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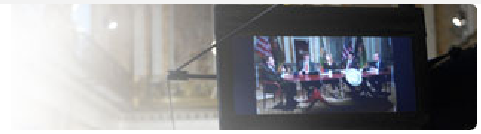

Administration's FY2014 Budget Tax Proposals to Jumpstart Growth, Create Jobs and Improve Opportunity for Middle Class

4/10/2013

View the full Greenbook here

"The President's Budget is based on the conviction that an agreement to put our nation on a sound fiscal course is within our reach and that we can achieve that goal while making targeted investments to strengthen the economic recovery, create jobs and lay the foundation for long-term growth," said Treasury Secretary Jacob J. Lew.

The FY2014 Greenbook Includes Policies to:

- **Jumpstart Growth by:**
  - Providing a 10-percent tax credit for new jobs and payroll increases focused on small business through 2013.
  - Providing tax credits to support domestic clean energy manufacturing.
  - Designating 20 'Promise Zones' to promote job creation and investment in economically distressed areas that have demonstrated potential for future growth and diversification into new industries.

- **Promote Investment in Infrastructure by:**
  - Creating a new permanent America Fast Forward Bond program to help facilitate and reduce the cost of financing new projects for State and local governments.
  - Providing a larger federal subsidy rate for America Fast Forward Bonds for School Construction.
  - Exempting from the application of the Foreign Investment in Real Property Tax Act (FIRPTA) gains of foreign pension funds from the disposition of U.S. real property interests.

- **Provide Permanent Tax Relief for Middle-Class Families by:**
  - Making the American Opportunity Tax Credit permanent, providing a partially refundable tax credit of up to $2,500 per year to help finance up to four years of college.
  - Permanently expanding the Earned Income Tax Credit to support larger families and married couples.
  - Permanently increasing the amount of Child Tax Credit available to low-income families.
  - Increasing the Child and Dependent Care Tax Credit available to many working families.
  - Improving retirement security by providing for automatic enrollment in IRAs.

- **Ask the Most Fortunate to Contribute to Balanced, Credible Deficit Reduction by:**
  - Implementing the Buffett Rule by imposing a new "Fair Share Tax" on high-income taxpayers.
  - Limiting tax expenditures for the affluent by capping itemized deductions and certain other deductions and income exclusions at 28 percent.
  - Restoring the estate, gift, and generation skipping transfer taxes to 2009 levels.
  - Taxing carried interest profits as ordinary income.
  - Eliminating a special depreciation benefit for corporate jets.

- **Level the Playing Field for American Business through Revenue-Neutral Business Tax Reform**
  - **Expand Manufacturing and Support Insourcing Jobs in America**
  - Establishing tax incentives for locating jobs and business activity in the United States and prohibiting tax deductions for shipping jobs overseas.
  - Providing a new manufacturing communities tax credit to encourage investments and job creation.
  - Enhancing the research and experimentation credit and making it permanent.
  - **Tax Relief to Help Small Business Grow and Hire by:**

  - Extend increased expensing for small business.
  - Permanently eliminating the capital gains tax on certain small business investments.
  - Doubling the amount of expensed start-up expenditures.
  - Expanding and simplifying the Small Business Health Care Tax Credit.
  - Excluding certain assets of small taxpayers from the uniform capitalization (UNICAP) rules.

- **Reduce Incentives to Shift Income and Assets Overseas by:**
  - Closing loopholes and ending abuses—like transfer pricing abuses that shift intangible income and assets overseas—to produce $157 billion in savings over the next 10 years.

The President's Fiscal Year 2014 Budget demonstrates his continued commitment to addressing the challenges we face as a nation – building a foundation to promote economic growth while bringing our deficits down to a sustainable level.

The challenges addressed in the President's Budget – strengthening growth now, investing in our future, and putting our nation on a sound fiscal footing – complement and depend on each other. By making investments in our economy today, we will help grow a stronger future and that, in turn, will make our fiscal challenges considerably more manageable. The budget reduces the deficit in a balanced way while protecting the investments that must be made in education, manufacturing, clean energy, infrastructure, and small businesses to grow the economy and create jobs here at home.

Today, the U.S. Department of the Treasury released a key document that points the way toward meeting these challenges – the General Explanations of the Administration's FY2014 Revenue Proposals, or "Greenbook." The Greenbook explains the Administration's revenue proposals included in the Budget that seek to boost near-term growth; promote investment in infrastructure; provide permanent middle-class tax relief; add balance to deficit reduction by asking the most fortunate Americans to contribute; level the playing field through revenue-neutral business tax reform; encourage onshore investments in manufacturing and insourced jobs; cut taxes for small businesses; and limit incentives for shifting income and assets overseas.

The President is committed to working with Congress to reform the U.S. business tax system to enhance American competitiveness, lower rates, broaden the tax base, and level the playing field for companies without losing any revenue. The Budget also contains detailed proposals that will cut the deficit by an additional $1.8 trillion over the next 10 years. These proposals, which build on the $2.5 trillion deficit reduction achieved in the President's first-term will put our debt on a declining path relative to GDP.

JUMPSTART GROWTH

- ***Provide a temporary 10-percent tax credit for new jobs and wage increases***. The Budget proposes to provide a new income tax credit for employers who increase their payroll, whether through job creation, increased wages, or both. The maximum amount of the increase in eligible wages would be $5 million per employer, for a maximum credit of $500,000. Firms with annual wages below $20 million would be eligible for this credit.
- ***Provide temporary tax credits for domestic clean energy manufacturing.*** The President is proposing to extend $2.5 billion in tax credits to support investment in domestic clean energy manufacturing, ensuring new windmills and solar panels will incorporate parts that are produced and assembled by American workers.
- ***Designate 20 'Promise Zones' to promote job creation and investment.*** The Administration proposes to designate 20 Promise Zones (14 in urban areas and 6 in rural areas). Promise Zones would promote job creation and investment in economically distressed areas that have demonstrated potential for future growth and diversification into new industries.

PROMOTE INVESTMENT IN INFRASTRUCTURE

- ***Provide America Fast Forward Bonds***. The Budget proposes to create a new permanent America Fast Forward Bond program, which would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would help facilitate and reduce the cost of financing new projects for State and local governments. America Fast Forward Bonds could finance governmental capital projects, current refundings of prior public capital project financings, short-term governmental working capital financings, and financing for the types of projects and programs that can be financed with qualified private activity bonds (including financing for section 501(c)(3) non-profit entities).
- ***Enhance the Federal Subsidy Rate for America Fast Forward Bonds for School Construction.*** The Budget would temporarily provide a 50 percent Federal subsidy rate for America Fast Forward Bonds issued for original financings of governmental capital projects for public schools and State universities and new money financings for Section 501(c)(3) nonprofit educational entities, such as nonprofit schools and universities that could be financed with qualified 501(c)(3) bonds.
- ***Exempt Foreign Pension Funds from the Application of the Foreign Investment in Real Property Tax Act (FIRPTA).*** Infrastructure assets can be attractive investments for long-term investors such as pension funds that value the long-term, predictable, and stable nature of the cash flows associated with infrastructure. With U.S. pension funds generally exempt from U.S. tax upon the disposition of U.S. real property investments, the Administration proposes to put foreign pension funds on an approximately equal footing: exempting their gains from the disposition of U.S. real property interests, including infrastructure and real estate assets, from U.S. tax under FIRPTA.

PROVIDE PERMANENT TAX RELIEF FOR MIDDLE-CLASS FAMILIES

- ***Make the American Opportunity Tax Credit (AOTC) permanent***. Currently authorized through 2017, the AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education. The Budget proposes to make the AOTC permanent, providing up to $10,000 for a student in their family over four years in college. The credit is expected to help 13 million families with students pay for higher education in 2014.
- ***Expand the Earned Income Tax Credit (EITC) to support working families***. The Budget would make permanent enhancements to the EITC for working families with three or more children and for married couples. These enhancements, which are scheduled to expires after 2017, are expected to benefit 7 million families in 2014.
- ***Expand the Child Tax Credit (CTC).*** The Budget would make permanent an enhancement to the CTC which increases the amount available to very low-income working families. In 2014, 11 million families are expected to benefit from this enhancement to the CTC.
- ***Increase the Child and Dependent Care Tax Credit.*** The Budget would increase the amount of tax credit for families with incomes between $15,000 and $103,000 who pay for child care.
- ***Provide for automatic enrollment in individual retirement accounts (IRAs).*** Only about half of American employees today are covered by a pension plan at work. This proposal will improve retirement security for millions of workers by requiring employers with more than 10 employees, who do not offer a retirement plans, to automatically enroll employees in an IRA. With an automatic IRA, retirement savings are deducted from each paycheck and deposited in the worker's own account. Employers do not make contributions, and employees can opt out of the program at any time. This proposal would provide $18 billion in tax benefits over the next 10 years.

ASK THE MOST FORTUNATE TO CONTRIBUTE TO BALANCED, CREDIBLE DEFICIT REDUCTION

- ***Implement the Buffett Rule by imposing a new "Fair Share Tax."*** The Budget ensures that high-income taxpayers cannot use deductions and low rates on capital gains and dividends to pay a lower effective rate of tax than that faced by many middle-income families. The proposal would require very high-income taxpayers to pay at least 30 percent of their adjusted gross income in income and payroll tax (with a credit for charitable giving). This would raise $53 billion over the next ten years.
- ***Limit certain tax expenditures for the most affluent by capping their value at 28 percent.*** The Budget proposes to limit the tax subsidy for itemized deductions, certain other deductions, and certain income exclusions for high-income families to 28 percent – the same level that was in place at the end of the Reagan Administration. It would raise $529 billion over the next 10 years.
- ***Restore estate tax parameters to 2009 values, after 2017***. The proposal would make permanent the estate, generation-skipping transfer (GST), and gift tax parameters as they applied during 2009, after 2017. The top tax rate would be 45 percent, and the exclusion amount would be $3.5 million for estate and GST taxes, and $1 million for gift taxes. There would be no indexing for inflation. This proposal would raise $72 billion over the next ten years.
- ***Eliminate the carried interest loophole for hedge fund managers and other similar investment service providers***. The Budget proposes to change the tax treatment of carried interests in investment partnerships, which present the greatest opportunity for highly compensated service providers to be taxed on their labor earnings at capital gains rates, which are lower than the tax rates most moderate-income Americans pay on their earnings. Closing this loophole would raise more than $16 billion over the next 10 years.
- ***Eliminate special depreciation rules for purchases of corporate jets and other general aviation passenger aircraft.*** Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Budget proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years. Eliminating this benefit would raise $3 billion over 10 years.

REVENUE-NEUTRAL BUSINESS TAX REFORM

The Budget would level the playing field for American business by implementing the proposals in the President's Framework for Business Tax Reform. Several of these are summarized in the sections below.

These reform proposals include a number of revenue-raising items that serve to broaden the tax base and ensure that business tax reform does not add to the long-term budget deficit.

EXPAND MANUFACTURING AND INSOURCING JOBS IN AMERICA

- ***Provide tax incentives for locating jobs and business activity in the United States and prohibit tax deductions for shipping jobs overseas***. The Budget proposes to create a credit against corporate income tax equal to 20 percent of the expenses paid or incurred in connection with insourcing a U.S. trade or business. The proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business to reduce incentives for U.S. companies to move jobs offshore.
- ***Provide a new "Manufacturing Communities" tax credit***. The Budget proposes to create a new tax credit to encourage investments in communities affected by military base closures, plant closures, and mass layoffs. This proposal would provide about $2 billion in credits for qualified investments approved in each of three years, 2014 through 2016.
- ***Enhance the research and experimentation (R&E) credit and make it permanent***. The Budget proposes to enhance the R&E tax credit by increasing the credit rate for the alternative simplified credit from 14 percent to 17 percent and making the credit permanent to encourage innovation and reward businesses that continue to invest in research projects. Making the credit permanent would remove uncertainty about whether the R&E credit will be extended, giving businesses greater confidence to invest in innovation that creates jobs in the United States. This proposal would provide $99 billion in benefits over 10 years.

TAX RELIEF TO HELP SMALL BUSINESS GROW AND HIRE

- ***Extend increased expensing for small business***. Business taxpayers are allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 through 2013. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $2,000,000. The Budget proposes to permanently extend these expensing limits.
- ***Permanently eliminate capital gains tax on investments in qualified small business stock***. The Budget would make permanent the President's proposal to completely eliminate the capital gains tax for investors in certain qualified small businesses. This provision was enacted as part of the Small Business Jobs Act and was subsequently extended through 2013. Making this provision permanent and making it easier to use by giving investors a longer time to roll over qualified investments and making sure that the income is not subject to the Alternative Minimum Tax would save small business owners $6 billion over the next 10 years.
- ***Double the amount of currently deductible start-up expenditures***. Under current law, a taxpayer generally is allowed to elect to deduct up to $5,000 of start-up expenditures in the year a business begins and to amortize any remaining costs. For 2010 only, the immediately deductible amount was doubled, from $5,000 to $10,000 (reduced by the amount by which the cumulative cost of start-up expenditures exceeds $60,000). The Budget proposes to permanently increase the immediate deduction amount to $10,000. This would save entrepreneurs about $3 billion over the next 10 years.
- ***Expand and simplify the small business health care tax credit.*** The Affordable Care Act created a new tax credit, effective beginning in 2010, that covers up to 35 percent (rising to 50 percent in 2014) of an eligible employer's premium contributions towards their employees' health insurance. The Budget proposes to expand the tax credit to additional employers (including by increasing the eligibility cut-off from 25 to 50 workers), change the phase-out formula so firms that appear eligible will qualify for some credit, and simplify the calculation of the credit (by removing a requirement that an eligible employer pay a uniform percentage of the premium for each employee and also eliminating a cap on the credit based on the average health insurance premium in the employer's state). This would provide an additional $10 billion in tax relief to small business owners over the next 10 years.
- ***Exclude certain assets of small taxpayers from the uniform capitalization (UNICAP) rules.*** Under the UNICAP rules, taxpayers that produce property or acquire property for resale are required to capitalize direct and indirect costs to the property produced or acquired. Compliance with this requirement is burdensome for taxpayers that are not otherwise subject to the rules as producers or resellers of inventory (i.e., for self-constructed assets). The Budget proposes to exclude these small business taxpayers from the UNICAP rules, which would relieve compliance burden for both taxpayers and tax administrators.

REDUCE INCENTIVES TO SHIFT INCOME AND ASSETS OVERSEAS

- ***Combat transfer pricing abuses***. President Obama is committed to rolling back incentives to shift income and assets overseas. A prime example is "transfer pricing" abuse – when multinational corporations effectively transfer intangible assets like copyrights and trademarks to subsidiaries in low-tax jurisdictions at artificially low prices. Transfer pricing abuse shifts profits overseas while avoiding the taxes they would pay on a fairly priced transaction. Under the Budget proposal, excessive profits related to the offshore use of transferred intangibles would be taxable in the United States, thus restricting the tax incentive to engage in transfer pricing abuses. This proposal, along with a related proposal to clarify the definition of intangible assets, would raise more than $26 billion over the next 10 years.
- ***Other reforms to reduce incentives to shift income and assets overseas***. In addition to transfer pricing reform, the Budget includes a broader package of international tax reforms that have been designed to reduce incentives to shift income and assets overseas. For example, U.S. businesses that borrow money and invest it overseas can claim the interest they pay as a business expense and take an immediate deduction to reduce their U.S. taxes under current law, even if they pay little or no U.S. taxes on their overseas investment. The Budget would eliminate this tax advantage for overseas investment by requiring that the deduction for the interest expense attributable to overseas investment be delayed, saving $37 billion over the next 10 years.
- ***Total Effect***. Overall, the Budget's proposals to reform international tax rules will raise $157 billion over the next 10 years.

OTHER INITIATIVES

- ***Increase tobacco taxes and index to inflation***. The proposal would increase the tax on cigarettes from just under $1.01 per pack to about $1.95 per pack and increase all other excise taxes on tobacco products by roughly the same proportion beginning in 2014. Excise tax rates would be increased for inflation annually. The proposal would raise $78 billion over ten years, which the Administration would use to pay for high-quality early education.
- ***Addressing Taxpayer Identity Theft***. The Budget makes four separate proposals to reduce the likelihood of taxpayer identity theft and to increase penalties on those who engage in it. These initiatives will help the Internal Revenue Service continue to increase their efforts to curtail identity theft and provide taxpayers with quality, effective service while safeguarding taxpayer information.

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