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Challenges ahead for tax policy

2013 Tax Legislative Outlook

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The heart of the matter

The enactment of the *American Taxpayer Relief Act of 2012* made permanent the 2001 and 2003 tax rates for most Americans and extended through the end of 2013 other key business and individual tax provisions.

While the *American Taxpayer Relief Act of 2012* addressed certain 'fiscal cliff' issues, continued debate over federal deficits, revenues, and spending will be a key factor in consideration of 2013 tax legislation and efforts to reform US tax laws to promote economic growth and competitiveness.

Fiscal policy is expected to dominate legislative discussions in early 2013 as President Barack Obama begins his second term and the 113th Congress gets underway. The Obama Administration and Congress need to address automatic spending reductions ('sequestration') that have been delayed through the end of February, the March 27 expiration of a temporary funding measure for federal departments and agencies, and a federal debt limit that has been suspended through May 18.

President Obama and Congressional leaders continue to call for tax reform. While permanent extension of individual tax rates no longer is a primary driver of tax reform efforts, a more competitive and streamlined tax code is seen as a way to promote growth and, for some, as a way to reduce the deficit or provide revenue to support federal programs and services. However, until the debate over the debt limit, spending cuts, and funding for federal departments and agencies is resolved, it is difficult to foresee Congress having time to focus on business tax reform.

It is expected that President Obama will identify his budget priorities in his FY 2014 budget submission to Congress and may repropose many of the business and individual proposals featured in previous budgets, including revenue-raising provisions. White House officials have indicated that the President's budget will be delayed beyond the first Monday in February deadline set by law. President Obama also has stated that gun control legislation, climate change, and immigration reform will be priorities this year for his Administration.

Meanwhile, President Obama will ask the Senate to confirm his nominees to several key positions, including Secretary of the Treasury. President Obama on January 10 nominated White House chief of staff Jacob ('Jack') Lew to succeed Timothy Geithner as Treasury Secretary. With Douglas Shulman's retirement as IRS Commissioner in November 2012, President Obama this year is expected to nominate a new IRS Commissioner to a five-year term.

Overview

President Obama on January 2 signed into law the *American Taxpayer Relief Act of 2012* (the 'Act'). The Act includes permanent extensions of certain 2001 and 2003 tax provisions for individuals with income below $400,000, and joint filers with income below $450,000. For those individuals whose taxable income exceeds these thresholds, their top income tax bracket will be 39.6 percent and dividends and long-term capital gains will be taxed at 20 percent (an additional 0.9-percent health insurance wage tax and 3.8-percent net investment income tax also became effective in 2013 under health care legislation enacted in 2010), as shown below in Figure 1.

Figure 1: 2013 top individual tax rates for incomes above $400,000 single/$450,000 joint

	Wage income	Interest income	Dividends	Capital gains
2013 top rate	39.6%	39.6%	20.0%	20.0%
2013 phase-out of itemized deductions	1.2%	1.2%	1.2%	1.2%
Prior law HI tax	1.45%*	-	-	-
Additional HI surtax	0.9%	3.8%	3.8%	3.8%
2013 combined top rate	**43.15%**	**44.6%**	**25.0%**	**25.0%**

*Additional 1.45% applies for self-employed.

Other provisions of the Act include permanent indexing of individual alternative minimum tax (AMT) exemption levels for 2012 and subsequent years and a reinstatement of a personal exemption phaseout (PEP) and phaseout of itemized deductions for single filers (Pease) with adjusted gross income above $250,000 ($300,000 for joint filers). The legislation also permanently extends the $5 million per-person estate and gift tax exemption (indexed for inflation) and provides a top estate and gift tax rate of 40 percent.

In addition, the Act extends through 2013 a 50-percent 'bonus' depreciation provision for qualified property, and also includes extensions through 2013 of certain expired individual, business, and energy tax provisions. Business tax provisions renewed retroactively include the research credit (with modifications), look-through treatment for payments between related controlled foreign corporations (CFCs), the Subpart F exception for active financing income, 15-year straight-line cost recovery for qualified leasehold, retail and restaurant improvements, and certain other provisions that expired at the end of 2011. The Act also extends through 2013 a federal deduction for individual State sales taxes, tax-free charity IRA rollovers, and certain other temporary individual provisions. In addition, the Act provides for a temporary Roth IRA conversion period.

There are 55 remaining federal 'tax extender' provisions set to expire at the end of 2013. An additional 25 provisions are scheduled to expire at various points over the coming decade.

Fiscal policy deadlines

Former Treasury Secretary Timothy Geithner early this year informed House and Senate leaders that the Federal Government's $16.394 trillion statutory debt limit was reached on December 31, 2012, and that Treasury had begun taking "extraordinary measures" to "postpone the date on which the United States would otherwise default on its legal obligations."

Congress has approved a short-term suspension of the federal debt limit through May 18, 2013. The bill also calls for the pay of Members of the House and Senate to be withheld pending approval of a FY 2014 budget resolution by each chamber.

The *American Taxpayer Relief Act of 2012* delays until the end of February automatic across-the-board 'sequestration' spending cuts that are a consequence of debt limit increase legislation enacted in 2011. The Budget Control Act of 2011 reduces future federal discretionary spending by $1 trillion over 10 years, and provides for an additional $1.2 trillion in automatic defense and non-defense spending cuts that had been set to begin on January 2, 2013, if Congress could not agree on alternative proposals providing an equal amount of deficit reduction.

An additional deadline in upcoming debate over fiscal policy will be the March 27, 2013, expiration of a temporary funding measure for federal departments and agencies. If Congress does not enact appropriations legislation by that date, there would be a partial 'shutdown' of the federal government.

Administration, Congressional positions on deficit reduction

President Obama on December 31, 2012, stated that "we're going to have to do more to reduce our debt and our deficit." While commenting that he was prepared to accept some reductions in the cost of Medicare and other federal programs, President Obama stated "it's going to have to be balanced," and "that kind of [entitlement] reform has to go hand-in-hand with doing some more work to reform our tax code so that wealthy individuals, the biggest corporations can't take advantage of loopholes and deductions that aren't available… to most Americans."

At the start of the 113th Congress, House Speaker John Boehner (R-OH), in his opening remarks to the new House, focused on the need to address the federal debt. "Our government has built up too much debt," Speaker Boehner said. "Our economy is not producing enough jobs. These are not separate problems. At $16 trillion and rising, our national debt is draining free enterprise and weakening the ship of state."

Speaker Boehner, Senate Minority Leader Mitch McConnell (R-KY), and other Republican Congressional leaders have stated that they will not support additional revenue increases as part of any new deficit reduction legislation.

By contrast, Congressional Democratic leaders are expressing support for the Administration's position that revenue increases must accompany reductions in federal spending, especially cuts in Medicare and other mandatory spending programs. Addressing the new Senate on January 3, Majority Leader Harry Reid (D-NV) stated, "Any future budget agreements must balance the need for thoughtful spending reductions with revenue from the wealthiest among us and closing wasteful tax loopholes."

Tax reform

The need to strengthen the competitiveness of US firms in the global marketplace – together with slow economic growth, a continuation of high unemployment rates, and projections of significant future budget deficits under current policies – have increased interest in tax reform as a way of promoting US economic growth, controlling federal deficits, and spurring job creation.

Since Japan reduced its corporate tax rate in April 2012, the United States has had the highest corporate tax rate among advanced economies. The United Kingdom last year announced an additional corporate rate reduction, lowering its rate to 23 percent effective April 2013, and to 21 percent effective April 1, 2014. Including average state and local levies on top of the 35 percent federal rate, the combined US rate is 39.1 percent; the average comparable rate among the other OECD countries was 25 percent in 2012.

The United States also is one of the few developed countries to tax foreign earnings under a worldwide tax system. All other G-7 countries and 28 of the 34 OECD countries use territorial tax systems under which all or most foreign dividends are exempt from domestic taxation. Many analysts believe the present US worldwide system reduces the ability of American companies to compete effectively in foreign markets. Others highlight that the present system imposes a substantial tax barrier to repatriation of earnings back for use in the US economy, noting that close to $2 trillion in foreign earnings is held by foreign subsidiaries that cannot be invested in US parents without being subject to US tax.

In the area of individual taxes, there is no longer the uncertainty of expiring tax rates. At the same time, US individual tax laws are viewed by many as too complex and unfair. In addition, there are still several temporary deductions and credits.

Approaches to tax reform

President Obama and Congressional leaders have put forth general tax reform principles in an effort to set the stage for an overhaul of US tax law. Both the President and House Republican leaders are proposing a corporate rate reduction that would be offset by 'base-broadening' measures — that is, by limiting or repealing tax deductions, exclusions, credits, or preferences.

Because businesses could be affected significantly by emerging tax reform efforts, many companies and trade associations are actively engaged in assessing the potential benefits and risks of tax reform, and have been participating in ongoing Congressional hearings and meetings with Members of Congress and their staff.

There is disagreement among Members of Congress over whether tax reform should be entirely revenue-neutral or should raise revenue. Allocating part of the revenue from base-broadening measures to deficit reduction would affect the extent to which corporate and individual tax rates could be reduced in revenue-neutral tax reform legislation.

During House debate on the American Taxpayer Relief Act, Ways and Means Chairman Dave Camp (R-MI) stated that "by making Republican tax cuts permanent, we are one step closer to comprehensive tax reform." "This legislation settles the level of revenue Washington should bring in. Next, we need to make the tax code simpler and fairer for families and small businesses," Chairman Camp said.

Senate Finance Chairman Max Baucus (D-MT) stated in a June 11, 2012, address on tax reform goals that "any tax reform plan must be developed with a sound budget in mind that reduces deficits and debt." Senator Charles Schumer (D-NY), the third-ranking Senate Democratic leader, recently proposed that tax reform should generate increased revenues for deficit reduction through budget reconciliation legislation, which would require only a 51-vote Senate majority instead of the 60-vote majority generally needed. (See Appendix B for a discussion of the Congressional budget process).

Ultimately, whether deficit reduction should be a goal of tax reform will be a fundamental issue.

An in–depth discussion

Divided government and disagreement between Republicans and Democrats in Washington over a "balance" between revenue increases and spending cuts may be an obstacle to major legislative accomplishments.

Balance of Power

In the House, a 218-vote simple majority generally enables the party in control to pass its legislative agenda. There are 233 Republicans and 200 Democrats in the House of Representatives, with special elections taking place over the next several months for the vacant seats that were held by Jesse Jackson Jr. (D-IL) and Tim Scott (R-SC).

In the Senate, there are 55 Democrats (including two Independents) and 45 Republicans. As a practical matter, 60 votes generally are needed to approve legislation in the Senate.

Republicans lost seats in both the House and Senate in the 2012 elections but generally retain the ability to pass legislation in the House and block passage of Obama Administration proposals in both chambers as long as they remain united. During the last Congress, Republican leaders on several occasions needed to rely on the votes of House Democrats to pass spending bills and other measures, including the *American Taxpayer Relief Act of 2012*, which two-thirds of House Republicans voted against.

President Obama can veto legislation he opposes, with a two-thirds majority of both the House and Senate required for a veto override. While the White House on several occasions issued statements warning that particular House bills would be vetoed in their current form, President Obama did not veto any bills during the last Congress because the Democratic-led Senate modified or blocked bills passed by the Republican-controlled House that President Obama had threatened to veto.

The House Ways and Means Committee is led by Chairman Camp, with Rep. Sander Levin (D-MI) serving as Ranking Democratic Member. The Senate Finance Committee is led by Chairman Baucus, with Senator Orrin Hatch (R-UT) serving as Ranking Republican Member. A listing of House and Senate tax committee members and other tax policymakers is provided in Appendix A.

Figure 2: Current Composition of the 113th Congress

	Republicans	Democrats	Vacancies
House	233	200	2
Senate	45	55*	

*Includes two Independents: Senators Bernie Sanders (I-VT) and Angus King (I-ME). An interim appointee will fill the open Massachusetts Senate seat resulting from John Kerry's confirmation as Secretary of State.

All 435 seats in the House are up for election every two years. Democrats would need to achieve a net gain of 17 seats to gain control of the House in 2014, assuming each party retains the Illinois and South Carolina seats respectively in upcoming special elections. At this writing, no House member has announced plans to retire or seek another office.

Roughly one-third of all Senate seats are subject to election every two years. In the upcoming 2014 election cycle, 20 seats currently held by Democrats and 13 seats currently held by Republicans are up for election. While the large number of seats being defended by Senate Democrats has in the past been viewed by most political analysts as providing a competitive opportunity for Republicans to take control of the Senate in the next Congress, Republican primary contests and other factors during the 2012 elections played a role in Senate Democrats increasing their majority by two seats even though they were defending an even larger number of seats than they will be in 2014. Republicans would need a net gain of six seats to win a 51-seat majority in the Senate.

A listing of all Senators whose seats are subject to election in 2014 is included in Appendix C. Finance Committee members currently running for re-election are Chairman Baucus, Senator John Cornyn (R-TX), Senator Michael Enzi (R-WY), and Senator Pat Roberts (R-KS). Senator John D. (Jay) Rockefeller IV (D-WV) recently announced that he will not run for re-election in 2014. Senator John Kerry (D-MA) on January 29 was confirmed as Secretary of State, and a special election will be held in Massachusetts on June 25. In the interim, Massachusetts Governor Deval Patrick (D) has announced that William Cowan, his former chief of staff, will fill Senator Kerry's seat.

Figure 3: Remaining 2013 Congressional Legislative Schedule

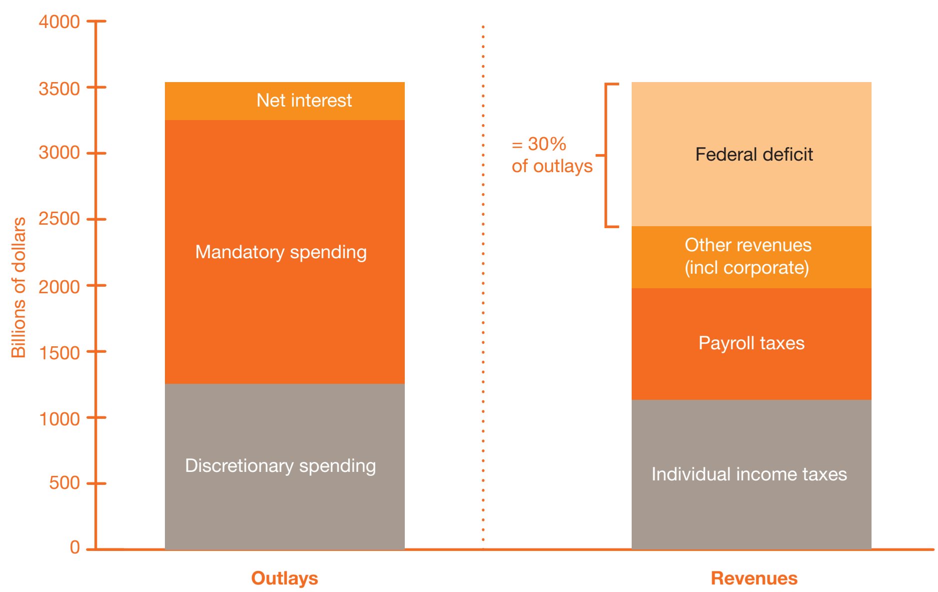
President's State of the Union address	February 12
President's Day recess (House, Senate)	February 18 - 22
Spring recess (House, Senate)	March 25 - April 5
Constituent work week (House)	April 28 - May 3
Memorial Day recess (House, Senate)	May 27-31
Independence Day recess (House, Senate)	July 1-5
Labor Day recess (House, Senate)	August 5 - September 6
Constituent work week (House)	September 23-27
Columbus Day recess (House, Senate)	October 14-18
Constituent work week (House)	November 1-8
Veterans Day	November 11
Thanksgiving recess (House, Senate)	November 25-29
Adjournment date	To be determined

Focus on Deficit Reduction

Fiscal year 2012 (October 1, 2011 through September 30, 2012) marked the fourth consecutive year of federal deficits in excess of $1 trillion. The deficit reached $1.1 trillion in 2012, less than the 2011 level of $1.3 trillion but still 7 percent of gross domestic product (GDP). By comparison, over the past 40 years the deficit has averaged 3.1 percent of GDP. For each dollar in spending, the federal government had to borrow 30 cents during its most recent fiscal year, as shown in Figure 4.

While some portion of recent deficits is attributable to the economic downturn (the "cyclical" component), a large portion derives from a basic misalignment of spending and revenues (the "structural" component). The cyclical deficit will disappear gradually assuming the economy reaches its potential, but the structural deficit will continue into the future. Demographic and economic pressures, such as from the retirement of the baby boom population, will worsen structural deficits going forward.

Figure 4: Federal Outlays and Revenues, FY 2012



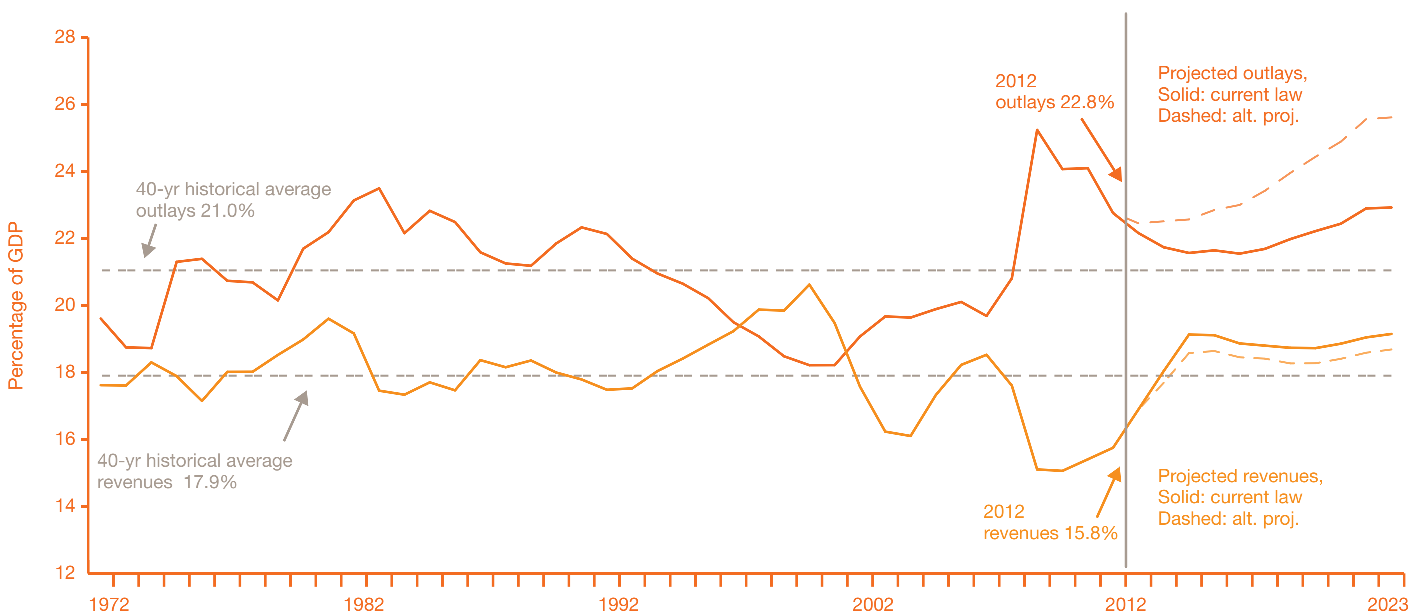
Source: Monthly Treasury Statement. Allocation of spending between discretionary and mandatory estimated based on CBO August 2012 estimates.

Figure 5 below shows historical and projected spending and revenues as a share of GDP. The recession of 2007-2009 led to a spike in spending and a drop in revenues, leaving a significant gap that is slowly closing.

During the 10-year budget period, PwC projections based on CBO February 2013 estimates show revenues are estimated under current law rebounding from the recent lows and climbing into the future. At the same time, spending is projected to fall as a share of GDP initially as the economy recovers, but climb in the second half of the period as interest costs and entitlement spending grow. By the end of the 10-year budget period, revenues are projected under current law to exceed 19 percent of GDP (above a long-run average of 17.9 percent), and spending is projected to almost reach 23 percent (above a long-run average of 21 percent).

Projections under current law assume tax provisions scheduled to expire, such as the research tax credit, are not extended and also assume adherence by Congress and the Administration to certain enacted spending restraints and implementation of the sequester on spending enacted in 2011. Under alternative projections that assume extension of these expiring provisions and spending rising at a more typical historical rate, revenues would be slightly lower but spending would be significantly higher over the budget window. The budget deficits calculated using the alternative assumptions would average $1.2 trillion annually and would reach 7 percent of GDP by 2023. Deficits of this size likely would increase interest rates and crowd out private investment, which would limit future economic growth.

Figure 5: Spending and Revenues as a Share of GDP, 1972-2023

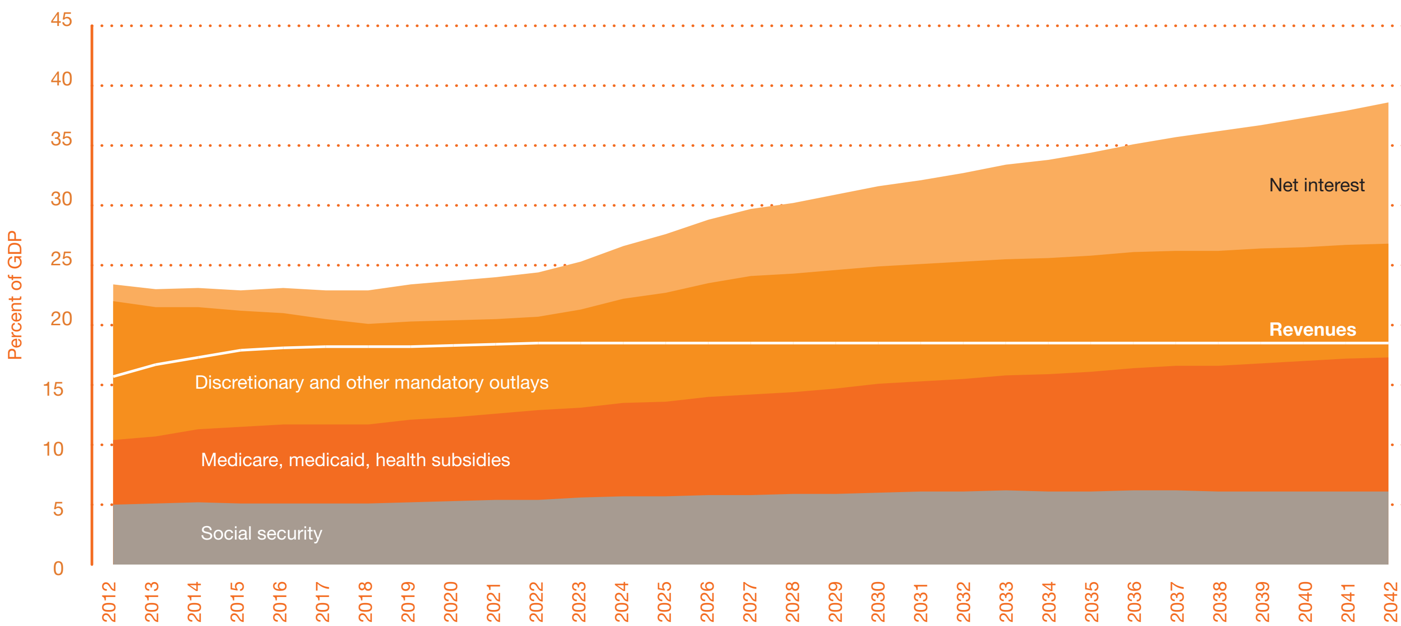


Source: Congressional Budget Office (February 2013) and PwC calculations. The Alternative Projection assumes extension of the expiring business provisions, permanent extension of the Medicare "doc fix," discretionary spending growth with the economy, permanent cancellation of the spending sequester, and phasedown of Iraq/Afghanistan spending.

Beyond 2023, the federal budget will face unprecedented pressure associated with entitlement programs such as Social Security, Medicare, and Medicaid. Absent legislation changing these programs, federal health entitlement spending alone will represent 10.9 percent of GDP by 2040, or more than twice the current level of 5.4 percent (see Figure 6). In the face of these deficits, several ratings agencies have warned of US debt downgrades unless action is taken.

Total Federal debt outstanding at the end of fiscal year 2012 exceeded $16 trillion, with the public holding $11.3 trillion in federal debt obligations. Publicly held debt represented almost 73 percent of GDP at the end of the fiscal year. By 2023, Federal debt under current policies is estimated to exceed 96 percent of GDP. Such debt levels would eventually lead to increased interest rates, lower levels of investment, and lower economic growth.

Figure 6: Long-term Projection of Federal Budget



Source: Congressional Budget Office, "The 2012 Long-Term Budget Outlook," June 2012. Projection assumes long-term revenues continue at projected 2022 levels, automatic spending reductions required by the Budget Control Act do not occur, and most non-entitlement, non-interest spending remains at its long-term average as a percentage of GDP.

Debt ceiling

The increased federal borrowing resulting from recent deficits has caused a significant increase in the amount of federal government debt outstanding. The federal government is subject to a statutory limit, referred to as the "debt limit," on the amount it can borrow. At the end of December 2012, the federal debt reached the statutory limit of $16.394 trillion (see Figure 7).

Congress has approved a short-term suspension of the federal debt limit through May 18, 2013. The bill also calls for the pay of Members of the House and Senate to be withheld pending approval of a FY 2014 budget resolution by each chamber.

The Treasury Department has used certain "extraordinary measures" to continue paying the federal government's bills in full when the debt limit has been reached. Such measures can include suspending the sale of certain securities, redeeming existing and suspending new investments of certain federal employee retirement funds, and suspending reinvestment in certain other federal funds. Treasury officials have stated that these measures generally can provide two months of "headroom." At that point, if the debt limit has not been increased, the federal government would not be able to pay its obligations in full.

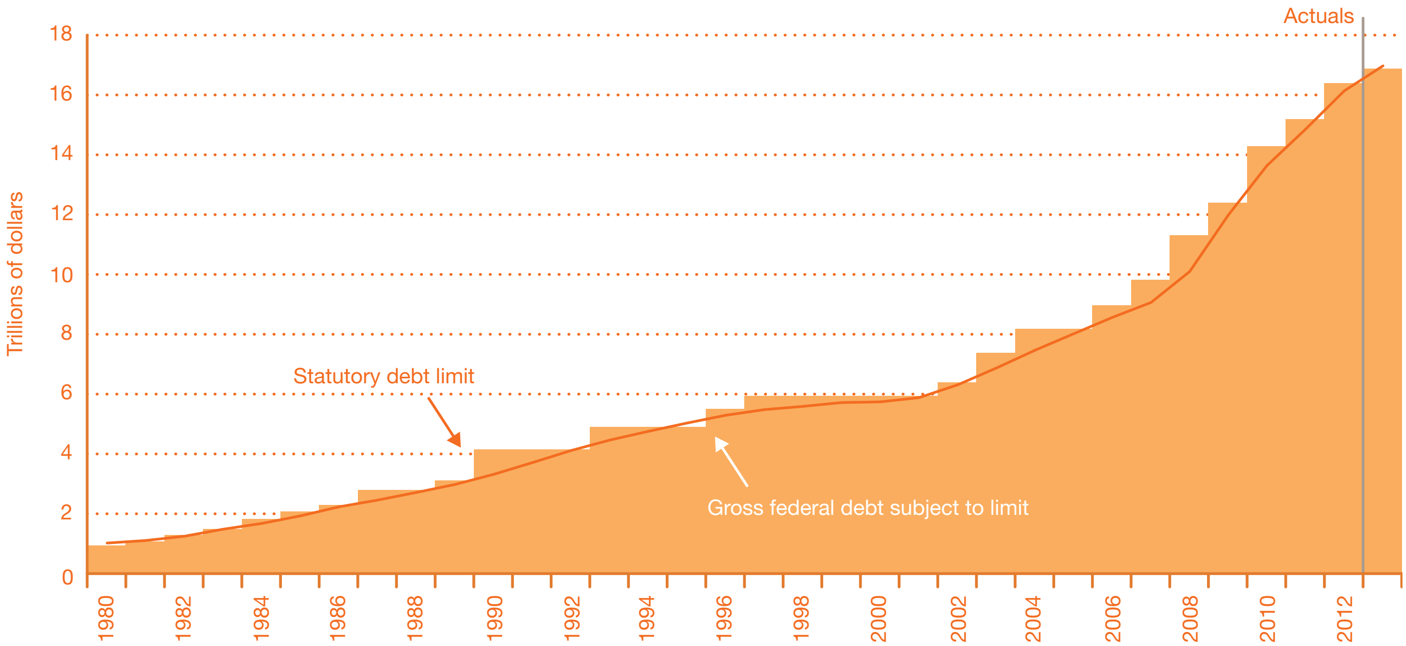
In August 2011, Congress and the Administration raised the debt limit shortly before federal payments would have been constrained by the debt limit. The process led to the downgrade of US federal debt in 2011 by one of the major ratings agencies. In July 2012, the Government Accountability Office estimated that delays in raising the debt limit in 2011 resulted in higher interest rates on Treasury debt issuances that increased government borrowing costs by $1.3 billion in 2011.

Limits on federal spending

Two aspects of federal budget law have played a prominent role in recent years in limiting federal spending. First, as Congress has not enacted appropriations bills on a timely basis to fund certain government discretionary programs, it has been forced to rely on temporary **continuing resolutions** that have maintained current spending levels. Current spending authority has been temporarily set through March 27, 2013. If this authority were to expire without further congressional action, the federal government could not spend any funds subject to the annual appropriations process. Effectively, most of the government would be forced to "shut down," as it did most recently for brief periods in 1995 and 1996.

A separate limitation is the **statutory debt** limit, which caps the amount of bonds that the federal government can issue. Once the debt reaches that limit (and the government exhausts certain temporary, extraordinary measures it can adopt), the government would be able to spend only the money it collects.

Figure 7: Federal Debt Subject to the Statutory Debt Limit



Source: Department of the Treasury, “Monthly Statement of the Public Debt of the United States,” various months.

Economic Outlook

The economy continued its slow recovery in calendar year 2012, despite preliminary estimates showing a slight decline in fourth quarter growth. Improvements in the labor market and the housing market helped to boost consumer confidence. In 2013, the uncertainty associated with the global economy and the federal budget situation could dampen growth going forward.

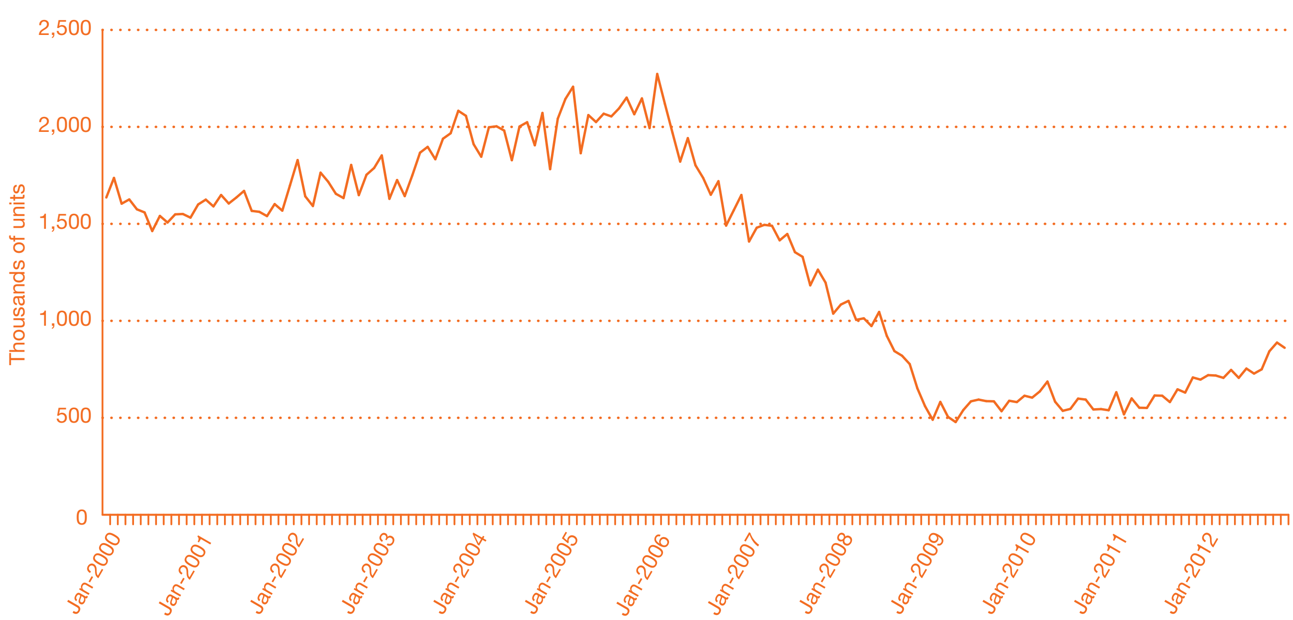
Unemployment rates and employment levels improved in 2012, but both measures reflect labor market weakness that still persists from the 2007-2009 recession. The unemployment rate in December 2012 remained at 7.8 percent, with over 12 million people unemployed, and almost 40 percent of the unemployed without work for over half a year. Past research has demonstrated that the probability of finding work declines with the duration of unemployment.

Over calendar year 2012, the number of jobs created each month averaged approximately 153,000. Total employment remains almost four million below the prior peak in January 2008. Incorporating growth of the working age population between 2008 and 2012, the total jobs gap amounts to over 11 million, according to a study by the Brookings Institution's Hamilton Project.

The housing market also is showing signs of emerging from the market downturn that began in 2006, as shown in Figure 8. While there are positive signs, the market remains well below the levels seen in the mid-2000s.

Improving housing and labor markets have boosted consumer sentiment. Over the past year, consumer confidence has risen by almost one-third, as measured by the University of Michigan Consumer Confidence Survey. As confidence returns, households will be more willing to boost spending, which will help increase growth going forward. Some economists have expressed a concern that uncertainty over federal fiscal policy could reduce consumer confidence.

Figure 8: Monthly Housing Starts, 2000-2012 (annualized basis)



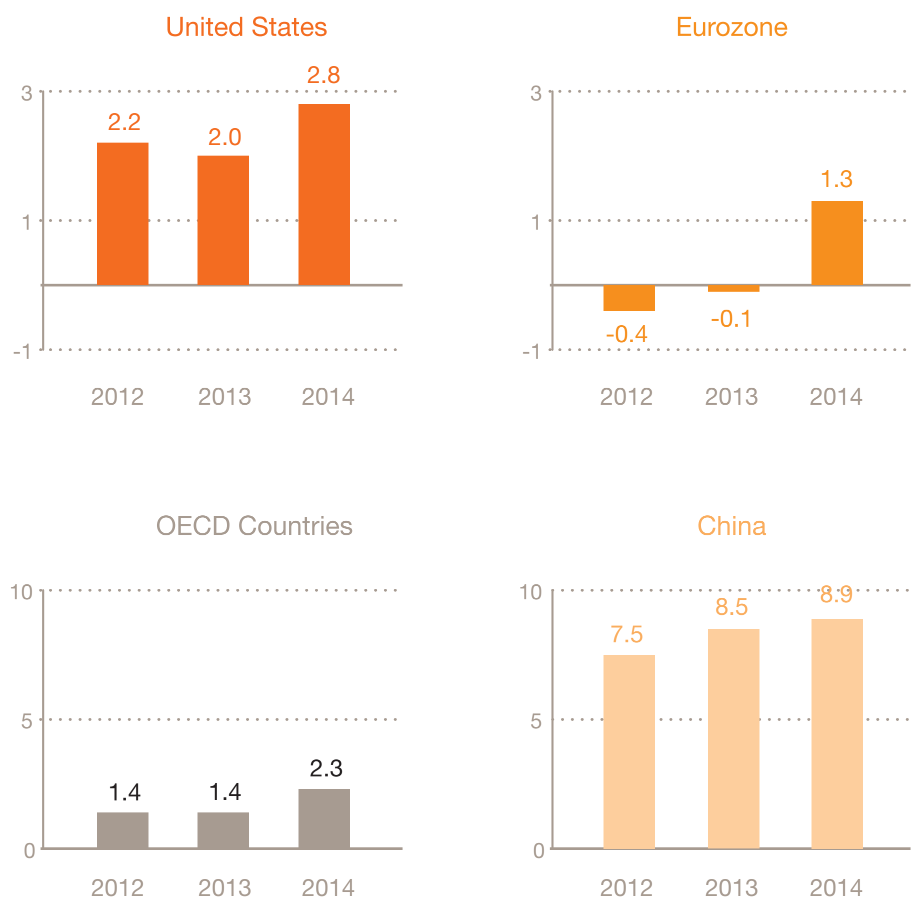
Source: US Census Bureau, "New Residential Construction," extracted December 2012.

Global economy

Austerity in Europe and slowing growth in emerging markets represent a continued threat to the global economy. While the sovereign debt crisis in the European Union has eased, the region's economy will continue to feel the impacts of the austerity implemented in many EU countries.

Current projections from the OECD show negative growth for 2013 and modest growth in 2014 for the EU, well below expected US growth rates (see Figure 9). Growth in China and other developed countries is expected to improve between 2012 and 2014, but not to match levels seen in the late 2000s. Slow growth across the globe limits growth in US exports.

Figure 9: Projections of Real Economic Growth, 2012-2014



Source: OECD Economic Outlook, November 2012.

An important determinant of US economic growth in coming years will be federal fiscal and monetary policy. Over the past five years, both have been expansionary in light of the recession and the modest recovery. Going forward, the short-term impacts of these policies need to be balanced with the long-term costs.

Failure to adjust the federal government's fiscal policy to address future deficits would lead to lower growth rates and lower incomes over time. CBO has estimated that the economy would be 1.7 percent larger in 2022 under policies that significantly reduce projected deficits.

The Federal Reserve has continued its expansionary monetary policy of the last several years to boost the economy, and Chairman Bernanke continues to increase the transparency associated with Fed decisions. After its December meeting, the Federal Open Market Committee released a statement that it would continue purchasing mortgage-backed securities ($40 billion per month) and longer-term Treasury debt (initially at $45 billion per month). It also anticipates maintaining the federal funds rate at exceptionally low levels until the unemployment rate falls below 6.5 percent. For the first time, the Fed identified the threshold value that would determine its future actions.

Critics argue that the Fed's policies are providing little benefit to the economy and risk stoking future inflation. Until conditions change, however, the Fed appears prepared to continue its expansionary policy.

Tax Reform

President Obama, key Members of Congress, and the business community generally agree that substantive tax reform is needed. Some proponents see tax reform as an opportunity to improve the competitiveness of American businesses, attract investment to the United States, and increase job growth. Others – eyeing projections of significant future deficits – believe tax reform could be an important element of an overall deficit reduction package in which spending cuts are combined with revenue increases.

On the corporate side, the US tax system is viewed as out of line with the tax systems of other developed countries. The combined federal and state statutory corporate tax rate in the United States is the highest among OECD nations. The US system of worldwide taxation also stands in contrast to the territorial tax systems employed by most other OECD countries. Proposals encompassing rate reduction, reforms to the US system of international taxation, and base broadening are intended to increase American competitiveness, investment, and job growth without reducing tax collections.

Designing a comprehensive tax reform proposal for full consideration by Congress will require considerable efforts. The groundwork for reform has included Administration proposals, Congressional hearings, the introduction of tax reform bills, the development of draft tax reform proposals by Members of Congress and their staff, and campaign debates over tax reform goals.

Recent tax reform developments

The House Ways and Means and Senate Finance Committees during the last Congress held more than 50 hearings on tax reform issues (see Appendix F). Many of these hearings focused on the facts that the United States has one of the highest corporate tax rates in the world and that most of our major trading partners have adopted territorial tax systems, which generally exempt from tax the active business earnings of foreign subsidiaries. These hearings also have examined a range of other business tax issues, including enhanced incentives for innovation, the tax treatment of debt and equity, and the tax treatment of financial products.

Chairman Camp international tax discussion draft

As an important step in the tax reform process, Ways and Means Chairman Camp in October 2011 released for public comment an international tax reform "discussion draft" that would be one component of a future comprehensive tax reform bill that would also address individual and other business tax issues. The discussion draft, examined in greater detail below, proposes a 25-percent top corporate tax rate and a 95-percent exemption for dividends from foreign subsidiaries.

Chairman Camp's discussion draft marks a significant milestone in advancing tax reform because it is a detailed proposal to restructure the way the United States taxes global business operations. Materials released with the discussion draft state that individual tax reform lowering the top tax rate to 25 percent also would be addressed as part of comprehensive tax reform legislation.

The draft reflects an objective that international corporate tax reform should be revenue neutral on its own. To achieve this objective, the draft includes a "toll charge" tax on accumulated earnings of controlled foreign corporations, a limitation on interest deductions, and three alternative proposals designed to protect the US tax base against income being moved abroad.

'Super Committee' deliberations

The Joint Select Committee on Deficit Reduction – the 'super committee' established by the *Budget Control Act of 2011* agreement increasing the federal government's borrowing authority – also considered corporate tax reform proposals in the fall of 2011 as part of a comprehensive deficit reduction plan. Ultimately, the committee was unable to agree on a deficit reduction plan. Senator Rob Portman (R-OH), one of the 12 members of the Select Committee and a new member of the Senate Finance Committee, at that time said that a conceptual corporate tax reform proposal, featuring a 25-percent corporate rate and a territorial system, had been scored as deficit neutral by the Joint Committee on Taxation (JCT) staff.

Administration 'framework'

The White House and Treasury Department in February 2012 released the President's Framework for Business Tax Reform, which calls for reducing the top corporate income tax rate to 28 percent while increasing US tax on the income earned by foreign subsidiaries of US companies. This 25-page document, discussed in more detail below, incorporates some proposals from the Administration's FY 2013 budget, but otherwise sets forth general principles for tax reform and identifies a range of base-broadening options. President Obama may include similar proposals in his FY 2014 budget submission to Congress.

House budget plan

The House in March 2012 approved a FY 2013 budget plan consistent with Chairman Camp's discussion draft that calls for tax reform legislation to set a top rate of 25 percent for both individuals and corporations and to move the United States toward a territorial tax system. The budget resolution left to the House Ways and Means Committee the task of crafting specific legislation that would fulfill these goals. The House may include similar proposals in a FY 2014 budget resolution.

Chairman Camp financial products discussion draft

Ways and Means Chairman Camp on January 24, 2013 released for public comment a discussion draft on reforming the tax treatment of financial products as part of the Committee's broader effort on comprehensive tax reform. Specifically, the discussion draft includes six proposals to:

- Provide uniform "mark-to-market" tax treatment of financial derivatives
- Simplify business hedging tax rules
- Eliminate "phantom" tax resulting from debt restructurings
- Harmonize the tax treatment of bonds traded at a discount or premium on the secondary market
- Increase the accuracy of determining gains and losses on sales of securities
- Prevent the "harvesting" of tax losses on securities

Tax reform process

The fiscal cliff legislation did not provide any process or timeline for tax reform legislation. The House on August 2, 2012, had approved an expedited process for Congressional consideration of tax reform in 2013, but that proposal was not adopted in the final fiscal cliff legislation.

Under the House tax reform process proposal, a "comprehensive tax reform bill" would be introduced by April 30, 2013, by the chairman of the House Ways and Means Committee. This bill would be granted expedited consideration in the House and Senate if the initial bill were certified to achieve certain specified policy goals that include a top rate of 25 percent for individuals and corporations and moving to a territorial tax system.

It remains unclear whether President Obama and Congress might reach an agreement on deficit reduction that could include a process or timeline for tax reform legislation in 2013.

Corporate tax reform

The dynamics of corporate tax reform principally revolve around how low the rate should be reduced in order to promote US investment, job creation, and competitiveness, the required trade-off in terms of base broadening if revenue-neutral reform is required, and whether the United States should adopt a territorial tax system or make other more limited reforms to its worldwide system of taxation. As noted above, some see tax reform as a process to achieve higher tax revenues for deficit reduction.

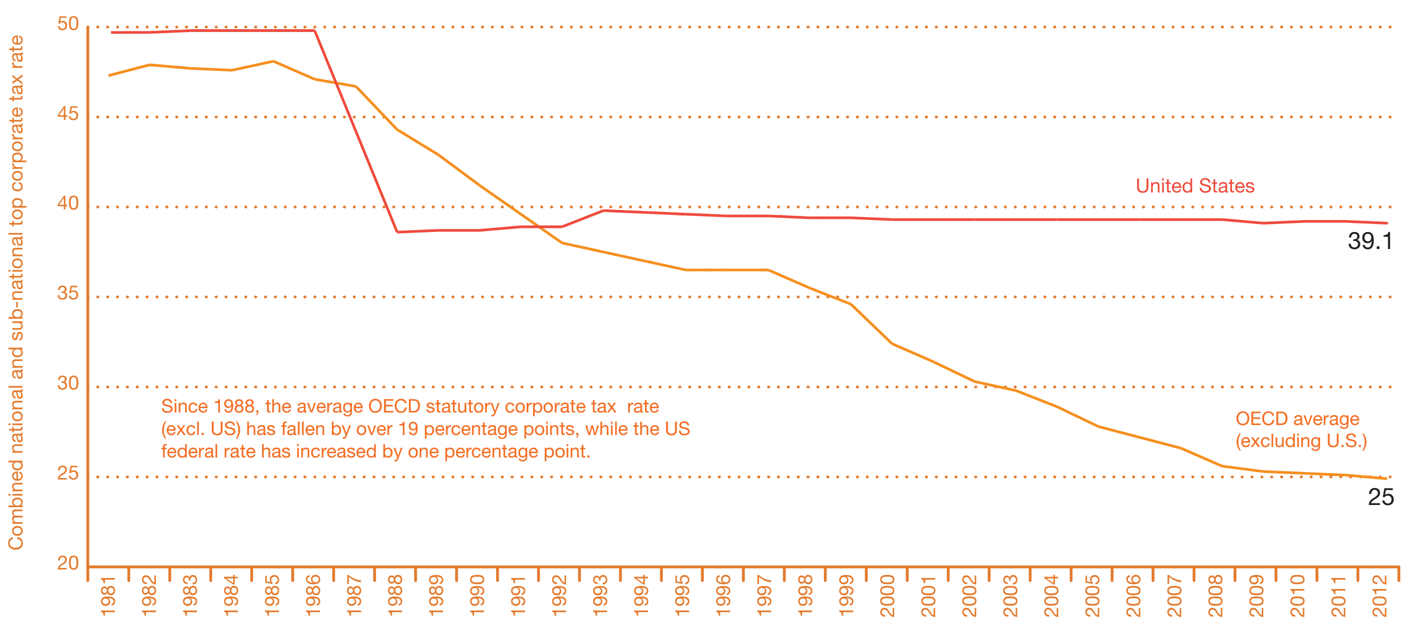
Corporate tax rate

Including state taxes, the US combined statutory tax rate of 39.1 percent is more than 50 percent higher than the 25 percent average statutory corporate tax rate of other OECD countries in 2012. The average rate in the rest of the OECD, which includes national and local taxes, declined by 19 percentage points between 1988 and 2012; by contrast, the US rate increased slightly over this same period (see Figure 10). A major bipartisan objective of corporate tax reform is to provide significant rate reduction to improve the attractiveness of the United States for investment and job growth and the ability of US multinationals to compete in the global economy.

Ways and Means Chairman Camp's proposal for a 25-percent federal corporate rate would result in a combined federal and state rate of just under 30 percent.

The JCT staff estimates that each percentage point reduction in the US corporate tax rate would reduce tax collections by approximately $100 billion over the next 10 years, absent any offsetting provisions. Accordingly, the 10-percentage point reduction in the corporate tax rate proposed by Chairman Camp would require approximately $1 trillion in offsetting base-broadening provisions to be scored as revenue neutral by Congressional budget estimators.

Figure 10: US and Average OECD Corporate Tax Rates, 1981 - 2012



Source: OECD Tax Database, 2012.
US rate is based on the 35-percent federal tax rate and average state taxes of 6.44 percent, which are deductible from federal taxes.

Among major developed countries recently reducing corporate tax rates, the United Kingdom last year announced an additional corporate rate reduction, lowering its rate to 23 percent effective April 1, 2013, and to 21 percent effective April 1, 2014. Japan lowered its corporate rate by approximately 2.5-percentage points in April 2012 and has scheduled an additional 2.5-percentage point reduction in 2015. (The full rate reduction in 2015 takes effect following the expiration of a temporary surtax intended to raise revenue for the reconstruction effort from the March 2011 earthquake and tsunami.) Canada, the United States' largest trading partner, reduced its federal corporate tax rate to 15 percent in 2012. Including provincial taxes, the combined corporate rate in Canada is approximately 25 percent, roughly 15 percentage points lower than its rate in 2000.

High statutory and high effective rates of taxation

Although there is increasing recognition that the United States has a higher statutory corporate tax rate than other OECD countries, it is less well known that the effective tax rate of American corporations also is generally higher than that of companies headquartered outside the United States.

Statutory tax rates are important for many business investment decisions because they govern the taxation of taxable income, after taking into consideration deductions, exclusions, credits, and preferences. Effective tax rates, in contrast, measure the rate of tax relative to alternative measures of income; 'book' effective tax rates, for example, measure tax payments relative to financial statement income. Both statutory and effective tax rates are important for assessing the overall impact of the US corporate tax system on American companies.

American companies on a worldwide basis had the second highest effective tax rate among multinationals from all countries between 2005 and 2009, according to a comprehensive cross-country study of financial statement information by academic researchers. The study authors estimate the effective tax rate of US multinationals to be 30 percent, with Japan having the highest effective rate at 39 percent. Effective tax rates for multinationals based in other G-7 countries were 26 percent for Canada, 28 percent for France, 29 percent for Germany, and 26 percent for the United Kingdom. (Note: This study does not reflect reductions in statutory rates since 2009 in Canada, Germany, Japan, and the United Kingdom, nor does it fully reflect the adoption of territorial systems in Japan and the United Kingdom.)

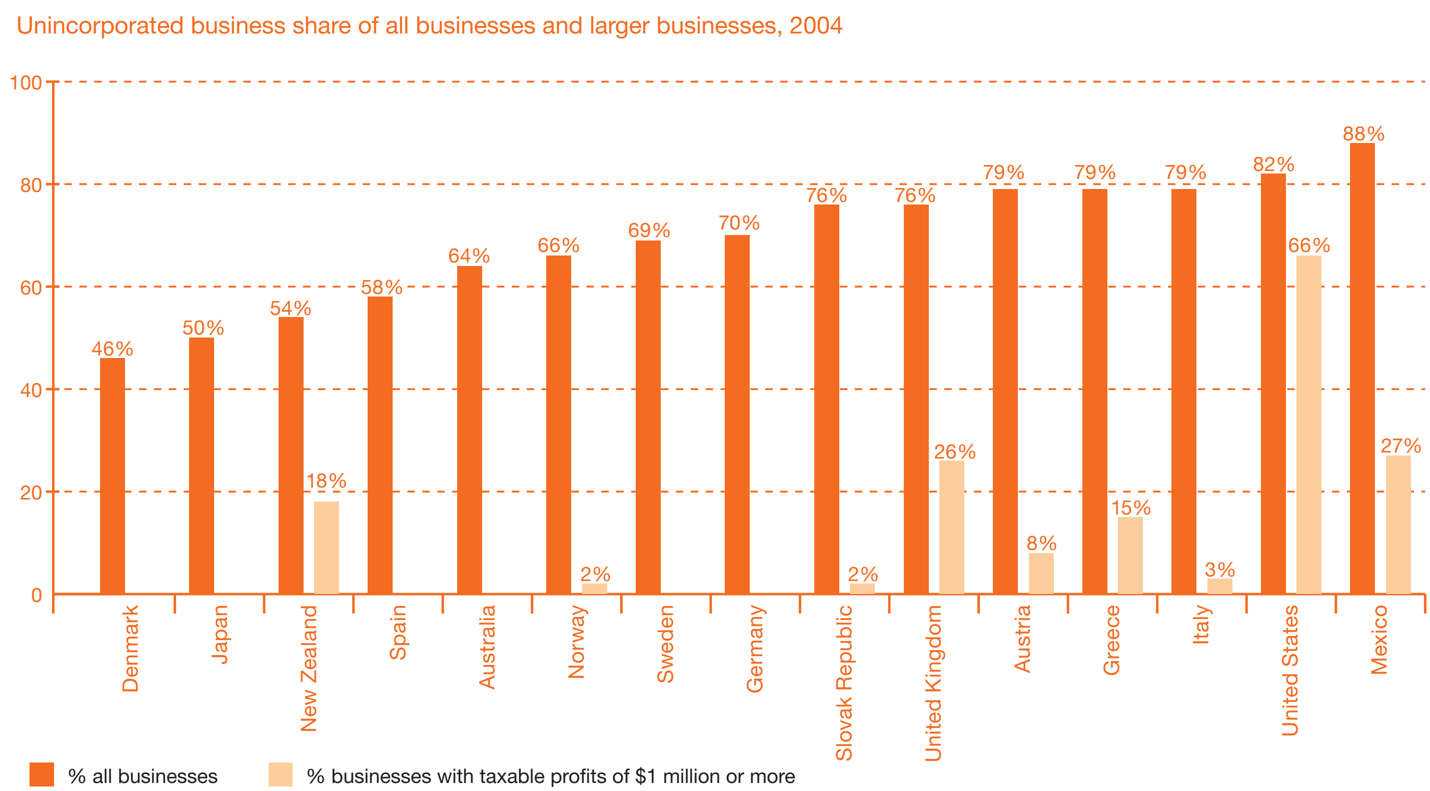
Some argue that the US effective corporate tax rate is lower than that of other advanced economies, citing the fact that the amount of corporate income tax revenue in the United States as a percentage of GDP is below the OECD average. For example, between 2005 and 2007, corporate taxes as a share of GDP averaged about 3.2 percent in the United States, compared to about 3.8 percent in the rest of the OECD.

However, the United States has a substantially greater share of businesses, including larger businesses, that operate in forms not subject to corporate-level taxation, including sole proprietorships, partnerships, and S corporations, than do other OECD countries, as shown in Figure 11 below from a 2007 Treasury Department background paper on business taxation and global competitiveness. In total, about half of business income in the United States is earned by businesses that are taxed directly under the individual income tax system rather than through the corporate tax system. As a result, comparisons of corporate tax collections in the United States with other countries that have a smaller share of business income outside the corporate tax system can be misleading.

Corporate base broadening

To offset the revenue loss from rate reduction, reform proposals that seek to be revenue neutral are expected to broaden the corporate tax base by limiting deductions, exclusions, and credits. Base-broadening proposals are likely to focus on tax expenditures, which JCT staff define as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." The JCT and the Administration annually publish separate, but very similar, lists of tax expenditures.

Figure 11: The US Has Among the Largest Unincorporated Business Sectors within the OECD



Note: For the United States, S Corporations are excluded from the unincorporated business share in the data even though they are taxed on a pass-through basis.

Potential revenue resulting from eliminating various business tax expenditures can be seen in a JCT staff analysis prepared in October 2011 at the request of Ways and Means Ranking Minority Member Sander Levin (D-MI). In that analysis, the JCT staff estimated that elimination of approximately 40 corporate tax expenditures – accounting for most of the major corporate tax expenditures – would raise sufficient revenue to reduce the corporate tax rate to 28 percent in a revenue-neutral manner over the 10 year budget period. At the same time, JCT staff noted that estimates currently were unavailable for numerous other provisions.

Seven corporate tax expenditures account for 95 percent of the base broadening achieved in the JCT staff analysis: accelerated depreciation, expensing of research and experimental expenditures, the section 199 domestic production activities deduction, the last-in first-out inventory accounting method (LIFO), the tax credit for low-income housing, deferral of gain on like-kind exchanges, and the completed contract method. A "very preliminary" JCT staff estimate of the 10-year revenue gain from the repeal of these seven provisions is shown in Figure 12.

While tax reform sometimes is described as repealing "loopholes" in exchange for rate reduction, this listing of major tax expenditures reflects that the bulk of potential revenue offsets are attributable to widely used tax provisions explicitly provided by Congress in the tax code.

JCT staff also estimate that approximately $300 billion in additional revenue would be raised over the 10-year budget period if the business tax expenditures were repealed for entities operating in pass-through form (sole proprietorships, partnerships, and S corporations).

How pass-through entities would be treated under tax reform remains to be determined. Some believe that corporate tax reform cannot proceed independently of individual tax reform because of the potential adverse impact on pass-through entities if the business tax base is broadened but there is no rate reduction for the owners of these businesses. Ways and Means Chairman Camp, for example, has stated that comprehensive reform is needed for both individuals and corporations in part for this reason.

Figure 12: Estimated Revenue Increase from Repealing Largest Tax Expenditures Attributable to C Corporations (2012 – 2021)

Provision	10-Year Amount ($ billions)
Repeal MACRS and apply Alternative Depreciation System	506.8
Repeal expensing of research and experimental expenditures	152.2
Repeal Section 199 domestic production activities deduction	127.0
Repeal LIFO	62.7
Repeal credit for low-income housing	33.0
Repeal deferral of gain on like-kind exchanges	16.0
Repeal completed contract method	13.9

Note: Various effective dates. JCT staff also report that estimates currently are unavailable for numerous other tax provisions.

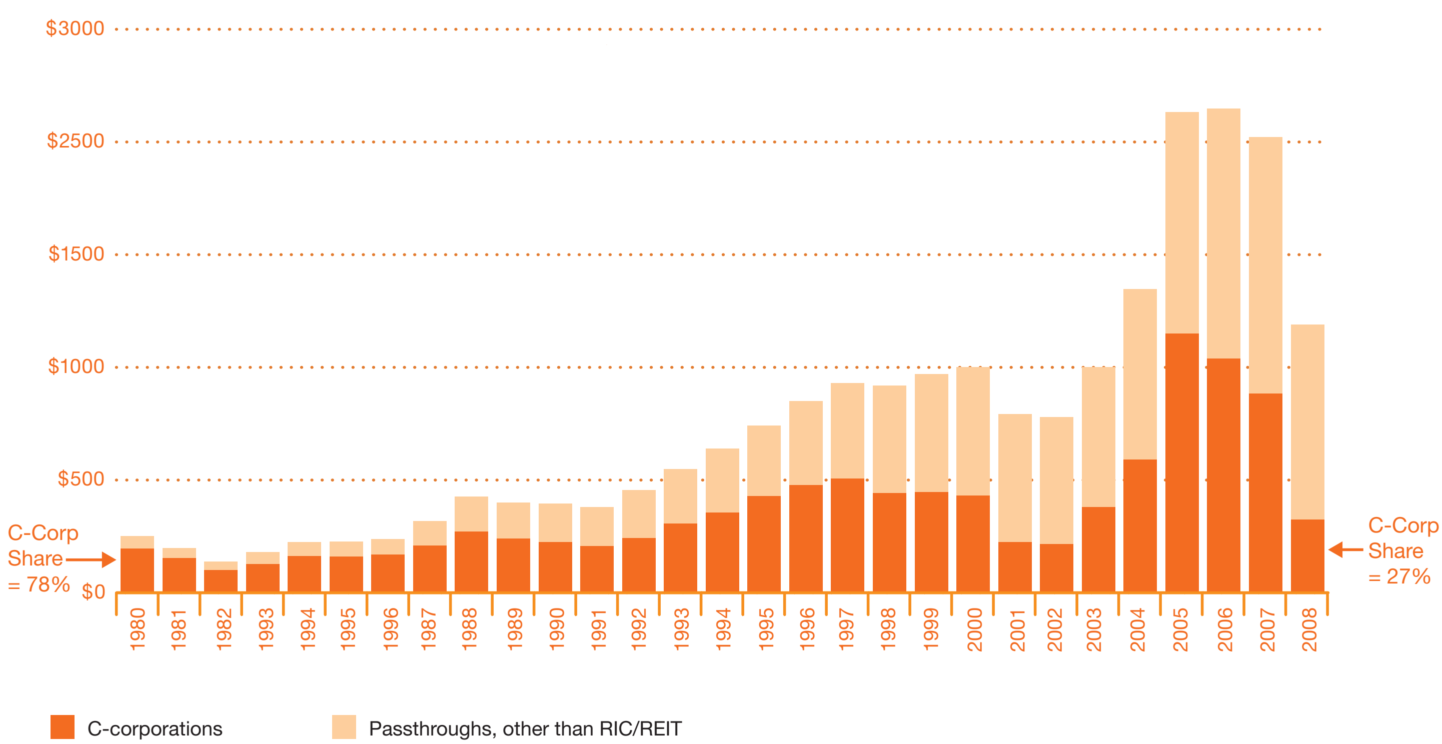
Source: Joint Committee on Taxation (October 27, 2011 letter to Rep. Levin)

As noted below, the Obama Administration has suggested that "greater parity" between large corporations and large pass-through businesses should be considered as part of tax reform. In Congressional hearings, some Members of Congress have raised questions about whether pass-through entities above a certain size should be subject to an entity-level tax. Figure 13 below illustrates the portion of business income that is earned by corporate and non-corporate entities.

Offsetting the cost of a significant rate reduction below 28 percent could require that base broadening expand beyond provisions specifically identified as tax expenditures by the JCT staff and the Administration. For example, the Administration's 'framework' for business tax reform, as discussed below, identifies the deductibility of interest for corporations as an issue that should be considered as part of tax reform. The deduction for interest is not classified as a tax expenditure.

Figure 13: Business Income Subject to Tax by Entity Type, 1980-2008

(Billions of Dollars, Excludes RICs and REITs)



Source: PwC tabulations based on IRS integrated tax database. Passthrough income includes portion flowing to corporate shareholders.

International tax reform

Many analysts believe the US system of international taxation is in urgent need of reform. Some – stressing global competitiveness – believe the present US worldwide system reduces the ability of American companies to compete effectively in foreign markets. Others highlight that the present system imposes a substantial tax barrier to repatriation of earnings for use in the US economy, noting that approximately $2 trillion in foreign earnings is held by foreign subsidiaries that cannot be invested in US parents without being subject to US tax. And others note that the current system results in a relatively small amount of tax collections by the United States relative to the foreign income of US companies.

As noted above, the United States is one of the few developed countries to tax foreign earnings under a worldwide tax system. All other G-7 countries and 28 of the 34 OECD countries use territorial tax systems under which all or most foreign dividends are exempt from domestic taxation (see Figure 14). The United Kingdom and Japan are two of the most recent OECD countries to adopt territorial tax systems, with each switching from worldwide systems in 2009. The other countries within the OECD using a worldwide system generally have low corporate tax rates, averaging 22.3 percent in 2012.

Figure 14: 28 of 34 OECD Countries Have Territorial Tax Systems

Home country tax treatment of foreign-source dividend income received by resident corporations

Exemption			Foreign Tax Credit
Australia	Greece	Portugal	Chile
Austria	Hungary	Slovak Republic	Ireland
Belgium	Iceland	Slovenia	Israel
Canada	Italy	Spain	Korea
Czech Republic	Japan	Sweden	Mexico
Denmark	Luxembourg	Switzerland	United States
Estonia	Netherlands	Turkey	
Finland	New Zealand	United Kingdom	
France	Norway		
Germany	Poland		

Source: PwC Worldwide Tax Summaries, http://www.pwc.com/gx/en/worldwide-tax-summaries/index.jhtml

Note: Some countries limit dividend exemption to substantial shareholders (e.g., 5% or 10% owners). In some cases, dividend exemption is limited to treaty countries that impose corporate income tax above a minimum rate. A few countries (e.g., France, Germany, Belgium, and Japan) exempt 95% rather than 100% of foreign dividends. Poland and Greece exempt dividends received only from other EU countries.

Individual tax reform

While the President's tax reform framework is limited to business tax reform, the House Republican FY 2013 budget plan called for consolidating the current six individual brackets into two brackets of 10 percent and 25 percent, broadening the tax base, and repealing the alternative minimum tax. By comparison, the American Taxpayer Relief Act of 2012 retained the six brackets in place since 2001 and reinstated an additional top tax bracket with a 39.6 percent rate, as shown in Figure 15.

Congressional Republicans generally have called for using revenue from limiting individual 'tax expenditures' or current exclusions from income to provide for an across-the-board reduction in individual tax rates. By contrast, President Obama during last year's fiscal cliff negotiations proposed that Congress enact his proposal to limit the value of individual itemized deductions at the 28-percent bracket as a deficit reduction measure. The JCT staff estimated that the Administration's FY 2013 budget proposal to limit the value of individual itemized deductions would raise $520 billion over 10 years. Figure 16 notes the amount of revenue associated with specific individual tax expenditures, as estimated last year. Updated estimates are expected to be released soon by JCT, which will reflect the extension of provisions under the American Taxpayer Relief Act of 2012. Note: JCT staff estimates tax expenditures over a five-year period, instead of the 10-year period used for revenue estimates of legislative proposals.

Figure 15: Current individual tax rates

Marginal Income Tax Rate	Taxable Income Bracket—Unmarried Individuals (other than Surviving Spouses and Heads of Households)	Taxable Income Bracket — Married Individuals Filing Joint Returns and Surviving Spouses
10%	$0–$8,925	$0–$17,850
15%	$8,926–$36,250	$17,851–$72,500
25%	$36,251–$87,850	$72,501–$146,400
28%	$87,851–$183,250	$146,401–$223,050
33%	$183,251–$398,350	$223,051–$398,350
35%	$398,351–$400,000	$398,351–$450,000
39.6%	$400,001 and above	$450,001 and above

Figure 16. Selected Individual Tax Expenditures (2011–2015)

Provision	5-year amount ($ billions)
Exclusion of retirement contributions and earnings (Keogh, defined benefit plans, defined contribution plans, and IRAs)	$809.8
Exclusion for employer-provided and self-employed health care	$751.0
Mortgage interest deduction	$464.1
Reduced rates on capital gains and dividends	$456.7
Deduction for state and local income, sales, and property taxes	$347.4
Exclusion from tax of Medicare benefits	$347.0
Earned income tax credit (EITC)	$294.1
Exclusion of capital gains at death	$230.8
Deduction for charitable contributions	$227.2
Exclusion of untaxed Social Security, railroad retirement benefits	$188.8
Child credit	$168.9
Exclusion of investment income on life insurance and annuities	$135.1
Exclusion of interest on State and local public-purpose bonds	$130.8
Exclusion of capital gain on principal residence	$123.2
Deduction for medical expenses and long-term care expenses	$70.5

Source: Joint Committee on Taxation, JCS-1-12 (2012)

Recent tax reform proposals

Chairman Camp's international reform discussion draft

The most detailed proposal to date for a US territorial system was provided by Ways and Means Chairman Camp in a discussion draft with legislative language and a technical explanation released on October 26, 2011. As noted above, the proposed international reforms are intended to be revenue neutral on their own over the 10-year budget period.

The territorial system in the discussion draft provides a 95-percent dividends received deduction (DRD) for qualified foreign-source dividends received by a corporate 10-percent US shareholder from a controlled foreign corporation (CFC), provided the stock of the CFC has been held for at least one year. Given the 25-percent corporate tax rate assumed in the discussion draft, the tax rate on qualifying foreign-source dividends would be 1.25 percent (25 percent of five percent). No foreign tax credits would be available to offset this tax.

As part of a transition to the new territorial system, previously untaxed earnings and profits of foreign subsidiaries would be included in the current income of 10-percent-or-greater US shareholders. An 85-percent DRD would be allowed, and credits for a corresponding portion of indirect foreign taxes would be allowed. Thus, the maximum tax rate on pre-enactment income would be 5.25 percent (35 percent of 15 percent). A taxpayer could elect to spread the tax owed over a period of up to eight years with an interest charge.

The proposal treats all previously untaxed E&P the same, whether held in cash and equivalents or reinvested in plant and equipment.

The discussion draft has three alternative options that would expand subpart F to address concerns that increased income shifting may occur under a territorial tax system, particularly with respect to intangible property:

- ***Excess returns proposal.*** The first option is the Administration's "excess returns" FY 2013 budget proposal, which would create a new subpart F category of foreign base company excess intangible income for income relating to transferred intangible property earning a high rate of return and subject to a low foreign effective tax rate. The discussion draft version of the proposal is the same as the Administration's proposed change to current law except that the discussion draft option would not create a separate foreign tax credit basket for this income.
- ***Subpart F inclusion of all low-taxed cross-border income proposal.*** CFC income subject to a foreign effective tax rate (based on US principles) of 10 percent or less (determined on a country-by-country basis) would be treated as subpart F income, with an exception for same-country active income. This proposal has been likened to Japan's CFC rules, although it does not provide for the broader active business income exception included in the Japanese rule.
- ***'Carrot and stick' approach to intangible income.*** This option creates a new category of subpart F income for low-taxed worldwide income derived by a CFC from intangibles (the 'stick') and provides a 40-percent deduction to the domestic corporation for income attributable solely to the foreign exploitation of intangibles (the 'carrot').

  The new category of subpart F income, foreign base company intangible income (FBCII), would be defined as all intangible income earned by a CFC from the sale, lease, or license of property in which intangible property (IP) is used directly or indirectly, or the provision of services related to IP without regard to where the intangibles are exploited. FBCII would be eligible for a modified subpart F high-tax exception that would apply if the effective tax rate of the income exceeds 13.5 percent. The 40-percent deduction provided under the 'carrot' (resulting in a 15-percent effective tax rate based on a 25-percent statutory rate) applies only to foreign intangible income earned directly by a domestic corporation and indirectly through a CFC in which it is a shareholder. Foreign intangible income is defined as intangible income derived in connection with property sold, used, consumed or disposed of outside the United States or in connection with services provided with respect to persons or property outside the United States.

The discussion draft also would address US base erosion concerns by limiting deductions for net interest expense of a US corporation that is a US shareholder with respect to a CFC if both the US corporation and the CFC are members of a worldwide affiliated group. The limitation would apply if US net interest expense exceeds an unspecified percentage of adjusted taxable income and the domestic debt-to-equity ratio is higher than the debt-to-equity ratio of the taxpayer's entire worldwide group. The lesser of the amounts determined under the percentage of taxable income test and the relative leverage test is the amount by which deductible interest is reduced.

Obama Administration's Framework for Business Tax Reform

The Obama Administration on February 22, 2012, issued a "Framework for Business Tax Reform" that generally calls for a 28-percent top corporate income tax rate. The framework also proposes a tax rate of no more than 25 percent for certain domestic manufacturers, with an unspecified lower rate for "advanced manufacturing activities," and a permanent research credit.

The framework specifically rejects moving toward a "pure" territorial tax system. The framework instead states that "income earned by subsidiaries of US corporations operating abroad must be subject to a minimum rate of tax," but does not detail a specific minimum rate. The Administration's proposed minimum tax on overseas profits would expand the reach of the current US worldwide tax system by limiting the ability of companies to defer US taxes on foreign earnings until those earnings are repatriated.

The framework also calls for separate reforms to reduce incentives to shift income and assets overseas. The Administration proposes to tax "excess profits" associated with shifting intangibles to low-tax jurisdictions and to limit interest deductions related to unrepatriated foreign earnings. Both of these proposals were included in the Administration's FY 2013 budget.

Like the Administration's proposal to tax currently excess returns associated with certain transfers of intangibles offshore – which would require the current taxation of excess intangible income subject to a low-rate of taxation – the Administration argues that subjecting overseas profits to a minimum level of taxation would reduce the incentive for companies to engage in transactions to shift and leave profits offshore. In contrast to the excess returns proposal, the proposal to impose a minimum tax on overseas profits could apply more broadly to all income subject to a low rate of taxation.

The framework also includes proposals from the Administration's FY 2013 budget to eliminate tax deductions for moving production overseas and to provide new incentives for bringing production back to the United States.

The Administration states that the cost of lowering the US corporate tax rate should be fully offset by limiting various business tax provisions. The framework sets forth a "menu of options" for base broadening, and states that at least several of the following options would be necessary to reduce the corporate rate to 28 percent:

- reduce the benefits of accelerated depreciation on capital investment
- reduce the "bias toward debt financing"
- establish greater parity between large corporations and large businesses that are taxed at the individual level (e.g., partnerships and S corporations).

Note: The framework does not detail specific proposals in these areas. Instead, the framework states, for example, that "steps like reducing the deductibility of interest for corporations should be considered" and cites past options to change the tax treatment of large pass-through businesses.

Several of the possible revenue-increase measures cited in the Administration's business reform framework also were included in the President's FY 2013 budget, including proposals that would:

- repeal the last-in, first-out (LIFO) method of inventory accounting
- eliminate oil and gas tax preferences
- reform treatment of insurance industry and products
- tax 'carried interest' as ordinary income
- eliminate special depreciation rules for corporate purchases of aircraft.

Incentives for innovation

President Obama in his FY 2013 budget again proposed to extend permanently the research credit, and also proposed to increase the alternative simplified credit from 14 to 17 percent. While a number of other bills have been introduced in past years to make permanent as well as modify the research credit, it has been extended on a temporary basis since it was enacted in 1981, most recently through 2013.

In addition to proposals on the research credit, there have been discussions on Capitol Hill about a 'patent box' or 'innovation box' regime that would reduce the corporate tax rate on qualifying intellectual property (IP) income. Countries that currently have or are implementing such regimes include the United Kingdom, Belgium, France, Hungary, Luxembourg, the Netherlands, and Spain.

The international tax reform discussion draft released by Ways and Means Chairman Camp includes a variation of a patent-box concept — a reduced tax rate for certain IP-related income — within one of the draft's anti-base erosion options.

In the last Congress, Rep. Allyson Schwartz (D-PA), who this year rejoined the House Ways and Means Committee, introduced the *Manufacturing American Innovation Act of 2012*, which would establish a patent box regime by allowing a deduction equal to 71 percent of the lesser of a taxpayer's patent box profit or taxable income for the year. This legislation was cosponsored by Ways and Means member Charles Boustany (R-LA). Last year, Senator Dianne Feinstein (D-CA) drafted, but did not introduce, the *Leveling the Playing Field Act*, in which she proposed to tax corporate profits from the sale of patented, domestically manufactured products at a reduced 15-percent rate.

Other tax reform proposals

Senate Finance Committee member Ron Wyden (D-OR) on April 5, 2011, reintroduced a revised version of his comprehensive reform plan, the Bipartisan Tax Fairness and Simplification Act of 2011 (S. 727), co-sponsored by Senators Dan Coats (R-IN) and Mark Begich (D-AK). For individuals, the Wyden plan would repeal the alternative minimum tax and maintain the then-top rate of 35 percent. The top corporate rate would be lowered to 24 percent and would be offset by significant base broadening.

Of key concern to many multinational corporations, Senator Wyden's plan would repeal deferral of active foreign business income and tax all foreign income on a current basis, with a per-country limitation on foreign tax credits. A preliminary JCT staff estimate of this provision projects an increase in revenues of $583 billion over 10 years.

Senate Finance Committee member Mike Enzi (R-WY) on February 9, 2012, introduced a bill (S. 2091) that proposes a territorial tax system with a 95-percent dividend received deduction. Senator Enzi's bill differs from Chairman Camp's discussion draft in several aspects, including an anti-base erosion measure in S. 2091 that would treat as Subpart F income overseas earnings on a per-country basis that are taxed at an effective tax rate of less than half the maximum US corporate statutory rate (i.e., 17.5 percent based on a 35-percent statutory rate).

Some have suggested that, over the longer term, the United States may consider alternative, broader tax bases to address fiscal imbalances in addition to or as replacements for current corporate and individual income tax systems. For example, have some Washington think tanks discussed a carbon tax as both a fiscal measure and a means of pricing greenhouse gas emissions. CBO staff has estimated that a cap-and-trade program governing emissions of greenhouse gases in the United States could raise $1.2 trillion over 10 years. In addition, the United States remains the only major economy in the world that does not have a value-added tax (VAT) or some similar type of federal-level consumption tax. CBO staff has estimated that a five percent VAT with a broad tax base could raise $2.5 trillion over 10 years. Although a few members of Congress have indicated an interest in alternative revenue sources, proposals for a VAT or carbon tax have been strongly opposed by others in Congress, and enactment of such proposals appears unlikely at this time.

Other 2013 Tax Policy Issues

Expiring business and energy tax provisions

The *American Taxpayer Relief Act of 2012* includes retroactive extensions through 2013 of certain business and energy tax provisions that had expired at the end of 2011 and 2012.

The renewed business tax provisions include the research credit (with modifications), controlled foreign corporation (CFC) look-through, and the Subpart F exception for active financing income. The legislation also extends through 2013 certain energy tax provisions and modifies the expiration date for the renewable electricity production tax credit to construction beginning before the end of 2013.

In addition, the new law extends a 50-percent bonus depreciation provision for qualified property through the end of 2013, and decouples bonus depreciation from the percentage-of-completion method of accounting for assets with a depreciable life of seven years or less that are placed in service in 2013. The legislation also allows taxpayers to elect to accelerate some alternative minimum tax credits in lieu of bonus depreciation.

Business tax provisions

The extension of the research credit includes provisions that would modify rules for taxpayers under common control and rules for computing the credit when a portion of a trade or business changes hands, effective for tax years beginning after 2011.

In addition to the extension of the research credit, CFC look-through, active financing, and bonus depreciation, the new law extends through 2013 business tax provisions including the:

- 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements
- increase in the maximum amount and phase-out threshold under Section 179 expensing
- new markets tax credit
- accelerated depreciation for business property on Indian reservations
- treatment of military basic housing allowances under the low-income housing credit
- Indian employment tax credit
- credit for certain expenditures for maintaining railroad tracks
- mine rescue team training credit
- election to expense advanced mine safety equipment
- employer wage credit for activated military reservists

- work opportunity tax credit
- qualified zone academy bonds – allocation of bond limitation
- enhanced charitable deduction for contributions of food inventory
- special expensing rules for certain film and television productions
- deduction allowable with respect to income attributable to domestic production activities in Puerto Rico
- treatment of certain dividends of regulated investment companies (RICs)
- RIC qualified investment entity treatment under the Foreign Investment in Real Property Tax Act
- special rules for qualified small business stock
- empowerment zone tax incentives
- basis adjustment to stock of S corporations making charitable contributions of property
- reduction in S corporation recognition period for built-in gains tax
- extension of tax incentives for the New York Liberty Zone
- increase in limit on cover-over of rum excise tax revenues to Puerto Rico and the Virgin Islands
- seven-year recovery period for motorsports entertainment complexes
- American Samoa economic development tax credits
- modification of the tax treatment of certain payments to controlling exempt organizations.

The legislation does not extend several tax provisions that had been included in previous tax extender bills. For example, the new law does not include extension provisions related to the 100-percent-of-net-income limitation on percentage depletion for oil and gas from marginal wells, brownfields environmental remediation expensing, a look-through rule for mutual fund stock included in the estate of certain nonresidents who are not US citizens, and augmented charitable deductions for corporate donations of computer and book inventory.

Energy tax provisions

The legislation extends and modifies the renewable electricity wind production tax credit and modifies other renewable energy credits.

The following is a list of additional energy tax provisions extended through 2013:

- credit for certain nonbusiness energy property
- credit for alternative fuel vehicle refueling property
- second-generation (formally cellulosic) biofuels producer tax credit
- incentives for biodiesel and renewable diesel
- Indian coal production tax credit
- credit for construction of new energy-efficient homes
- credit for energy-efficient appliances
- second-generation (formally cellulosic) biofuels bonus depreciation
- special rule for sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy
- incentives for alternative fuels and alternative fuel mixtures.

2013 opportunities for renewable energy and energy efficiency

The *American Taxpayer Relief Act* allows project developers to obtain tax credits for wind, biomass, and certain other renewable energy projects that "begin construction" by year-end 2013, instead of meeting a "placed-in-service" test. Certain companies may seek to create a pipeline of eligible projects by beginning construction on them before the end of this year. This could lead to development activity similar to that seen in 2011 at the end of the Treasury cash grant program for renewables. In addition, some companies may look to accelerate planned capital expenditures on lighting, building envelope, and energy efficiency projects to qualify for 100-percent accelerated depreciation in 2013 before that provision expires.

International tax proposals

The Obama Administration has continued to demonstrate a strong interest in modifying international provisions of US federal tax law. As noted above, the Administration's framework for corporate tax reform – which would lower the corporate tax rate and broaden the tax base – also expresses the Administration's opposition to a "pure" territorial system and includes a proposal for a minimum tax on overseas profits and reforms intended to reduce shifting income and assets overseas.

President Obama re-proposed specific international revenue-raising proposals in his FY 2013 budget, and also offered four new proposals. Similar proposals may be included in the President's FY 2014 budget. The descriptions below for existing proposals generally reflect draft legislative language that the Administration provided in September 2011.

Defer interest expense deduction allocable to deferred foreign earnings

Under this Administration proposal, deductions for interest expense allocable to foreign assets are allowed only to the extent that a US taxpayer earns foreign-source income (FSI). Any such deduction that is properly allocable or apportionable to FSI not currently taxed in the United States would be deferred until an equivalent amount of deferred FSI becomes taxable in the United States. This proposal seeks to match the timing of interest expense deductions with income inclusion.

An earlier 2009 Administration proposal was much broader, deferring all "foreign-related deductions." Some commentators questioned whether that approach would have a negative impact on jobs in this country, and the Administration narrowed this proposal in 2011 to include only interest expense. In March 2012, the JCT staff estimated that this provision would raise $59.8 billion over the 10-year budget window.

Determine deemed-paid foreign tax credits on a pooling basis

This Administration proposal restricts 'deemed-paid' foreign tax credits (FTCs) of a US-based multinational corporation to the average rate of total foreign income tax actually paid on total foreign earnings. This approach effectively eliminates taxpayers' ability to cross-credit high-tax and low-tax foreign income.

The Administration's 'blended foreign tax pool' approach would fundamentally change the existing rules, which treat each foreign subsidiary of a US taxpayer as having its own pool of earnings and taxes. The US parent can claim an indirect FTC for foreign taxes paid by those subsidiaries. If each subsidiary has its own pool, the US parent is able to choose when to claim the credits for the respective high- or low-tax foreign income. Under the Administration proposal, taxpayers lose that flexibility with respect to these deemed-paid FTCs for taxes paid by foreign subsidiaries, but the proposal does not apply to foreign taxes paid directly by a US taxpayer. In 2012, the JCT staff estimated that this provision would raise $57.1 billion over 10 years.

Currently tax "excess" returns associated with transfers of IP offshore

This proposal reflects concern in the Administration and by some in Congress about the taxation of intangible property (IP) transferred offshore from a US person to a related foreign person. Specifically, the Administration has proposed a new category of subpart F income associated with certain outbound IP transfers to low-taxed CFCs.

Under the proposal, if a US person has transferred IP from the United States to a related CFC that is subject to a low foreign effective tax rate in circumstances that are deemed to evidence excessive income shifting, then an amount equal to the excessive return is treated as subpart F income in a separate FTC limitation basket.

In the FY 2013 budget, the Administration generally retained the previous year's version of this proposal but specified that the effective tax rate thresholds in the September 2011 legislative language would apply. In 2012, JCT staff estimated that this provision would raise $19.2 billion over 10 years. Chairman Camp's international reform discussion draft includes a similar proposal, without the separate FTC basket provision, as one of its anti-base erosion options.

Limit income-shifting through IP transfers

The Administration's budget has included this proposal for three budget cycles, aimed at preventing what it considers inappropriate shifting of income outside the United States through certain IP transfers. The proposal "clarifies" the definition of IP subject to an outbound toll tax, specifically including workforce-in-place, goodwill, and going concern value as subject to potential tax on an outbound transfer. The proposal also authorizes the IRS to value IP on an aggregate basis in the case of the transfer of multiple intangibles, and provides that IP must be valued at its highest and best use. In 2012, JCT staff estimated that this provision would raise $1.0 billion over 10 years.

Limit earnings-stripping by expatriated entities

This proposal, which the Administration has maintained for several years with little change, further limits the deductibility of related-party interest expense by "expatriated" entities. The Administration budget proposal defines an expatriated entity by reference to the 2004 anti-corporate inversion legislation (section 7874) as if that legislation governed inversions occurring after July 10, 1989 (rather than March 4, 2003). In 2012, JCT staff estimated that this provision would raise $1.8 billion over 10 years.

Tax gain from the sale of a partnership interest on a look-through basis

This Administration proposal, which appeared for the first time in the FY 2013 budget, reflects a concern that inbound taxpayers have not been following Rev. Rul. 91-32. The Administration apparently seeks to codify that ruling so as to provide a more robust legal basis for enforcing it.

The proposal provides that gain or loss from the sale or exchange of a partnership interest would be considered effectively connected income (ECI) to the extent attributable to the transferor partner's distributive share of the partnership's unrealized gain or loss that is, in turn, attributable to ECI property. As ECI, it would be subject to US federal income taxation. JCT staff has estimated that this proposal would raise $2.5 billion over 10 years.

Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment

An additional new proposal appearing for the first time in the FY 2013 budget aims at tax planning techniques under which a foreign corporation (the "funding corporation") funds a second, related foreign corporation (the "foreign distributing corporation"). Specifically, the provision would target transactions with a principal purpose of avoiding dividend treatment on distributions to a US shareholder. In those situations, the proposal would not take into account the US shareholder's basis in the stock of the distributing corporation for the purpose of determining the treatment of the distribution under section 301.

Like the Administration's proposal to repeal the section 356 boot-within-gain limitation, this proposal apparently aims at the monetization of foreign assets without the generation of US income. In essence, the proposal treats asset value that has been converted to cash as though it were income, even when the taxpayer recognizes no income from the transaction in question. JCT staff has estimated that this proposal would raise $3.1 billion over 10 years.

Other Administration international tax proposals from the FY 2013 budget

The Administration's FY 2013 budget also included other international tax proposals that were not enacted in 2012 and could be carried over to the FY 2014 budget. These include proposals that:

- disallow deductions for excess non-taxed reinsurance premiums paid to affiliates
- modify the tax rules for dual-capacity taxpayers
- extend Section 338(h)(16) to certain asset acquisitions
- remove foreign taxes from a Section 902 corporation's tax pool when earnings associated with those taxes are eliminated.

Additional proposals with international tax impact

Other proposals from the FY 2013 budget with international tax implications that might reappear in this year's budget would:

- repeal nonqualified preferred stock designation (Section 351(g)
- repeal gain limitation for dividends received in reorganization exchanges (Section 356 - "Cash D")
- limit the importation of losses under Section 267.

‘Anti-tax haven’ legislation

In 2011, bills were introduced in the last Congress to treat certain foreign corporations primarily managed and controlled in the United States as domestic corporations for tax purposes, with no exception for foreign corporations located in tax treaty countries. Specifically, management and control provisions appeared in anti-tax haven legislation (H.R. 2669 and S. 1346, the Stop Tax Haven Abuse Act) introduced by Ways and Means Committee member Lloyd Doggett (D-TX) and Senator Carl Levin (D-MI), respectively, and in bills (H.R. 62 and S. 1373, the International Tax Competitiveness Act) introduced by Rep. Doggett and Senate Finance Committee member Jay Rockefeller (D-WV).

Other business tax proposals

The Obama Administration’s FY 2013 federal budget featured tax proposals President Obama had outlined in his February 2012 State of the Union address, including new incentives for domestic manufacturing and elimination of “tax deductions for shipping jobs overseas.” The business tax increase proposals in the President’s budget included a number of ‘loophole closers’ and other revenue changes previously proposed by the Administration.

Incentives for ‘in-sourcing’

The President’s FY 2013 budget proposed to provide a 20-percent credit for expenses paid or incurred in connection with ‘insourcing’ a US trade or business, and to disallow deductions for expenses paid or incurred in connection with ‘outsourcing’ a US trade or business.

Additional domestic tax incentives included proposals that:

- provide a temporary 10-percent tax credit for new jobs and wage increases
- provide additional tax credits for investment in certain qualified advanced energy manufacturing property
- replace the current deduction for energy-efficient commercial building expenditures with a tax credit
- reform and extend Build America Bonds.

Repatriation incentives

During the last Congress, several bills were introduced to provide a temporary tax incentive for repatriating foreign earnings of CFCs, similar to the Section 965 provision enacted in 2004. JCT staff estimated that a repatriation tax incentive similar to the 2004 provision – providing an 85-percent dividends-received deduction – would reduce federal revenues by $79 billion over the 10-year budget window years but would raise $26 billion in the first three years of that window.

Legislation similar to the following bills introduced during the last Congress may be introduced in 2013:

- Rep. Kevin Brady (R-TX) introduced The Freedom to Invest Act of 2011 (H.R. 1834) to reinstate the Section 965 temporary dividends-received deduction, with modifications to reduce the benefits provided if the taxpayer does not maintain an average employment level at least equal to the taxpayer’s prior average employment level.
- Senators Kay Hagan (D-NC) and John McCain (R-AZ) proposed a temporary dividend repatriation amendment to a job creation bill being considered at the time by the Senate. This proposed amendment included an 8.75-percent effective rate on repatriated earnings, with an opportunity to lower that rate to 5.25 percent for a company that expanded its US payroll. Like the Brady bill, this amendment would reduce the benefits if the average employment level of the taxpayer decreases.

Additional revenue-raising proposals

Repeal of the Last-In, First-Out (LIFO) inventory accounting method

In his FY 2013 budget, President Obama proposed to repeal the LIFO method of accounting for inventories. As noted above, this proposal also was cited as a potential base-broadening measure in the President’s framework for business tax reform. Under the President’s budget proposal, taxpayers currently using LIFO would be required to write up their beginning LIFO inventory to its first-in, first-out (FIFO) value in their first tax year beginning after 2013. The resulting increase in gross income would be taken into account ratably over a 10-year period. This proposal is estimated to raise $66.9 billion over 10 years.

Repeal of the Lower-of-Cost-or-Market (LCM) inventory accounting method

In his FY 2013 budget, President Obama proposed to repeal use of the LCM method and the subnormal goods method for inventory accounting. In addition, the proposal calls for appropriate wash-sale rules to prevent taxpayers from circumventing the provision. The proposal treats the change as a change in the taxpayer's method of accounting for its inventories; any resulting section 481(a) adjustment would be taken into account ratably over a four-year period beginning in the year of change. This proposal, which would be effective for tax years beginning after 2013, is estimated to raise $3.0 billion over 10 years.

Other revenue-raising business tax proposals

Some of the largest business revenue-raisers in the Administration's FY 2013 budget were the elimination of certain tax provisions available to oil, gas, and coal companies, which were estimated to raise $24.9 billion over 10 years; the reinstatement of the Superfund taxes ($19.7 billion over 10 years); taxing carried interest as ordinary income ($16.8 billion over 10 years); and increasing certainty with respect to worker classification ($7.6 billion over 10 years).

President Obama re-proposed in his FY 2013 budget other revenue-raising proposals remaining from his FY 2012 budget, including:

- imposing a financial crisis responsibility fee
- modifying treatment of insurance companies and products, including dividends-received deduction for life insurance company separate accounts
- denying deductions for punitive damages
- making permanent the Federal Unemployment Tax Act surtax
- eliminating special depreciation rules for corporate purchases of aircraft.

For a list of potential revenue-raising tax provisions proposed in past bills, Administration budgets, or CBO or JCT staff reports, see Appendix E.

State tax legislation

Most federal legislation impacting state and local taxation saw little or no activity in 2012. However, a few issues seem poised for action in 2013. Some of the separate bills noted below could be re-introduced this year as consolidated state tax proposals to facilitate consideration in the House and Senate.

Mobile Workforce State Income Tax Simplification Act

On August 2, 2012, a companion bill to H.R. 1864 was introduced in the Senate (S. 3485) that would implement a 30-day threshold for both the state taxation of nonresident employees' income and also the employer's requirement to withhold state taxes on nonresident employees' wages. H.R. 1864 had passed the House on May 15, 2012. Both bills were referred to the Senate Finance Committee. The legislation is intended to provide administrative simplification and aid compliance with respect to nonresident income tax liability and employer withholding.

Marketplace Fairness Act

The sales tax collection disparity between online businesses and brick and mortar stores has led to continuing calls for Congress to address the issue. S. 1832, the Marketplace Fairness Act, would grant authority to require collection of sales tax by out-of-state retailers to states that either are members of the Streamlined Sales Tax Governing Board or that meet certain minimum simplification requirements. On August 1, 2012, the Senate Committee on Commerce, Science and Transportation held a hearing entitled "Marketplace Fairness: Leveling the Playing Field for Small Business," which addressed several issues associated with proposed federal legislation to facilitate the collection of sales tax by online businesses. The hearing followed closely a similar one in the House Judiciary Committee on the same subject.

Digital Goods and Services Tax Fairness Act

The House Judiciary Committee on June 28, 2012, approved legislation (H.R. 1860) intended to ensure that state and local governments do not discriminate against providers and consumers of digital goods and services. The bill would prohibit states and localities from taxing digital products differently from their tangible counterparts. The term "digital good" is defined as any good or product that is delivered or transferred electronically, including software, digital books, and audio works. The CBO in September 2012 estimated that the cost of the bill, in terms of foregone revenue, to state and local governments would total more than $3 billion in the first full year of enactment.

Other State tax issues

Other bills introduced in the last Congress to address state and local tax issues included:

- *H.R. 1002 - Wireless Tax Fairness Act* - Would bar a state or local jurisdiction from imposing a new discriminatory tax on mobile services.
- *H.R. 1439 - Business Activity Tax Simplification Act* - Would provide for the expansion of Public Law 86-272, a codified physical presence nexus standard and a de minimis threshold period for imposition of a business activity tax.
- *H.R. 1804 - State Video Tax Fairness Act* - Would bar a state from imposing a discriminatory tax on providing multichannel video programming distribution services.
- *H.R. 2469 - Automobile Renters Act* - Would prohibit state and local governments from levying a discriminatory tax on the rental of motor vehicles.
- *S. 135 - Internet Tax Freedom Act* - Would make permanent the moratorium on state and local internet access taxes and discriminatory taxes on electronic commerce.
- *S. 1811 - Telecommuter Tax Fairness Act* - Would preempt New York's convenience of the employer test, thus limiting taxation on the compensation earned by nonresident telecommuters.
- *S. 1934* - Would repeal the federal telecommunications excise tax, prohibit state and local governments from levying a discriminatory tax on online travel services, and provide a permanent extension of the Internet Tax Freedom Act.

Transportation legislation

Following a series of previous short-term extensions to the aviation and highway programs, in 2012 two pieces of multi-year legislation were enacted.

On February 14, 2012, President Obama signed a bill (H.R. 658) to reauthorize the Federal Aviation Administration (FAA) and extend aviation fuel and ticket taxes through September 30, 2015. The legislation extended the 4.3-cents-per-gallon excise tax on commercial airline fuel, the 7.5-percent tax on ticket purchases, and the 6.25-percent tax on property transport. The law also authorized the Airport and Airway Trust Fund for the same period.

A two-year surface transportation bill (H.R. 4348) was signed into law by President Obama on July 6, 2012. This legislation extended the expenditure authority of the Highway Trust Fund and most highway-related excise taxes through September 30, 2014, and also authorized surface transportation spending programs. The cost of the legislation was offset in part by revenue-raising pension provisions. The law funds the Highway Trust Fund by extending motor fuel taxes at their current levels through September 2014 and the heavy vehicle use tax at its current rate through September 2016.

Tax treaties

No new US treaties or protocols entered into force during the last Congress. In June 2011, the Senate Foreign Relations Committee recommended Senate approval of pacts with Hungary, Switzerland, and Luxembourg. However, one Senator has placed a "hold" on Senate floor consideration of the three pacts, and the fate and timing of these agreements, as well as others, has been uncertain. The US-Chile Treaty was sent to the US Senate for approval in May 2012, but was not considered last year by the Senate Foreign Relations Committee.

Hungary treaty

The US-Hungary Treaty, which was signed on February 4, 2010, would replace the 1979 treaty currently in effect. The principal focus of the new treaty is addition of a limitation on benefits (LOB) article that is consistent with other recent US treaties. The US-Hungary Treaty also provides an exemption from tax withheld at source for royalties and interest (except contingent interest, which is subject to a 15-percent tax rate). Unlike newer treaties with other EU countries, the US-Hungary Treaty does not contain an exemption from tax for certain parent/subsidiary dividends.

Hungary is a jurisdiction that had been identified by the US Treasury due to its lack of an anti-treaty shopping article (the LOB article) and internal tax laws that provided residents of third countries an ability to access the benefits of a US income tax treaty.

Swiss protocol

The Swiss protocol to the existing treaty, signed in 2009, is aimed primarily at updating the exchange of information provision and also includes a requirement for binding arbitration for double tax disputes that are not resolved by agreement between the competent authorities of the two countries. It has been widely reported that the United States and Switzerland have agreed to return to the negotiating table; however, it is not expected that formal negotiations will take place prior to the entry into force of the pending protocol. Although the details of the agreement have not been made public, it is expected that among the items to be discussed are possible elimination of tax withheld at source on certain parent/subsidiary dividends and a potential revision to the LOB article to be more in line with recent US tax treaties that have tightened the requirements for eligibility.

Luxembourg protocol

The Luxembourg protocol is aimed at updating the exchange of information provision in the existing US-Luxembourg Treaty.

Chile treaty

The US-Chile Treaty was signed on February 4, 2010. The treaty was sent to the US Senate for approval on May 17, 2012, but was not considered last year by the Senate Foreign Relations Committee. The treaty represents only the second US income tax treaty with a South American country. (A US income tax treaty with Venezuela was signed in 1999.) The new US-Chile Treaty is based broadly on the 2006 US Model Income Tax Treaty, except that it has a more restrictive LOB article and higher rates of taxation on dividends, interest, and royalties. The US-Chile Treaty does not provide an exemption from tax for parent/subsidiary dividends.

Spain protocol

On January 14, 2013, Treasury announced that a new protocol and memorandum of understanding related to the 1990 US-Spain Treaty have been signed. The new protocol is intended to modernize the existing treaty and bring it into closer conformity with the two countries' current tax treaty policies. The new protocol provides for exclusive residence-state taxation of interest, royalties, certain parent/subsidiary dividends, and most capital gains. This is a significant revision compared to the existing treaty, which did not provide for an exemption from source-state tax on interest or royalty income. It also adds the treaty with Spain to the growing list of US treaties that permit exemption from source-state tax on parent/subsidiary dividends, provided certain requirements are met. Consistent with certain other recent US tax treaties, the new protocol contains a mandatory binding arbitration provision.

The new protocol includes an updated LOB article with some significant changes, and an updated exchange of information article. Among these changes is a new discretionary grant of benefits provision within the LOB article that departs from the standard that has been applied in previous treaties. The standard commonly applied is that the competent authority of the source country may provide a discretionary grant of treaty benefits if the taxpayer demonstrates that the establishment, acquisition, or maintenance of the taxpayer and the conduct of its operations did not have as one of its principal purposes the obtaining of treaty benefits. However, the new protocol imposes a significantly more restrictive standard that requires an evaluation of the extent to which the resident satisfies the requirements of the qualified person tests (which include the publicly traded company, subsidiary of a publicly traded company, and ownership-base erosion tests), the derivative benefits test, the active trade or business test, and the headquarters company test.

Poland treaty

Treasury is actively pursuing renegotiation of the 1974 US-Poland Treaty, the only remaining US tax treaty with a jurisdiction that both eliminates US tax on qualifying interest payments and lacks a robust LOB article. It was reported in June 2012 that work on the treaty has been concluded and that the document is in the process of being translated so that the parties may sign the agreement.

Japan protocol

On January 24, 2013, Treasury announced that a new protocol to the 2003 US-Japan Treaty has been signed. The new protocol is intended to bring the treaty into closer conformity with the current tax treaty policies of the two countries. The existing treaty provides for the elimination of tax on certain parent/subsidiary dividends, and the protocol expands the category of direct dividends eligible for exclusive residence-country taxation by slightly amending the ownership threshold (from "more than 50 percent" to "at least 50 percent") and shortening the holding period from twelve to six months. Except in certain circumstances (e.g., debt held by governmental entities or by certain financial institutions), the lowest rate of tax on interest in the existing treaty is 10 percent. The protocol provides for the elimination of source-country tax in certain circumstances. The protocol amends the treatment of capital gains in a way that more closely aligns with the US domestic law provisions related to the taxation of foreign investment in US real property. In addition, the protocol provides for mandatory binding arbitration, provisions to enable the competent authorities to assist each other in the collection of taxes, and full exchange of information between competent authorities.

Norway treaty

It was reported in June 2012 that revisions to the US-Norway Treaty, which were reported as "substantially complete" six years ago, are now in the process of being translated for signature by both parties.

Other treaties

It was reported in January 2013 that the United States and the United Kingdom have reached an agreement on revisions to the US-UK Treaty, and that there are ongoing negotiations with Vietnam. In November 2012, a Treasury official reported that discussions are underway with Romania, one of the few remaining jurisdictions along with Poland with which the United States has a treaty that does not contain an LOB article. It has been reported that negotiations with Brazil and Colombia are underway. Discussions with Israel continue, although agreement does not appear imminent. There has been correspondence with South Korea, but negotiations are not anticipated in the near term. Discussions are underway with Venezuela and the Netherlands Antilles, and early discussions are underway with Malaysia. Treasury apparently has not yet concluded that it should pursue a treaty with Singapore or Hong Kong despite strong support from the business community for such treaties.

New US Model Treaty, other guidance

Treasury has announced that it is planning to publish a new model treaty, which would supersede the existing US Model Treaty that was published in 2006. Public comments by a Treasury official in January 2013 indicate that a revised discretionary grant of benefits provision within the LOB, such as the one included in the recent protocol to the US-Spain Treaty (discussed above), may be included in the next US model treaty. Separately, the 2012-2013 Treasury-IRS Priority Guidance Plan again includes a project to provide guidance on issues under income tax treaties, including beneficial ownership. In addition, the 2012-2013 Plan again includes a project to update Rev. Proc. 2006-54, which provides procedures for requesting Competent Authority assistance under tax treaties.

Trends in US tax treaty policy

The United States is expected to continue to strive in its treaties for effective protection against 'treaty shopping.' Other priorities include strong exchange of information commitments, modernization of the treatment of cross-border retirement plans, and changes to the personal services articles of treaties (mainly, the policy of eliminating the independent personal services article as being redundant of the business profits article). In addition, Treasury likely will continue its recent policy of including binding arbitration as a means of deciding Competent Authority cases that otherwise are unresolved.

Competent authority agreements

Although no new treaties or treaty protocols entered into force during 2012, the United States reached competent authority agreements with Germany, the Netherlands, Norway, and Canada. The agreement with Germany relates to dividends from investments made by certain US and German pension funds. The agreement with the Netherlands relates to the treatment of dividends and interest paid through a specific type of Dutch limited fund. The agreement with Norway addresses special sourcing rules for income received by individuals for performing government services and for social security payments. The agreement with Canada relates to the interpretation of certain treaty provisions related to the attribution of profit to a permanent establishment.

FATCA Implementation

On January 17, 2013, the Treasury Department and the IRS issued comprehensive final regulations implementing the information reporting and withholding tax provisions commonly known as the Foreign Account Tax Compliance Act (FATCA). Enacted by Congress in 2010, these provisions target non-compliance by US taxpayers using foreign accounts. The issuance of the final regulations marks a key step in establishing a common intergovernmental approach to combating tax evasion. The Treasury News Release accompanying the issuance of the regulations states that the government will continue to work closely with business and foreign governments to implement FATCA effectively

Since regulations were first published in proposed form on February 15, 2012, Treasury has collaborated with foreign governments to develop two alternative model intergovernmental agreements that facilitate the effective and efficient implementation of FATCA.

These models serve as the basis for concluding bilateral agreements with interested jurisdictions and help implement the law in a manner that removes legal impediments to compliance, secures widespread participation by every non-exempt financial institution in the partner jurisdiction, fulfills FATCA's policy objectives, and further reduces burdens on foreign financial institutions located in partner jurisdictions.

The Treasury News Release also announced that Norway has joined the United Kingdom, Mexico, Denmark, Ireland, Switzerland, and Spain as countries that have signed or initialed model agreements. Treasury is engaged with more than 50 countries and jurisdictions to curtail offshore tax evasion, and more signed agreements are expected during the course of this year.

Trade and tariff legislation

Congress in 2013 may address the issue of expired Trade Promotion Authority (TPA), formerly known as fast-track negotiating authority for the Administration. This issue would require consideration by the House Ways and Means Committee and the Senate Finance Committee, which have jurisdiction over trade and tariff legislation.

The US Trade Representative (USTR) has worked with South Korea, Colombia, and Panama to begin implementing the free trade agreements (FTAs) approved by Congress in 2011. The U.S.-South Korea FTA entered into force on March 15, followed by the U.S.-Colombia FTA on May 15 and the U.S.-Panama FTA on October 31. USTR is now using the consultative mechanisms set out in each FTA to ensure that the agreements continue to operate properly. The three FTAs were considered under the now-expired TPA because they were signed before that authority expired in 2007.

With regard to trade in the Pacific Rim, the nations involved in negotiations on a multinational agreement known as the Trans-Pacific Strategic Economic Partnership (TPP) have made meaningful progress in all areas of the agreement as outlined by leaders of the TPP nations in late 2011. Significant headway has been made on many of the 29 chapters under negotiation in the agreement, including customs, sanitary and phytosanitary measures, technical barriers to trade, cross-border services, government procurement, telecommunications, competition policy, and other issues.

Work in other areas has continued to move forward as well, including market access packages on goods, services, investment, and government procurement, and commitments in other chapters of the agreement on such issues as labor, environment, intellectual property, and electronic commerce. TPP nations also have made progress on chapters related to new issues like regulatory coherence, integrating small- and medium-sized exporters more fully into regional trade, enhancing supply chain connectivity and competitiveness, cooperation and capacity building, and development.

Mexico and Canada joined the TPP negotiations in December 2012, bringing the number of nations involved in the negotiations to 11. TPP nations, including the United States, also have continued consultations regarding Japan's expression of interest in the TPP negotiations and welcomed Thailand's public expression of interest in TPP.

The renewal of TPA is a requirement for the conclusion of TPP negotiations, which have been undertaken as if the authority were still in effect.

There was no House action during the last Congress on Senate-approved legislation that would have allowed the Administration to impose additional duties on products from countries that subsidize exports by undervaluing their currencies (commonly referred to as the China currency bill), and the fate of this legislation remains unclear. House Speaker John Boehner (R-OH) said the bill poses a "very severe risk" of starting a trade war between the United States and China. The Obama Administration expressed agreement with the goals of the legislation but also voiced concerns about its effect on other international obligations.

On January 1, 2013, Ways and Means Chairman Camp, Ranking Member Sander Levin (D-MI), Trade Subcommittee Chairman Kevin Brady (R-TX), and Trade Subcommittee Ranking Member Jim McDermott (D-WA) announced the introduction of the US Job Creation and Manufacturing Competitiveness Act of 2013 (H.R. 6727). The bill would provide temporary tax relief to help US manufacturers better compete, expand, and create jobs by lowering the cost of manufacturing inputs and some finished products not made or available in the United States.

The package includes provisions from more than 2,000 bills introduced in the House and Senate during the Miscellaneous Tariff Bill (MTB) process, a bipartisan, bicameral process developed over nearly 30 years.

On March 30, 2012, the House Ways and Means and Senate Finance Committees simultaneously commenced the 112th Congress MTB process and invited members to introduce temporary miscellaneous tariff bills for consideration and inclusion in the MTB legislation. The Committees' guidance required each bill to be noncontroversial: if a domestic manufacturer or Member objected to a bill, it was eliminated. The bills were scored by the CBO and were required to be under $500,000 per year.

What this means for your business

While the American Taxpayer Relief Act included tax increases affecting higher-income individuals, the Obama Administration in the past has proposed additional revenue-raising proposals affecting both individuals and businesses and is expected to do so again in the Administration's FY 2014 budget.

At the same time, Congressional Republicans have expressed strong opposition to any further revenue increases and instead have called for deficit reduction through spending cuts and pro-growth tax reform to be the focus of 2013 deficit reduction legislation.

It remains unclear how differences over revenue increases and spending reductions may be resolved if Congress and President Obama are to reach an agreement on deficit reduction legislation. Unsustainable growth in federal deficits may lead some policymakers to conclude that additional tax increases should be considered as part of legislation reducing federal spending and limiting the future cost of federal entitlement programs. Many companies and businesses are taking a role in this ongoing deficit reduction debate.

Because there is a potential for businesses to be affected significantly by emerging tax reform efforts, many companies and trade associations also are actively engaged in assessing the potential benefits and risks of tax reform.

This year is expected to provide further opportunities for business leaders to participate actively in Congressional budget debates and tax reform hearings. It will be critical for the business community to monitor and participate in the legislative process as it unfolds in 2013. Business leaders need to have an active voice in shaping tax legislation and share their knowledge of how best to promote economic growth in the United States.

Appendix A

House and Senate leadership in the 113th Congress

House Leadership	
Speaker of the House	John Boehner (R-OH)
Majority Leader	Eric Cantor (R-VA)
Majority Whip	Kevin McCarthy (R-CA)
Chief Deputy Whip	Peter Roskam (R-IL)
Republican Conference Chair	Cathy McMorris Rodgers (R-WA)
Republican Conference Vice Chair	Lynn Jenkins (R-KS)
Republican Campaign Committee Chair	Greg Walden (R-OR)
Republican Conference Secretary	Virginia Foxx (R-NC)
Republican Policy Committee Chair	James Lankford (R-OK)
Minority Leader	Nancy Pelosi (D-CA)
Minority Whip	Steny Hoyer (D-MD)
Assistant Minority Leader	Jim Clyburn (D-SC)
Democratic Conference Chair	Xavier Becerra (D-CA)
Democratic Conference Vice Chair	Joseph Crowley (D-NY)
Democratic Campaign Committee Chair	Steve Israel (D-NY)
Democratic Steering/Policy Committee Chairs	Rosa DeLauro (D-CT), Rob Andrews (D-NJ)

Senate Leadership	
President of the Senate	Vice-President Joe Biden (D)
President Pro Tempore	Patrick Leahy (D-VT)
Majority Leader	Harry Reid (D-NV)
Assistant Majority Leader	Richard Durbin (D-IL)
Democratic Conference Vice Chair and Chair of the Democratic Policy Committee	Charles Schumer (D-NY)
Democratic Conference Secretary	Patty Murray (D-WA)
Democratic Senatorial Campaign Committee Chair	Michael Bennet (D-CO)
Chief Deputy Whip	Barbara Boxer (D-CA)
Minority Leader	Mitch McConnell (R-KY)
Assistant Minority Leader	John Cornyn (R-TX)
Republican Conference Chair	John Thune (R-SD)
Republican Conference Vice Chair	Roy Blunt (R-MO)
Republican Senatorial Campaign Committee Chair	Jerry Moran (R-KS)

Tax-writing committees

House Ways and Means Committee

The Ways and Means Committee membership currently is composed of 22 Republicans and 16 Democrats, with one vacant seat on the Republican side. Tim Scott (SC) had been announced as a new Republican Ways and Means Committee member before he was named to fill the US Senate seat vacated by Jim DeMint.

Republicans	Democrats
Dave Camp (R-MI), Chairman	Sander Levin (D-MI), Ranking Minority Member
Sam Johnson (R-TX)	Charles Rangel (D-NY)
Kevin Brady (R-TX)	Jim McDermott (D-WA)
Paul Ryan (R-WI)	John Lewis (D-GA)
Devin Nunes (R-CA)	Richard Neal (D-MA)
Patrick Tiberi (R-OH)	Xavier Becerra (D-CA)
Dave Reichert (R-WA)	Lloyd Doggett (D-TX)
Charles Boustany Jr. (R-LA)	Mike Thompson (D-CA)
Peter Roskam (R-IL)	John Larson (D-CT)
Jim Gerlach (R-PA)	Earl Blumenauer (D-OR)
Tom Price (R-GA)	Ron Kind (D-WI)
Vern Buchanan (R-FL)	Bill Pascrell Jr. (D-NJ)
Adrian Smith (R-NE)	Joe Crowley (D-NY)
Aaron Schock (R-IL)	*Allyson Schwartz (D-PA)*
Lynn Jenkins (R-KS)	*Danny Davis (D-IL)*
Erik Paulsen (R-MN)	*Linda Sanchez (D-CA)*
Kenny Marchant (R-TX)	
Diane Black (R-TN)	
Tom Reed (R-NY)	
Todd Young (R-IN)	
Mike Kelly (R-PA)	
Tim Griffin (R-AR)	
(Vacant)	

New Ways and Means Committee members shown in italics

Senate Finance Committee

The Finance Committee membership currently is composed of 12 Democrats and 11 Republicans. John Kerry's confirmation as Secretary of State has led to a vacant seat on the Democratic side.

Democrats	Republicans
Max Baucus (D-MT), Chairman	Orrin Hatch (R-UT), Ranking Minority Member
John Rockefeller IV (D-WV)	Charles Grassley (R-IA)
Ron Wyden (D-OR)	Mike Crapo (R-ID)
Charles Schumer (D-NY)	Pat Roberts (R-KS)
Debbie Stabenow (D-MI)	Michael Enzi (R-WY)
Maria Cantwell (D-WA)	John Cornyn (R-TX)
Bill Nelson (D-FL)	John Thune (R-SD)
Robert Menendez (D-NJ)	Richard Burr (R-NC)
Thomas Carper (D-DE)	*Johnny Isakson (R-GA)*
Benjamin Cardin (D-MD)	*Rob Portman (R-OH)*
Sherrod Brown (D-OH)	*Patrick J. Toomey (R-PA)*
Michael Bennet (D-CO)	
(Vacant)	

New Finance Committee members shown in italics.

Key Treasury and Other Administration Officials

President Obama on January 10 nominated White House chief of staff Jacob ("Jack") Lew to succeed Timothy Geithner as Treasury Secretary. Deputy Secretary Neal Wolin is serving as Acting Secretary of the Treasury.

Gene Sperling continues to serve as director of the National Economic Council and assistant to the president for Economic Policy. Before his appointment as NEC director in January 2011, Sperling worked as an adviser to Secretary Geithner.

Jeffrey Zients has been the acting head of the White House Office of Management and Budget since January 2012.

Alan Krueger continues as chairman of the White House Council of Economic Advisers. Dr. Krueger previously served as Treasury Assistant Secretary for Economic Policy and Chief Economist (2009-2010), and as Chief Economist at the US Department of Labor (1994-1995).

Mark Mazur was confirmed by the Senate in 2012 to serve as Treasury Assistant Secretary for Tax Policy. Mazur previously had served as Deputy Assistant Secretary for Tax Analysis since 2009.

With Douglas Shulman retiring as IRS Commissioner in November 2012, President Obama this year is expected to nominate a new IRS Commissioner to a five-year term. Steven Miller is Acting Commissioner of Internal Revenue and Deputy Commissioner for Services and Enforcement.

William (Bill) Wilkins continues as IRS Chief Counsel.

Key Members of the Obama Administration Economic and Tax Policy Team

Treasury Secretary	Jacob Lew, *nominee*
Director, National Economic Council	Gene Sperling
Director, Office of Management and Budget	Jeffrey Zients, *acting*
Chair, Council of Economic Advisers	Alan Krueger
Treasury Assistant Secretary for Tax Policy	Mark Mazur
IRS Commissioner	Steven Miller, *acting*
IRS Chief Counsel	William (Bill) Wilkins

Appendix B

Congressional Budget Process

Congressional hearings on the President's budget proposals typically take place in February and March, after which Congress generally adopts a budget plan ('budget resolution') that provides an overall framework for consideration of subsequent tax and spending legislation for the budget period.

The Obama Administration is required to submit a proposed federal budget for FY 2014 by the statutory due date of the first Monday in February (February 4, 2013), but White House officials have indicated that the budget submission will be delayed.

The statutory deadline for Congress to pass a budget resolution is April 15, but this date often has slipped in the past. Because a budget resolution binds only Congress, it does not require the President's approval.

The House passed a budget resolution last year, but the Senate did not. Senate Majority Leader Reid last year stated that the Senate did not need to approve a budget resolution since spending limits had been established under the Budget Control Act of 2011. These spending limits are reflected in the current temporary funding measure for FY 2013 set to expire on March 27, 2013.

Spending and revenue levels for FY 2014 will be set by the House and Senate, assuming agreement on a joint budget resolution can be reached between the Republican-controlled House and the Democratic-led Senate. If the House and Senate do not adopt a joint budget resolution, each chamber could pass separate budget resolutions with different spending and revenue targets. Differences between the House and Senate ultimately would need to be resolved in specific legislation funding federal departments and agencies for FY 2014 that starts on October 1, 2013.

Budget reconciliation process

The budget reconciliation process was designed to facilitate consideration of deficit reduction legislation that otherwise would be faced with filibusters or other procedural delays. If both the House and Senate approve a concurrent budget resolution providing instructions for a reconciliation bill,such bills receive expedited consideration and have special procedural protections that facilitate passage. In the Senate, reconciliation bills cannot be filibustered and require a simple majority (i.e., 51 votes) to pass.

Under Senate rules, there are a number of limitations on the use of budget reconciliation. The Senate, in May 2007, adopted a rule barring the use of reconciliation in a manner that would increase the deficit or reduce a surplus. This rule can be waived only with a 60-vote majority. Another rule requires a 60-vote majority to approve provisions that lose revenue beyond the 10-year budget window. The 2001 and 2003 tax rate reductions were enacted using budget reconciliation, and thus were subject to this rule requiring the tax cuts to "sunset" at the end of the budget period. Note: the American Taxpayer Relief Act of 2012 repealed these sunset provisions from the 2001 and 2003 Acts.

PAYGO

Congress in 2010 passed a pay-as-you-go law ('PAYGO') generally requiring tax increases or reductions in permanent spending to offset the cost of tax cuts or new mandatory spending programs. Congress can waive the PAYGO law by declaring specific spending or tax reductions to be emergency legislation. Congress waived the PAYGO statute with respect to the revenue costs of the *American Taxpayer Relief Act of 2012*.

The House has a "cut-as-you-go" rule that requires any bill that increases mandatory spending to be offset by spending reductions and not by tax increases. The House rule provides an exception for certain measures designated as emergency under the statutory PAYGO Act. The Senate does not have a similar rule.

Appendix C

Senators up for Election in 2014

Democrats	Republicans
Baucus, Max (D-MT)	Alexander, Lamar (R-TN)
Begich, Mark (D-AK)	Chambliss, Saxby (R-GA)*
Coons, Chris (D-DE)	Cochran, Thad (R-MS)
Durbin, Richard J. (D-IL)	Collins, Susan (R-ME)
Franken, Al (D-MN)	*Cornyn, John (R-TX)*
Hagan, Kay (D-NC)	*Enzi, Michael B. (R-WY)*
Harkin, Tom (D-IA)*	Graham, Lindsey (R-SC)
Johnson, Tim (D-SD)	Inhofe, James M. (R-OK)
*Kerry, John (D-MA)***	Johanns, Mike (R-NE)
Landrieu, Mary L. (D-LA)	McConnell, Mitch (R-KY)
Lautenberg, Frank R. (D-NJ)	Risch, Jim (R-ID)
Levin, Carl (D-MI)	*Roberts, Pat (R-KS)*
Merkley, Jeff (D-OR)	Sessions, Jeff (R-AL)
Pryor, Mark (D-AR)	
Reed, Jack (D-RI)	
*Rockefeller, John D., IV (D-WV)**	
Shaheen, Jeanne (D-NH)	
Udall, Mark (D-CO)	
Udall, Tom (D-NM)	
Warner, Mark (D-VA)	

* Not running for re-election
** June 25 special election also to be held due to Secretary of State confirmation
Senate Finance Committee members shown in italics

Appendix D

Selected Federal Tax Expenditures

	5–Year FY 2012–2016 Tax Expenditure Estimate($ billions)
Corporations	
Deferral of active income of controlled foreign corporations	239.7
Exclusion of interest on public purpose State and local government bonds	47.4
Deduction for income attributable to domestic production activities	53.2
Inventory property sales source rule exception	16.9
Depreciation of equipment in excess of the alternative depreciation system	-5.5*
Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument	0.8
Credit for low-income housing	32.4
Expensing of research and experimental expenditures	30.3
Last-in, first-out inventory method (“LIFO”)	22
Reduced rates on first $10,000,000 of corporate taxable income	17.1
Exclusion of investment income on life insurance and annuity contracts	13.6
Credit for increasing research activities (section 41)	25.2
Special treatment of life insurance company reserves	12.7
Deferral of gain on non-dealer installment sales	33.6
Deferral of gain on like-kind exchanges	28.6
Deduction for charitable contributions to health organizations	8.2
Credits for electricity production from renewable resources (section 45)	9.3
Individuals	
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	706.6
Deduction for mortgage interest on owner-occupied residences	364
Reduced rates of tax on dividends and long–term capital gains	596
Net exclusion of pension contributions and earnings for defined benefit plans	198.9

* Includes bonus depreciation and general acceleration under MACRS.

Selected Federal Tax Expenditures

	5–Year FY 2012–2016 Tax Expenditure Estimate($ billions)
Earned income credit	319.7
Deduction of non-business State and local government income taxes, sales taxes, and personal property taxes	259.2
Net exclusion of pension contributions and earnings for defined contribution plans	306.4
Exclusion of capital gains at death	236.1
Deduction for charitable contributions, other than for education and health	167.8
Exclusion of Medicare Benefits: Hospital Insurance (Part A)	162.8
Exclusion of untaxed Social Security and railroad retirement benefits	172.1
Exclusion of benefits provided under cafeteria plans	175.8
Exclusion of investment income on life insurance and annuity contracts	140
Exclusion of Medicare Benefits: Supplementary medical insurance (Part B)	142.2
Credit for children under age 17	289.4
Deduction for property taxes on real property	143
Exclusion of interest on public purpose State and local government bonds	135.2
Exclusion of capital gains on sales of principal residences	124.1
Individual retirement arrangements: Traditional IRAs	61.5
Net exclusion of pension contributions and earnings for plans covering partners and sole proprietors (“Keogh plans”)	60.2
Deduction for medical expenses and long–term care expenses	65.6
Exclusion of miscellaneous fringe benefits	37.4
Credits for tuition for post-secondary education: Hope and Lifetime Learning Credits	119.1
Exclusion of Medicare Benefits: Prescription drug insurance (Part D)	36.5
Carryover basis of capital gains on gifts	15.3
Deduction for charitable contributions to educational institutions	28.6
Deduction for health insurance premiums and long-term care insurance premiums by the self employed	27.6

Selected Federal Tax Expenditures

	5–Year FY 2012–2016 Tax Expenditure Estimate($ billions)
Exclusion of foreign earned income: Salary	27.5
Exclusion of veterans' disability compensation	29.9
Exclusion of benefits and allowances to armed forces personnel	24.7
Individual retirement arrangements: Roth IRAs	22
Credits and subsidies for participating in health insurance exchanges	141.6
Exclusion of employer-paid transportation benefits	26.5
Depreciation of rental housing in excess of alternative depreciation system	19.4
Exclusion of cash public assistance benefits	24.9
Exclusion of income earned by voluntary employees' beneficiary associations	14.6
Exclusion of workers' compensation benefits (disability and survivors payments)	22.1
Tax credit for small businesses purchasing employer insurance	8.8
Deduction for income attributable to domestic production activities	21.2
Exclusion of employment benefits for premiums on accident and disability insurance	19.2
Exclusion of workers' compensation benefits (medical benefits)	25.8
Deduction for charitable contributions to health organizations	14.6
Credit for child and dependent care and exclusion of employer-provided child care	17
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare	13.6
Additional standard deduction for the blind and the elderly	16.3
Exclusion of scholarship and fellowship income	13.3
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities	12.8
Parental personal exemption for students aged 19 to 23	24.9
Build America bonds	19

Note: The methodology used by Joint Committee on Taxation staff to estimate tax expenditures differs from the methodology used to estimate revenue-raising proposals.

Source: Joint Committee on Taxation. Estimates of Federal Tax Expenditures for Fiscal Years 2012–2016. JCS-1-13 Washington: GPO 2013. Print.

Appendix E

Selected Potential Revenue-Raising Proposals

Provision	Source of proposal	Revenue Estimate over 10 Years ($ millions)
International		
Tax the worldwide income of US corporations as it is earned	CBO	114,200
Exempt active foreign dividends from US taxation and change the tax treatment of overhead expenses	CBO	76,200
Eliminate the source–rules exception for exports	CBO	53,700
Determine the foreign tax credit on a pooling basis	Administration FY 2013 Budget	57,099
Defer deduction of interest expense related to deferred income of foreign subsidiaries	Administration FY 2013 Budget	59,780
Tax currently excess returns associated with transfers of intangibles offshore	Administration FY 2013 Budget	19,232
Disallow the deduction for non–taxed reinsurance premiums paid to affiliates	Administration FY 2013 Budget	12,859
Modify tax rules for dual capacity taxpayers	Administration FY 2013 Budget	9,571
Limit earnings stripping by expatriated entities	Administration FY 2013 Budget	1,835
Limit shifting of income through intangible property transfers	Administration FY 2013 Budget	1,039
Tax Accounting and Corporate		
Impose a 5–percent value-added tax:		
Broad Base	CBO	2,500,000
Narrow Base	CBO	1,390,000
Repeal MACRS and apply Alternative Depreciation System		
C corporations and Pass-throughs	JCT	724,100
C corporations only	JCT	506,800
Repeal the deduction for domestic production activities		
C corporations and Pass-throughs	JCT	163,900
C corporations only	JCT	127,000
Increase corporate income tax rates by 1 percentage point	CBO	100,600
Repeal last-in, first-out (LIFO) method of accounting for inventories	Administration FY 2013 Budget	66,872
Repeal lower-of-cost-or-market (LCM) inventory accounting method	Administration FY 2013 Budget	2,997
Increase certainty with respect to worker classification	Administration FY 2013 Budget	7,571
Reinstate superfund environmental income tax	Administration FY 2013 Budget	13,209
Reinstate superfund excise taxes	Administration FY 2013 Budget	6,538
Repeal gain limitation for dividends received in reorganization exchanges	Administration FY 2013 Budget	460

Selected Potential Revenue-Raising Proposals

Provision	Source of proposal	Revenue Estimate over 10 Years ($ millions)
Financial Services		
Impose a financial crisis responsibility fee	Administration FY 2013 Budget	61,342
Tax carried (profits) interest in investment partnerships as ordinary income	Administration FY 2013 Budget	16,847
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	Administration FY 2013 Budget	2,655
Require accrual of income on forward sale of corporate stock	Administration FY 2013 Budget	169
Employee Benefits		
Tax Social Security and railroad retirement benefits like defined-benefit pensions	CBO	438,400
Include employer–paid benefits for income-replacement insurance in employees' taxable income	CBO	311,500
Employment Taxes		
Increase the maximum taxable earnings for the Social Security Payroll Tax	CBO	456,700
Make the 0.2-percent unemployment insurance surtax permanent	Administration FY 2013 Budget	14,739
Expand Social Security coverage to include newly hired State and Local government employees	CBO	96,000
Energy		
Impose a price on emissions of greenhouse gases	CBO	1,178,900
Increase excise taxes on motor fuels by 25 cents	CBO	291,000
Repeal percentage depletion for oil and natural gas wells	Administration FY 2013 Budget	12,099
Repeal expensing of intangible drilling costs ("IDCs")	Administration FY 2013 Budget	9,529
Repeal percentage depletion for coal and hard mineral fossil fuels	Administration FY 2013 Budget	1,310
Increase geological and small integrated geophysical amortization for independent producers to seven years	Administration FY 2013 Budget	957
Repeal capital gains treatment for royalties	Administration FY 2013 Budget	612
Increase the Oil Spill Liability Trust Fund financing rate to 9 cents per barrel effective 2012 and 10 cents per barrel effective 2017 and thereafter	Administration FY 2013 Budget	462
Repeal expensing of exploration and development costs	Administration FY 2013 Budget	279
Repeal exception to passive loss limitation for working interests in oil and natural gas properties	Administration FY 2013 Budget	86
Repeal deduction for tertiary injectants	Administration FY 2013 Budget	55
Excise Taxes		
Accelerate and modify the excise tax on high-cost health care coverage	CBO	309,500

Selected Potential Revenue-Raising Proposals

Provision	Source of proposal	Revenue Estimate over 10 Years ($ millions)
Tax Administration		
Require a certified taxpayer identification number (“TIN”) from contractors and allow certain withholding	Administration FY 2013 Budget	427
Individual		
Limit the tax benefit of itemized deductions to 15 percent	CBO	1,180,800
End the current itemized deduction for State and Local taxes	CBO	862,200
Raise all ordinary tax rates, AMT rates, and dividend and capital gains rates by 1 percentage point	CBO	715,000
Raise all ordinary tax rates and AMT rates by 1 percentage point	CBO	702,400
Cap the deduction for State and Local taxes at 2 percent of adjusted gross income	CBO	629,300
Raise all tax rates on ordinary income by 1 percentage point	CBO	480,400
Impose 5.6–percent surtax on modified adjusted gross income in excess of $1 million	Senate	452,708
Include investment income from life insurance and annuities in taxable income	CBO	259,500
Curtail the deduction for charitable giving	CBO	219,000
Eliminate the mortgage interest deduction	CBO	214,600
Replace the tax exclusion for interest income on State and Local bonds with a direct subsidy for the issues	CBO	142,700
Raise the top three ordinary tax rates by 1 percentage point	CBO	139,100
Eliminate the child tax credit	CBO	116,700
Raise the top two ordinary tax rates by 1 percentage point	CBO	115,000
Raise the top ordinary tax rate by 1 percentage point	CBO	83,900
Use an alternative measure of inflation to index some parameters of the tax code	CBO	71,800
Raise tax rates on capital gains	CBO	48,500
Eliminate certain tax preferences for educational expenses	CBO	47,700
Reduce limits on contributions to retirement plans	CBO	45,900
Provide short–term tax relief to employers and expand Federal Unemployment Tax Act (“FUTA”) base	Administration FY 2013 Budget	28,277
Eliminate the refundable portion of the child tax credit	CBO	27,100

Selected Potential Revenue-Raising Proposals

Provision	Source of proposal	Revenue Estimate over 10 Years ($ millions)
Insurance		
Increase the payroll tax rate for Medicare hospital insurance by 1 percentage point	CBO	650,800
Expand pro rata interest expense disallowance for corporate-owned life insurance	Administration FY 2013 Budget	6,934
Modify the dividends–received deduction ("DRD") for life insurance company separate accounts	Administration FY 2013 Budget	6,496
Modify rules that apply to sales of life insurance contracts	Administration FY 2013 Budget	837
Estate and Gift		
Require a minimum term for grantor retained annuity trusts ("GRATs")	Administration FY 2013 Budget	3,611
Require consistency in value for transfer and income tax purposes	Administration FY 2013 Budget	1,237
Other		
Increase all taxes on alcoholic beverages to $16 per proof gallon	CBO	59,900
Increase levy authority for payments to Medicare providers with delinquent tax debt	Administration FY 2013 Budget	823
Deny deduction for punitive damages	Administration FY 2013 Budget	335

Source: **Administration FY 2013 Budget:** "Estimated Budget Effects of the Revenue Provisions In the President's Fiscal Year 2013 Budget Proposal," March 21, 2012, JCX-27-12, except in the case of the Administration's proposed financial crisis responsibility fee for which Treasury estimates are used; JCT staff reported that the proposal requires additional specification to estimate. **CBO:** Congressional Budget Office "Reducing the Deficit: Spending and Revenue Options," March 2011. **JCT:** Joint Committee on Taxation staff letter to Rep. Sander Levin (D–MI), October 21, 2011; **Senate:** Congressional Budget Office, "Budgetary Effects of S. 1660, The American Jobs Act of 2011 as Introduced in the Senate on October 5, 2011," October, 2011.

Appendix F

Tax Reform Hearings in the 112th Congress

January 20, 2011: House Ways and Means Committee hearing on Fundamental Tax Reform.

Witnesses: Nina Olson, IRS National Taxpayer Advocate; Robert McDonald, Procter & Gamble CEO (appearing as Chairman, Business Roundtable Fiscal Policy Initiative); Warren Hudak, President, Hudak & Company; Kevin Hassett, Senior Fellow & Director of Economic Policy Studies, American Enterprise Institute; and Martin Sullivan, Contributing Editor, Tax Analysts.

February 2, 2011: Senate Budget Committee hearing on "Tax Reform: A Necessary Component for Restoring Fiscal Responsibility."

Witnesses: Dr. C. Eugene Steuerle, The Urban Institute; Dr. Donald Marron, Director, Urban Institute and Brookings Institution Tax Policy Center; Dr. Rosanne Altshuler, Professor, Rutgers University; and Dr. Lawrence Lindsey, President and Chief Executive Officer, The Lindsey Group.

March 1, 2011: Senate Finance Committee hearing on "How Did We Get Here? Changes in the Law and Tax Environment Since the Tax Reform Act of 1986."

Witnesses: Fred Goldberg Jr., Former Assistant Secretary of the Treasury for Tax Policy, 1992; Jonathan Talisman, Former Assistant Secretary of the Treasury for Tax Policy, 2000-2001; Mark Weinberger, Former Assistant Secretary of the Treasury for Tax Policy, 2001-2002; Pamela Olson, Former Assistant Secretary of the Treasury for Tax Policy, 2002-2004; and Eric Solomon, Former Assistant Secretary of the Treasury for Tax Policy, 2006-2009.

March 3, 2011: House Ways and Means Select Revenue Measures Subcommittee hearing on Small Businesses and Tax Reform.

Witnesses: Dr. Robert Carroll, Principal, Qualitative Economics and Statistics, Ernst & Young LLP; Patricia A. Thompson, Chair, Tax Executive Committee, American Institute of Certified Public Accountants; Dennis Tarnay, Chief Financial Officer, Lake Erie Electric, Inc; and Donald B. Marron, Director, Urban Institute and Brookings Institution Tax Policy Center.

March 8, 2011: Senate Budget Committee hearing on "Report of the National Commission on Fiscal Responsibility and Reform."

Witnesses: Former Senator Alan Simpson, Co-Chair, National Commission on Fiscal Responsibility and Reform; and Erskine Bowles, Co-Chair, National Commission on Fiscal Responsibility and Reform.

March 8, 2011: Senate Finance Committee hearing on "Does the Tax System Support Economic Efficiency, Job Creation and Broad-Based Economic Growth?"

Witnesses: Dr. Alan Auerbach, Professor of Economics and Law, University of California Berkeley; Dr. R. Glenn Hubbard, Dean and Professor of Finance and Economics, Columbia University Graduate School of Business; Dr. James K. Galbraith, Chair in Government/Business Relations and Professor of Government, The University of Texas at Austin; and Michael Graetz, Professor of Law, Columbia Law School.

March 9, 2011: Senate Budget Committee hearing on "Distribution and Efficiency of Spending in the Tax Code."

Witnesses: Robert Greenstein, Executive Director, Center on Budget and Policy Priorities; Robert McIntyre, Director, Citizens for Tax Justice; and Scott Hodge, President, Tax Foundation.

March 15, 2011: Senate Budget Committee hearing on "Report of the Bipartisan Policy Center's Debt Reduction Task Force."

Witnesses: Former Senator Pete Domenici, Co-Chair Bipartisan Policy Center's Debt Reduction Task Force; and Former CBO Director Dr. Alice Rivlin, Co-Chair Bipartisan Policy Center's Debt Reduction Task Force.

March 30, 2011: Senate Finance Committee hearing on "How Do Complexity, Uncertainty and Other Factors Impact Responses to Tax Incentives?"

Witnesses: Dr. Eric Toder, Institute Fellow and Co-Director, Urban Institute and Brookings Institution Tax Policy Center; Dr. Raj Chetty, Professor, Department of Economics, Harvard University; and Dr. Robert Carroll, Principal, Quantitative Economics and Statistics, Ernst & Young LLP.

March 31, 2011: Ways & Means hearing on "Internal Revenue Service Operations and the 2011 Tax Return Filing Season."

Witnesses: The Honorable Douglas Shulman, Commissioner, Internal Revenue Service.

April 6, 2011: Joint Committee on Taxation roundtable on tax reform.

Witnesses: Former Treasury Secretary James Baker and former Rep. Dick Gephardt.

April 12, 2011: Senate Finance Committee hearing on "Best Practices in Tax Administration: A Look Across the Globe."

Witnesses: Michael Brostek, Director, Tax Policy and Administration, Strategic Issues, US Government Accountability Office; Brian Erard, B.E. & Associates; and Michael Gaffney, Tax Partner, PricewaterhouseCoopers,.

April 13, 2011: House Ways and Means Committee hearing on "How the Tax Code's Burdens on Individuals and Families Demonstrates the Need for Comprehensive Tax Reform."

Witnesses: Alan Viard, Resident Scholar, American Enterprise Institute; Annette Nellen CPA, Director, Masters of Science in Taxation Program, San Jose State University; Mark E. Johannessen CFP, Managing Director, Harris – SBSB; and Neil H. Buchanan Associate Professor of Law, The George Washington University.

May 3, 2011: Senate Finance Committee hearing on "Is the Distribution of Tax Burdens and Tax Benefits Equitable?"

Witnesses: Daniel Shaviro, Wayne Perry Professor of Taxation, New York University School of Law; Scott Hodge, President, Tax Foundation; Aviva Aron-Dine, Ph.D. Candidate, Department of Economics, Massachusetts Institute of Technology (MIT); and Alan Reynolds, Senior Fellow, Cato Institute.

May 4, 2011: Senate Finance Committee hearing on "Budget Enforcement Mechanisms."

Witnesses: Susan J. Irving, Ph.D., Director for Federal Budget Analysis, Strategic Issues, United States Government Accountability Office; Paul Van de Water, Ph.D., Senior Fellow, Center on Budget and Policy Priorities; and Former Senator Phil Gramm, Vice Chairman, UBS Investment Bank, UBS AG.

May 12, 2011: Senate Finance Committee hearing on "Oil and Gas Tax Incentives and Rising Energy Prices."

Witnesses: John Watson, Chairman of the Board and Chief Executive Officer, Chevron Corporation; Marvin Odum, US President, Shell Oil Company; James Mulva, Chairman and Chief Executive Officer, ConocoPhillips; H. Lamar McKay, Chairman and President, BP America Inc.; and Rex Tillerson, Chairman and Chief Executive Officer, ExxonMobil Corporation.

May 12, 2011: House Ways and Means Committee hearing on "The Need for Comprehensive Tax Reform to Help American Companies Compete in the Global Market and Create Jobs for American Workers."

Witnesses: Greg Hayes, Senior Vice President and Chief Financial Officer, United Technologies Corporation; Edward J. Rapp, Group President & Chief Financial Officer, Caterpillar Inc.; James T. Crines, Executive Vice President, Finance, and Chief Financial Officer, Zimmer Holdings, Inc.; Mark A. Buthman, Senior Vice President and Chief Financial Officer, Kimberly-Clark Corporation; James R. Hines, Jr. L., Hart Wright Collegiate Professor of Law, University of Michigan Law School; Dirk J.J. Suringa, Partner, Covington & Burling LLP; and Jane Gravelle, Senior Specialist in Economic Policy, Congressional Research Service.

May 24, 2011: House Ways and Means Committee hearing on "How Other Countries Have Used Tax Reform to Help Their Companies Compete in the Global Market and Create Jobs."

Witnesses: Gary M. Thomas, White & Case; Frank Schoon, Partner, Dutch Desk, Ernst & Young; Steve Edge, Partner, Slaughter and May; Jorg Menger Partner, Ernst & Young; and Reuven S. Avi-Jonah, Professor of Law, University of Michigan Law School.

June 2, 2011: House Ways and Means Committee hearing on "How Business Tax Reform Can Encourage Job Creation."

Witnesses: Ashby T. Corum, Partner, KPMG LLP; Walter J. Galvin, Vice Chairman of the Board, Emerson Electric Co.; Judy L. Brown, Executive Vice President and CFO, Perrigo Company; James H. Zrust, Vice President, Tax, The Boeing Company; James Misplon, Vice President, Tax, Sears Holdings Management Corporation; and Mark Stutman, National Managing Partner of Tax Services, Grant Thornton.

June 23, 2011: House Ways and Means Subcommittee on Select Revenue Measures hearing on "Tax Reform and Foreign Investment in the United States."

Witnesses: Nancy L. McLernon, President & Chief Executive Officer, Organization for International Investment; Alexander Spitzer, Senior Vice President – Taxes, Nestle Holdings, Inc.; Claude Draillard, Chief Financial Officer, Dassault Falcon Jet Corporation; Jeffrey DeBoer, President & Chief Executive Officer, The Real Estate Roundtable; Gary Hufbauer, Reginald Jones Senior Fellow, Peterson Institute for International Economics; Robert Stricof, Tax Partner, Deloitte Tax LLP; and Bret Wells, Assistant Professor of Law, University of Houston Law Center.

June 28, 2011: Senate Finance Committee hearing on "Complexity and the Tax Gap: Making Tax Compliance Easier and Collecting What's Due."

Witnesses: Michael Brostek, Director, Tax Policy and Administration, Strategic Issues, United States Government Accountability Office;Nina E. Olson, National Taxpayer Advocate, Internal Revenue Service; David Kirkham, President, Kirkham Motor Sports; and Kris Carpenter, Founder/CEO, Sanctuary Spa and Salon.

July 13, 2011: House Ways and Means Committee/Senate Finance Committee joint hearing on "Tax Reform and the Tax Treatment of Debt and Equity."

Witnesses: Thomas A. Barthold, Chief of Staff, Joint Committee on Taxation; Dr. Mihir A. Desai, Mizuho Financial Group Professor of Finance, Harvard Business School; Pamela F. Olson, Former Assistant Secretary of the Treasury for Tax Policy, Partner, Skadden, Arps, Slate, Meagher & Flom; Victor Fleischer, Associate Professor of Law, University of Colorado Law School; Dr. Simon Johnson, and Ronald A. Kurtz Professor of Entrepreneurship, Massachusetts Institute of Technology Sloan School of Management.

July 26, 2011: House Ways and Means Committee hearing on "Tax Reform and Consumption-Based Tax Systems."

Witnesses: Panel 1 on Fair Tax - Mike Huckabee, former Governor of Arkansas; Dr. Laurence Kotlikoff, Professor of Economics, Boston University; Bruce Bartlett, columnist, Tax Notes, the Fiscal Times, and The New York Times. Panel 2 on Value Added Tax - Michael Graetz, Professor of Law, Columbia University; Dr. Rosanne Altshuler, Professor and Chair, Economics Department, Rutgers University; Dr. Robert Carroll, Ernst & Young; Jim White, US Government Accountability Office; Dr. Daniel Mitchell, Senior Fellow, Cato Institute; and Dr. Simon Johnson, Professor, Sloan School of Management, Massachusetts Institute of Technology.

July 26, 2011: Senate Finance Committee hearing on "Perspectives on Deficit Reduction: A Review of Key Issues."

Witnesses: Robert Greenstein, President, Center on Budget and Policy Priorities; Dr. Lawrence B. Lindsey, Former Director of the National Economic Council, President and Chief Executive Officer, The Lindsey Group; Michael Ettlinger, Vice President for Economic Policy, Center for American Progress; and Chris Edwards, Director, Tax Policy Studies, Cato Institute.

July 27, 2011: Senate Finance Committee hearing on "CEO Perspectives on How the Tax Code Affects Hiring, Businesses and Economic Growth."

Witnesses: Michael Duke, President and CEO, Wal-Mart Stores, Inc.; Thomas Falk, Chairman and CEO, Kimberly-Clark Corporation; Gregory Lang, President and CEO, PMC-Sierra, Inc.; and Larry Merlo, President and CEO, CVS Caremark Corporation.

September 8, 2011: Senate Finance Committee hearing on "Tax Reform Options: International Issues."

Witnesses: Phillip R. West, Partner, Steptoe & Johnson LLP; Dr. James R. Hines, Jr, L. Hart Wright Collegiate Professor of Law, University of Michigan Law School; Scott Naatjes, Vice President and General Tax Counsel, Cargill, Incorporated; Dr. Reuven S. Avi-Yonah, Irwin I. Cohn Professor of Law, University of Michigan Law School.

September 13, 2011: Senate Finance Subcommittee on Fiscal Responsibility and Economic Growth hearing on "Examining whether there is a Role for Tax Reform in Comprehensive Deficit Reduction and US Fiscal Policy."

Witnesses: Dr. Alan C. Greenspan, President, Greenspan Associates LLC; Dr. John B. Taylor, Mary and Robert Raymond Professor of Economics and George P. Shultz Senior Fellow in Economics, Stanford University, Hoover Institution; Dr. Martin S. Feldstein, George F. Baker Professor of Economics, Harvard University; Former Governor of Michigan John M. Engler, President, Business Roundtable; Edward D. Kleinbard, Professor of Law, USC Gould School of Law.

September 14, 2011: Senate Finance Committee hearing on "Tax Reform Options: Marginal Rates on High-Income Taxpayers, Capital Gains and Dividends."

Witnesses: Dennis Mehiel, Chairman of the Board, US Corrugated, Inc.; Stephen Entin, President and Executive Director, Institute for Research on the Economics of Taxation; Bill Rys, Tax Counsel, National Federation of Independent Business; and Dr. Leonard E. Burman, Daniel Patrick Moynihan Professor of Public Affairs, Maxwell School, University of Syracuse.

September 15, 2011: Senate Finance Committee hearing on "Tax Reform Options: Promoting Retirement Security."

Witnesses: Dr. Jack VanDerhei, Research Director, Employee Benefit Research Institute; Dr. William G. Gale, Senior Fellow, Brookings Institution; Judy A. Miller, Chief of Actuarial Issues/Director of Retirement Policy, American Society of Pension Professionals and Actuaries; and Karen Friedman, Executive Vice President and Policy Director, Pension Rights Center.

September 20, 2011: Senate Finance Committee hearing on "Tax Reform Options: Incentives for Innovation"

Witnesses: Dr. Scott Wallsten, Vice President for Research & Senior Fellow, Technology Policy Institute and Senior Policy Fellow, Georgetown Center for Business and Public Policy; Michael D. Rashkin, Author, Practical Guide to Research and Development Tax Incentives: Federal, State, and Foreign; Annette Nellen, Professor, Department of Accounting & Finance, College of Business at San Jose State University; and Dr. Dirk Pilat, Head, Structural Policy Division, Organisation for Economic Co-operation and Development Directorate for Science, Technology and Industry.

September 21, 2011: House Ways and Means Committee hearing on "Economic Models Available to the Joint Committee on Taxation for Analyzing Tax Reform Proposals."

Witnesses: Thomas Barthold, Chief of Staff, Joint Committee on Taxation; Douglas Holtz-Eakin President, American Action Forum; John Buckley, Visiting Professor, Georgetown University Law Center; and William Beach, Director, Center for Data Analysis, the Heritage Foundation.

October 6, 2011: Senate Finance Committee hearing on "Tax Reform Options: Incentives for Homeownership."

Witnesses: Former Senator John B. Breaux, Senior Counsel, Patton Boggs LLP; Dr. Karl "Chip" Case, Professor of Economics Emeritus, Wellesley College and Senior Fellow, Joint Center for Housing Studies, Harvard University; Dr. Robert D. Dietz, Assistant Vice President for Tax and Policy Issues, National Association Home of Builders; Dr. Richard Green, Director, Lusk Center for Real Estate, University of Southern California; and Gregory M. Nelson, Vice President and Assistant Secretary, PulteGroup, Inc.

October 18, 2011: Senate Finance Committee hearing on "Tax Reform Options: Incentives for Charitable Giving."

Witnesses: Frank Sammartino, Assistant Director For Tax Analysis, Congressional Budget Office; Elder Dallin H. Oaks, The Quorum of the Twelve Apostles, The Church of Jesus Christ of Latter-day Saints; Dr. Eugene Steuerle, Richard B. Fisher Chair and Institute Fellow, The Urban Institute; Brian A. Gallagher, President and CEO, United Way Worldwide; and Roger Colinvaux, Associate Professor, The Catholic University of America, Columbus School of Law.

December 6, 2011: House Ways and Means Committee/Senate Finance Committee joint hearing on "Tax Reform and the Tax Treatment of Financial Products."

Witnesses: Thomas Barthold, Chief of Staff, Joint Committee on Taxation; Alex Raskolnikov, Charles Evans Gerber Professor of Law and Co-chair of the Charles E. Gerber Transactional Studies Program, Columbia Law School; Andrea S. Kramer, Partner, McDermott Will & Emery LLP; and David S. Miller, Partner, Cadwalader, Wickersham & Taft LLP.

January 31, 2012: Senate Finance Committee hearing on "Extenders and Tax Reform: Seeking Long-Term Solutions."

Witnesses: Dr. Rosanne Altshuler, Professor and Chair of Economics Department, Rutgers University; Dr. Jason J. Fichtner, Senior Research Fellow, Mercatus Center, George Mason University; Calvin H. Johnson, Andrews & Kurth Centennial Professor of Law, The University of Texas School of Law; Caroline L. Harris, Chief Tax Counsel and Director of Tax Policy, US Chamber of Commerce.

February 8, 2012: House Ways and Means Committee hearing on "The Interaction of Tax and Financial Accounting on Tax Reform."

Witnesses: Michael D. Fryt, Corporate Vice President, Tax, FedEx Corporation; Mark A. Schichtel, Senior Vice President & Chief Tax Officer, Time Warner Cable; Michelle Hanlon, Associate Professor of Accounting, MIT Sloan School of Management; Tom S. Neubig, National Director, Quantitative Economics and Statistics, Ernst & Young LLP; Timothy S. Heenan, Vice President, Treasury & Tax, Praxair, Inc.

March 1, 2012: Senate Budget Committee hearing on "Tax Reform to Encourage Growth, Reduce the Deficit, and Promote Fairness."

Witnesses: Dr. Leonard E. Burman, Daniel Patrick Moynihan Professor of Public Affairs, Maxwell School of Syracuse University; Dr. Diane Lim Rogers, Chief Economist, Concord Coalition; Dr. Daniel J. Mitchell, Senior Fellow, Cato Institute.

March 6, 2012: Senate Finance Committee hearing on "Tax Reform Options: Incentives for Capital Investment and Manufacturing."

Witnesses: Dr. Jane G. Gravelle, Senior Specialist in Economic Policy, Congressional Research Service, Library of Congress; Dr. Ike Brannon, Director of Economic Policy & Congressional Relations, American Action Forum; Dr. Robert D. Atkinson, President, Information Technology and Innovation Foundation; Dr. J.D. Foster, Norman B. Ture Senior Fellow, Economics of Fiscal Policy, The Heritage Foundation; Dr. Michelle Hanlon, Associate Professor of Accounting, MIT Sloan School of Management.

March 7, 2012: House Ways and Means Committee hearing on "Treatment of Closely-Held Businesses in the Context of Tax Reform."

Witnesses: Mark Smetana, Chief Financial Officer, Eby-Brown Company; Dewey W. Martin, CPA, Testifying on behalf of the National Federation of Independent Businesses; Stefan F. Tucker, Partner, Venable, LLP; Jeffrey L. Kwall, Kathleen and Bernard Beazley Professor of Law, Loyola University School of Law; Tom Nichols, Meissner Tierney Fisher & Nichols S.C.; Martin A. Sullivan, Contributing Editor, Tax Analysts.

April 17, 2012: House Ways and Means Committee hearing on "Tax Reform and Tax-Favored Retirement Accounts."

Witnesses: Dr. Jack VanDerhei, Research Director, Employee Benefit Research Institute; Ms. Judy A. Miller, Chief of Actuarial Issues and Director of Retirement Policy, American Society of Pension Professionals and Actuaries; Mr. William Sweetnam, Principal, Groom Law Group; Mr. David John, Senior Research Fellow in Retirement Security and Financial Institutions, The Heritage Foundation; Mr. Randy H. Hardock, Partner, Davis & Harman LLP (on behalf of the American Benefits Council).

April 25, 2012: Senate Finance Committee hearing on "Tax Reform: What It Means for State and Local Tax and Fiscal Policy."

Witnesses: Frank Sammartino, Assistant Director for Tax Analysis, Congressional Budget Office; Dr. Kim Rueben, Senior Fellow, Urban-Brookings Tax Policy Center; Walter Hellerstein, Professor in Taxation Law, University of Georgia School of Law; Joseph Henchman, Vice President of Legal & State Projects, Tax Foundation; Sanford Zinman, Owner, Zinman Accounting.

May 15, 2012: Senate Finance Committee hearing on "Tax Reform: What It Could Mean for Tribes and Territories."

Witnesses: Sarah Hall Ingram, Commissioner, Tax Exempt and Government Entities, Internal Revenue Service; The Honorable Robert Odawi Porter, President, Seneca Nation of Indians; Dr. Lindsay G. Robertson, Professor of Law, University of Oklahoma College of Law; Dr. Steven Maguire, Specialist in Public Finance, Congressional Research Service.

June 12, 2012: Senate Finance Committee hearing on "Tax Reform: Impact on US Energy Policy."

Witnesses: The Honorable Don Nickles, Chairman and CEO, The Nickles Group, LLC; The Honorable Phillip Sharp, President, Resource for the Future; Dr. Dale Jorgenson, Samuel W. Morris University Professor, Harvard University; Mr. Harold Hamm, Chief Executive Officer, Continental Resources Inc.

July 10, 2012: Senate Finance Committee hearing on "Boosting Opportunities and Growth Through Tax Reform: Helping More Young People Achieve The American Dream."

Witnesses: Dr. Katherine S. Newman, James B. Knapp Dean of The Zanvyl Krieger School of Arts and Sciences, The Johns Hopkins University; Dr. Miles Corak, Graduate School of Public and International Affairs, University of Ottawa; Dr. Lars J. Lefgren, Associate Professor, Department of Economics, Brigham Young University; Ms. Erin Currier, Project Manager, Economic Mobility Project, The Pew Charitable Trusts; Dr. Eugene Steuerle, Richard B. Fisher Chair and Institute Fellow, The Urban Institute.

July 19, 2012: House Ways and Means Committee hearing on "Tax Reform and the US Manufacturing Sector."

Witnesses: Ms. Diane Dossin, Chief Tax Officer, Ford Motor Company; Mr. Henry W. Gjersdal, Jr., Vice President of Tax and Real Estate, 3M; Ms. Susan L. Ford, Vice President of Tax, Corning Inc.; Mr. Ralph E. Hardt, President, Jagemann Stamping Company; Mr. Kim Beck, President and CEO, Automatic Feed Company, on behalf of the Association for Manufacturing Technology; Mr. Hugh Spinks, Vice President of Tax, Air Liquide USA Inc.; Ms. Heather Boushey, Ph. D., Senior Economist, Center for American Progress.

July 25, 2012: Senate Finance Committee hearing on "Education Tax Incentives and Tax Reform."

Witnesses: Dr. Waded Cruzado, President, Montana State University; Ms. Lynne Munson, President and Executive Director, Common Core; Dr. Susan Dynarski, Professor, University of Michigan; Mr. Scott Hodge, President, Tax Foundation; Mr. James White, Director, Tax Issues, United States Government Accountability Office.

August 1, 2012: Senate Finance Committee hearing on "Tax Reform: Examining the Taxation of Business Entities."

Witnesses: Mr. Harrison T. LeFrak, Vice Chairman, The LeFrak Organization; Mr. Dana L. Trier, Adjunct Professor in Taxation, University of Miami School of Law and Columbia Law School; Mr. Alvin C. Warren, Ropes & Gray Professor of Law, Harvard Law School; Mr. Fred C. De Hosson, Partner, Baker & McKenzie, Amsterdam, The Netherlands.

September 30, 2012: House Ways and Means Committee/Senate Finance Committee joint hearing on "Tax Reform and the Tax Treatment of Capital Gains."

Witnesses: David Brockway, Partner, Bingham McCutchen LLP; Dr. Lawrence Lindsey, President & CEO, The Lindsey Group; Dr. Leonard E. Burman, Daniel Patrick Moynihan Professor of Public Affairs, Maxwell School, University of Syracuse; David Verrill, Founder and Managing Director, Hub Angels Investment Group LLC; William Stanfill, General Partner, Montegra Capital Income Fund.

December 12, 2012: Senate Finance Subcommittee on Energy, Natural Resources, and Infrastructure hearing on "Tax Reform and Federal Energy Policy: Incentives to Promote Energy Efficiency."

Witnesses: Dr. Dan Arvizu, Director, National Renewable Energy Laboratory; Steve Nadel, Executive Director, American Council for an Energy-Efficient Economy; Mark Wagner, Vice President Government Relations, Johnson Controls, Inc., Matt Golden, Policy Chair, Efficiency First.

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