Social Security and Medicare funding

- Medicare – “projected date of HI Trust Fund depletion is 2030, four years later than projected in last year’s report”
- Social Security - “After 2019, Treasury will redeem trust fund asset reserves to the extent that program cost exceeds tax revenue and interest earnings until depletion of combined trust fund reserves in 2033, the same year projected in last year’s Trustees Report. Thereafter, tax income would be sufficient to pay about three-quarters of scheduled benefits through the end of the projection period in 2088.”
Beneficiaries per 100 covered workers

<table>
<thead>
<tr>
<th>Year</th>
<th>OASDI beneficiaries per 100 covered workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>2</td>
</tr>
<tr>
<td>1970</td>
<td>27</td>
</tr>
<tr>
<td>2000</td>
<td>29</td>
</tr>
<tr>
<td>2013</td>
<td>35</td>
</tr>
<tr>
<td>2020</td>
<td>39</td>
</tr>
<tr>
<td>2050</td>
<td>47</td>
</tr>
</tbody>
</table>

2014-2015 Priority Guidance Plan

- Released 8/26/14
- 317 projects including
  - “Guidance under §§61(a)(12) and 1001 regarding whether a recourse purchase money home mortgage loan is treated as a nonrecourse loan from inception if, under a state anti-deficiency statute, the lender cannot pursue the homeowner for the difference between the amount of the loan and the amount realized on a foreclosure or short sale of the home.”
  - “Regulations under §280A regarding deductions for expenses attributable to the business use of homes and rental of vacation homes.”
  - Guidance for determining wagering gains and losses under §165.
  - Guidance on how estates and trusts materially participate for §469 purposes.

Education bill passes in House

- H.R. 3393, Student and Family Tax Simplification Act
  - House passed 7/24/14 (227-187)
  - Replaces Hope Scholarship and Lifetime Learning credits and qualified tuition deduction with AOTC
  - Up to $1,500 refundable
  - Lowers AGI phase-out range
  - Adjusted for inflation after 2018
  - Ok to claim with drug offense
  - Excludes Pell Grant from income starting in 2015
  - JCT cost estimate = $96 billion over 10 years

Dissenting view on HR 3393

- Like the streamlining
- Don’t like – focuses only on the narrow group of students who go to college for 4 years
  - Bill based on “outdated assumptions about the typical student in higher education”
- Ignores adult learners, low-income and middle-income grad students
- Will increase the deficit because not paid for.
- Cost of 14 bills passed so far is $825 billion, which is
  - 1.7x projected federal deficit for current year
  - Over 9x what is spent annually on education, job training and social services
  - 14x veterans’ health care and benefits
  - 27x medical research expenditures
Expired and expiring provisions

- 57 provisions expired at 12/31/13
- A few more expire over next few years
  - AOTC for example
- Internet Tax Freedom Act expires 11/1/14
  - H.R. 3086 (113th Congress) would make the ITFA permanent
  - Appropriations bill extended to 12/11/14

Observations

- House activity
  - Looked at making some provisions permanent
- Senate
  - SFC – extend 2 years
- Possibility:
  - 113rd – extend through 2014
  - 114th – look at more closely, perhaps looking at what House did (see following slides)
Activity on expired provisions

Senate Finance Committee

- S. 1859 (Reid, Dec 2013) - renew all expired provisions through 2014.
- Wyden statement (4/3/14)
  - Extend 2 years and “then put a lens to each of these provisions before deciding which ones deserve a permanent spot in a 21st-century tax code. That task will be harder if these incentives disappear now.”
  - Will start hearings in spring on “fixing the broken tax code and building a new system that works in today’s global, digital economy.”

- SFC – EXPIRE – mostly all extended 2 years (4/3/14)
  - Cost of about $85 billion over 10 years
    http://www.finance.senate.gov/legislation/details/?id=8794f10-5056-a032-52ef-257830e0a938

House …

House Ways and Means Committee

- 4/8/14 hearing on expired provisions in light of permanence and tax reform (4/8/14)
  - “The hearing will explore the value in having stable, permanent tax policy for employers, as well as the problems caused by tax policies that frequently expire and are extended for short periods of time (and often retroactively). To that end, the hearing specifically will consider those expired business tax provisions that are either made permanent or are provided long-term extensions under the discussion draft of the Tax Reform Act of 2014.”
  - Hearing – Benefits of Permanent Tax Policy for America’s Job Creators
6 extenders passed by HWM

4/29/14 Markup hearing – passed [10 year cost per JCT]
1. HR 4429 - permanently extend subpart F exemption for active financing income [-$58.8 billion]
2. HR 4438 - simplify research credit and make permanent [-$155.5 billion] HOUSE PASSED ON 5/9/14
3. HR 4453 - make permanent reduced recognition period for built-in gains of S corps [-$1.5 billion]
4. HR 4454 - make permanent certain rules regarding basis adjustments to stock of S corporations making charitable contributions of property [-$0.7 billion]
5. HR 4457 - permanently extend increased expensing limitations of $500,000/$2 million indexed for inflation [-$73.1 billion]
6. HR 4464 - make permanent look-through treatment of payments between related controlled foreign corporations [-$20.3 billion]

Total cost per JCT = -$309.9


Extenders

6 passed in HWM 4/29/14
6 more on 5/29/14

- HR 2807, “Conservation Easement Incentive Act of 2013.”
- HR 4619, “To amend the Internal Revenue Code of 1986 to make permanent the rule allowing certain tax-free distributions from individual retirement accounts for charitable purposes.”
  - Cost = $8.4 billion over 10 years
- HR 4719, “To amend the Internal Revenue Code of 1986 to permanently extend and expand the charitable deduction for contributions of food inventory.”
- HR 3134, “Charitable Giving Extension Act.”
  - Allow contributions by 4/15 to be taken on prior year return.
- HR 4691, “To amend the Internal Revenue Code of 1986 to modify the tax rate for excise tax on investment income of private foundations.”
- HR 4718, “To amend the Internal Revenue Code of 1986 to modify and make permanent bonus depreciation.”
  - And apply to trees and vines bearing fruits and nuts.
  - Cost of HR 4718 = $287 billion over 10 years

Broader §179 – passed in House

- H.R. 4457
  - House passed 6/12/14 (272-144)
  - $500,000 / $2 million limits
  - Include HVAC and software
  - Include up to $250K qualified real property
  - Adjust for inflation
  - JCT cost estimate (JCX-66-14 (6/12/14))
    - $73 billion over 10 years

Charitable Contributions – passed in House

- H.R. 4719, Fighting Hunger Incentive Act
  - House passed 7/17/14 (277-130)
  - Char ded for food inventory – permanent
  - Increase from 10% to 15% income limit for deductible food inventory contributions
  - Rules to determine basis of contributed food
  - Make permanent IRA contribution rule
  - Qualified contribution easement rule made permanent
  - New rule for qualified conservation contribution by certain native corporations
  - Individuals have until 4/15 of next year to make contributions
    - n/a to contributions made by p/s or S corp
  - Excise tax on investment income of private foundations (4940(a)) reduced from 2% to 1%
HR 4719 – more details

- H.R. 4719, Fighting Hunger Incentive Act
  - House Report – 113-498 (6/26/14)
    - Does not include all provisions of H.R. 4719
  - JCT revenue estimate
    - $16.2 billion over 10 years
    - JCX-89-14

Reality of extenders’ fate

- Key issue – do they need to be “paid for”? 
  - Expired provisions – special deductions, credits, exclusions
    - So, “lose” money (less tax collections).
      - 10-year cost of 6 HWM items per JCT = $310 billion
    - Queries:
      - Assumed to be permanent in baseline?
      - Assumed to be included in budget spending?
  - Related issue / consideration:
    - Effect on cost of tax reform – help or hurt?
Debate – Extenders do not need to be paid for

- The Heritage Foundation
  - CBO difference between baselines
    - Revenue baseline – temp provisions intended to expire permanently
    - Spending baseline – assume expiring spending programs continue
    - So, revenue estimates higher than if treated both assumptions the same.
    - Extending provisions prevents a tax increase for affected taxpayers.

(note – posted on HWM website)

Debate – Extenders do need to be paid for

- The Committee for a Responsible Federal Budget
  - Camp’s tax reform plan pays for extenders (if part of the plan)
  - Extending with no offsets would “dramatically” increase the deficit.

http://crfb.org/blogs/major-budget-plans-deal-extenders-responsibly
Analysis of individual expiring and expired provisions

- Left behind: Expired Individual Tax Provisions, AICPA
  *Tax Insider*, 4/10/14
  [Link to article]

Other possible reforms

- IRAs and Retirement Savings
  - Move to greater equity, increased participation
- IRS reforms
  - To reduce ID theft
  - Reduce tax gap
- Funding for
  - Highway Trust Fund (and related funds)
  - Medicare
  - SDI and SS
Comprehensive Tax Reform?

Bipartisan interest in lower corporate tax rate and a few other items

Camp’s Tax Reform Act of 2014

- Camp to retire
- Legislative language
- Scored
- Revenue and distributionally neutral
- Likely still under consideration
Common ground on tax reform?

- Lower corp rate
- Reduce tax gap
- Help small business
- Simplify
- Some international similarities

Differences
- Treatment of high income individuals

Tax reform activities

Congressman Camp
- Detailed plan released 2/26/14
- 3/31/14 – Camp announced he will not seek re-election
- What will next HWM chair (Paul Ryan) do?
TRA 2014 broad categories (# changes)

I. Tax reform for individuals (78)

II. AMT repeal (2)

III. Business tax reform (169)

IV. Participation exemption system for the taxation of foreign income (16)

V. Tax exempt entities (20)

VI. Tax administration and compliance (25)

VII. Excise taxes (5)

VIII. Deadwood and technical provisions (85)
Selected individual provisions

- 10% and 25% rate + 10% surtax if taxable income > $450,000 (MFJ)
  - Surtax n/a to qualified domestic manufacturing income (25% max rate); phased in over 3 years.
  - Some tax preferences limited to 25% benefit.
- Same rate for capital gains and dividends
  - 40% exclusion
- Repeal head-of-household filing status

Selected individual provisions - more

- Increase standard deduction
  - Today – 33% of filers itemize
  - Estimated under TRA 2014 – 5% would itemize
- Repeal personal exemption – instead:
  - Larger standard deduction
  - Expanded child and dependent tax credit
- Expand child and dependent tax credit
  - Child credit $1,500, under age 18
  - $500 for non-child dependents
  - Index for inflation
  - High phase-out range
  - Partially refundable
- Repeal dependent care credit
More - individual

- Consolidate education provisions
  - Keep a reformed American Opportunity Tax Credit
  - Repeal employer-provided educational assistance exclusion
- Repeal most credits
- EITC – modify to refund employment taxes
  - HWM analysis – “Exempting a portion of wages from payroll tax would represent a tax cut, whereas the current EITC constitutes government spending.”
- Charitable contributions
  - Deduct if pay by April 15 of next year
  - Only deduct amount > 2% AGI
  - Donation = to adj basis (not FMV), with exceptions

And more - individual

- Only deduct state and local taxes for carrying on a trade or business or producing income
- No deduction for
  - Personal casualty or theft losses
  - Medical expenses
  - Moving expenses
  - Miscellaneous itemized deductions
  - Alimony (and not taxable to recipient)
Individuals - homes

- Mortgage interest deduction
  - Gradually reduce to AI of $500,000
  - Phase out home equity rule
  - But not for existing debt
  - No deduction for new equity loans

- Gain exclusion on sale of principal residence
  - Own and use 5 of 8 years
  - Use once every 5 years
  - Phase out exclusion if MAGI > $500,000 (MFJ)

Corporate and Individual

AMT repealed

Use MTC over 3 years
TRA 2014 – return due dates

<table>
<thead>
<tr>
<th>Return</th>
<th>Current due dates</th>
<th>Proposed due date</th>
<th>Proposed extended due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1065</td>
<td>April 15/Sept 15</td>
<td>March 15</td>
<td>Sept 15</td>
</tr>
<tr>
<td>1120S</td>
<td>March 15/Sept 15</td>
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<tr>
<td>1120</td>
<td>March 15/Sept 15</td>
<td>April 15</td>
<td>October 15</td>
</tr>
<tr>
<td>FBAR</td>
<td>June 30</td>
<td>April 15</td>
<td>October 15</td>
</tr>
</tbody>
</table>

House Budget Committee support

- The Path to Prosperity – FY2015 Budget Resolution (April 2014)
  - Tax reform goals – to “boost economic growth”:
    - “Simplify the tax code to make it fairer to American families and businesses.
    - Reduce the amount of time and resources necessary to comply with tax laws.
    - Substantially lower tax rates for individuals.
    - Consolidate the current seven tax brackets.
    - Repeal the Alternative Minimum Tax.
    - Reduce the corporate tax rate to 25 percent.
    - Adopt a more competitive system of international taxation.”
Looking beyond 114th Congress

114th Congress
- Republican control

Election November 2016
- Senate – more Republican seats will be up for election than Democrat seats
- Presidential election too!