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WNTS Insight

Obama Administration proposes FY 2012 federal budget with revenue-raising proposals

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President Barack Obama today proposed an FY 2012 federal budget that calls for $3.73 trillion in overall federal spending for that year. The Administration is projecting a $1.6 trillion federal deficit for current FY 2011, which ends September 30, or 10.9 percent of GDP. The Administration is projecting a $1.1 trillion federal deficit for FY 2012, or 7.0 percent of GDP.

The Administration proposes to reduce the federal budget deficit by $1.1 trillion over the next ten years, with roughly two-thirds of the deficit reduction coming from spending reductions and the remainder coming from tax increases. The Administration proposes to freeze discretionary non-security spending through 2015.

While not providing a specific tax reform plan, the Administration's budget notes that President Obama recently has called on Congress to work with the Administration on corporate tax reform that will "simplify the system, eliminate special interest loopholes, level the playing field, and lower the corporate tax rate ... without adding a dime to the deficit." The President also has called for simplifying the tax rules for individuals.

The Administration's budget proposes to extend a number of business tax provisions set to expire at the end of 2011. The Administration's budget proposes to "simplify, expand, and make permanent" the research credit. The budget also proposes to extend a number of other expiring provisions through the end of 2012, including CFC look-through, Subpart F active financing, and 15-year depreciation recovery for qualified leasehold improvements.

The Administration proposes to limit the tax benefit of certain itemized deductions for upper-income individual taxpayers; the revenue from this proposal would offset the first three years' cost of the budget proposal to extend individual alternative minimum tax relief. The Administration's budget assumes that Bush-era tax rates for upper-income taxpayers will not be extended beyond 2012. The Administration proposes a 20-percent tax rate for capital gains and qualified dividends for upper-income taxpayers.

Business tax increase proposals in the President's budget include a number of "loophole closers" and other revenue changes that have been previously proposed by the Administration.

Specific international tax measures include proposals that would:

- Defer deductions of interest expense related to deferred income
- Require pooling of foreign tax credits
- Tax currently "excess returns" associated with transfers of intangibles offshore
- Limit shifting of income through intangible property transfers
- Modify tax rules for dual capacity taxpayers
- Limit earnings stripping by expatriated entities
- Disallow deductions for excess non-taxed reinsurance premiums paid to foreign affiliates.

Other Administration revenue-raising proposals would:

- Eliminate certain oil and gas preferences, including expensing of intangible drilling costs, percentage depletion, and domestic manufacturing deduction for oil and natural gas companies
- Eliminate certain coal preferences
- Reinstate Superfund taxes
- Modify treatment of insurance companies and products, including dividends-received deduction for life insurance company separate accounts.
- Tax "carried interest" as ordinary income
- Repeal gain limitation for dividends received in reorganization exchanges
- Deny deduction for punitive damages
- Repeal LIFO method of accounting
- Repeal lower-of-cost-or-market inventory accounting method
- Make permanent the FUTA surtax
- Increase certainty with respect to worker classification.

Click here for the Administration's summary of its revenue proposals. Click here for the Treasury Department's general explanation of the President's revenue proposals.

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