & for property	–0.5	–0.6	–0.8	–0.9	–1.0	–1.0	–1.0	–1.1	–1.1	–1.2	–9.2
Total miscellaneous revenue changes	**+1.3**	**+3.5**	**–46.9**	**+10.5**	**+55.5**	**+7.2**	**+6.8**	**+1.3**	**+12.7**	**+7.1**	**+59.0**
Total Proposed Loophole Closers & Miscellaneous Revenue Changes	**+22.3**	**+48.3**	**+10.7**	**+73.7**	**+121.4**	**+76.4**	**+75.1**	**+70.9**	**+86.0**	**+84.4**	**+669.2**
TOTAL PROPOSED NET TAX REDUCTIONS	**–36.5**	**–164.5**	**–293.2**	**–256.5**	**–236.8**	**–307.9**	**–334.6**	**–368.0**	**–382.9**	**–416.5**	**–2,797.5**

Addendum: Total Cost of Proposed Bush Tax Cut Extensions, with Interest											
Proposed Bush Tax Cut Extensions	–43.8	–190.0	–266.4	–292.1	–319.3	–345.5	–370.4	–397.3	–425.5	–455.3	**–3,105.5**
Added Interest (shown as –)	–0.3	–3.6	–13.7	–27.5	–43.3	–61.2	–79.3	–100.2	–123.0	–148.0	**–600.0**
Total Cost (–)	**–44.1**	**–193.6**	**–280.1**	**–319.6**	**–362.6**	**–406.6**	**–449.6**	**–497.5**	**–548.5**	**–603.3**	**–3,705.5**

*President Obama's FY 2012 budget categorizes these 2009-enacted provisions as part of his proposed extension of most of the Bush tax cuts. They are treated separately in this table.

Sources: Office of Management and Budget, U.S. Treasury Department, Joint Committee on Taxation (2011).

Citizens for Tax Justice, Feb. 18, 2011

Changes in Subsidy Programs Administered by the IRS Proposed in President Obama's FY2012 Budget

(excluding Bush extensions except for the high-income dividend tax cut)
Fiscal 2012–21 totals, $-billions

Increases in Business Subsidies	
Enhance and make permanent the research and experimentation tax credit	$ +106.3
Continue subsidies for offshore financial companies, ethanol producers and other special interests through 2012	+15.0
Eliminate capital gains taxation on investments in small business stock	+5.4
Add to tax subsidies for particular U.S. geographic areas, etc.	+5.3
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	+3.7
Provide tax credit for energy efficient commercial building property expenditures in place of existing tax deduction	+1.0
Total Increases in Business Subsidies	**$ +136.7**
Reductions in Business Subsidies	
Reduce subsidies that move jobs & shift profits out of the United States	$ –129.2
Repeal LIFO and lower-of-cost-market inventory accounting methods	–61.0
Eliminate oil and gas tax subsidies	–43.6
Tax compensation ("carried profit interests") of investment fund managers as earned income	–14.8
Reform treatment of insurance companies and products	–14.1
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	–2.7
Eliminate coal tax subsidies	–2.6
Repeal certain corporate subsidies involving stock activities	–1.3
Total Reductions in Business Subsidies	**$ –269.4**
Increases in Individual Subsidies	
Extend most of the Bush tax cut on qualified dividends (set a 20% top rate) for high-income taxpayers after 2012	$ +123.7
Extend American opportunity tax credit	+93.6
Make $3,000 threshold for child tax credit refunds permanent	+75.8
Retirement plans for workers at small businesses, etc.	+14.4
Make earned income tax credit $5K marriage penalty relief permanent	+12.7
Make added earned income tax credit for larger families permanent	+12.3
Expand child and dependent care tax credit	+9.6
Continue sales tax deduction and other expiring tax subsidies through 2012	+6.1
Total Increases in Individual Subsidies	**$ +348.2**
Reductions in Individual Subsidies	
Limit the value of itemized deductions for high-income individuals after 2011	$ –321.3
Reduce estate tax avoidance opportunities	–19.5
Total Reductions in Individual Subsidies	**$ –340.8**

Sources: OMB & Treasury, Feb. 2011.
Compiled by Citizens for Tax Justice, Feb. 2011.