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General Explanations  
of the  
Administration's Fiscal Year 2016  
Revenue Proposals

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Department of the Treasury  
February 2015

## **TAX GAIN FROM THE SALE OF A PARTNERSHIP INTEREST ON LOOK-THROUGH BASIS**

### **Current Law**

In general, the sale or exchange of a partnership interest is treated as the sale or exchange of a capital asset. Capital gains of a nonresident alien individual or foreign corporation generally are subject to Federal income tax only if the gains are or are treated as income that is effectively connected with the conduct of a trade or business in the United States (Effectively Connected Income (ECI)). Section 875(1) provides that a nonresident alien individual or foreign corporation shall be considered as being engaged in a trade or business within the United States if the partnership of which such individual or corporation is a member is so engaged. Revenue Ruling 91-32 holds that gain or loss of a nonresident alien individual or foreign corporation from the sale or exchange of a partnership interest is effectively connected with the conduct of a trade or business in the United States to the extent of the partner's distributive share of unrealized gain or loss of the partnership that is attributable to property used or held for use in the partnership's trade or business within the United States (ECI property). A partnership may elect under section 754 to adjust the basis of its assets upon the transfer of an interest in the partnership to reflect the transferee partner's basis in the partnership interest.

### **Reasons for Change**

Nonresident alien individuals and foreign corporations may take a position contrary to the holding of Revenue Ruling 91-32, arguing that gain from the sale of a partnership interest is not subject to Federal income taxation because no Code provision explicitly provides that gain from the sale or exchange of a partnership interest by a nonresident alien individual or foreign corporation is treated as ECI. If the partnership has in effect an election under section 754, the partnership's basis in its assets also is increased, thereby preventing that gain from being taxed in the future.

### **Proposal**

The proposal would provide that gain or loss from the sale or exchange of a partnership interest is effectively connected with the conduct of a trade or business in the United States to the extent attributable to the transferor partner's distributive share of the partnership's unrealized gain or loss that is attributable to ECI property. The Secretary would be granted authority to specify the extent to which a distribution from the partnership is treated as a sale or exchange of an interest in the partnership and to coordinate the new provision with the nonrecognition provisions of the Code.

In addition, the transferee of a partnership interest would be required to withhold 10 percent of the amount realized on the sale or exchange of a partnership interest unless the transferor certified that the transferor was not a nonresident alien individual or foreign corporation. If a transferor provided a certificate from the IRS that established that the transferor's Federal income tax liability with respect to the transfer was less than 10 percent of the amount realized, the transferee would withhold such lesser amount. If the transferee failed to withhold the correct

## **ELIMINATE FOSSIL FUEL TAX PREFERENCES**

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#### **Current Law**

Current law provides a number of credits, deductions and other special provisions that are targeted towards oil, gas and coal production. The following tax preferences are currently available for oil and natural gas activities:

#### **Enhanced oil recovery credit**

The general business credit includes a 15-percent credit for eligible costs attributable to enhanced oil recovery (EOR) projects. If the credit is claimed with respect to eligible costs, the taxpayer's deduction (or basis increase) with respect to those costs is reduced by the amount of the credit. Eligible costs include the cost of constructing a gas treatment plant to prepare Alaska natural gas for pipeline transportation and any of the following costs with respect to a qualified EOR project: (1) the cost of depreciable or amortizable tangible property that is an integral part of the project; (2) intangible drilling and development costs (IDCs) that the taxpayer can elect to deduct; and (3) deductible tertiary injectant costs. A qualified EOR project must be located in the United States and must involve the application of one or more of nine listed tertiary recovery methods that can reasonably be expected to result in more than an insignificant increase in the amount of crude oil which ultimately will be recovered. The allowable credit is phased out over a \$6 range for a taxable year if the annual average unregulated wellhead price per barrel of domestic crude oil during the calendar year preceding the calendar year in which the taxable year begins (the reference price) exceeds an inflation adjusted threshold. The credit was completely phased out for taxable years beginning in 2011, because the reference price (\$74.71) exceeded the inflation adjusted threshold (\$42.91) by more than \$6.

#### **Credit for oil and natural gas produced from marginal wells**

The general business credit includes a credit for crude oil and natural gas produced from marginal wells. The credit rate is \$3.00 per barrel of oil and 50 cents per 1,000 cubic feet of natural gas for taxable years beginning in 2005 and is adjusted for inflation in taxable years beginning after 2005. The credit is available for production from wells that produce oil and natural gas qualifying as marginal production for purposes of the percentage depletion rules or that have average daily production of not more than 25 barrel-of-oil equivalents and produce at least 95 percent water. The credit per well is limited to 1,095 barrels of oil or barrel-of-oil equivalents per year. The credit rate for crude oil is phased out for a taxable year if the annual average unregulated wellhead price per barrel of domestic crude oil during the calendar year preceding the calendar year in which the taxable year begins (the reference price) exceeds the applicable threshold. The phase-out range and the applicable threshold at which phase-out begins are \$3.00 and \$15.00 for taxable years beginning in 2005 and are adjusted for inflation in taxable years beginning after 2005. The credit rate for natural gas is similarly phased out for a taxable year if the annual average wellhead price for domestic natural gas exceeds the applicable threshold. The phase-out range and the applicable threshold at which phase-out begins are 33

cents and \$1.67 for taxable years beginning in 2005 and are adjusted for inflation in taxable years beginning after 2005. The credit has been completely phased out for all taxable years since its enactment. Unlike other components of the general business credit, which can be carried back only one year, the marginal well credit can be carried back up to five years. In general, costs that benefit future periods must be capitalized and recovered over such periods for income tax purposes, rather than being expensed in the period the costs are incurred. In addition, the uniform capitalization rules require certain direct and indirect costs allocable to property to be included in inventory or capitalized as part of the basis of such property. In general, the uniform capitalization rules apply to real and tangible personal property produced by the taxpayer or acquired for resale.

### Expensing of intangible drilling costs

Special rules apply to intangible drilling costs (IDCs). IDCs include all expenditures made by an operator (i.e., a person who holds a working or operating interest in any tract or parcel of land either as a fee owner or under a lease or any other form of contract granting working or operating rights) for wages, fuel, repairs, hauling, supplies, and other expenses incident to and necessary for the drilling of wells and the preparation of wells for the production of oil and natural gas. In addition, IDCs include the cost to operators of any drilling or development work (excluding amounts payable only out of production or gross or net proceeds from production, if the amounts are depletable income to the recipient, and amounts properly allocable to the cost of depreciable property) done by contractors under any form of contract (including a turnkey contract). IDCs include amounts paid for labor, fuel, repairs, hauling, and supplies which are used in the drilling, shooting, and cleaning of wells; in such clearing of ground, draining, road making, surveying, and geological works as are necessary in preparation for the drilling of wells; and in the construction of such derricks, tanks, pipelines, and other physical structures as are necessary for the drilling of wells and the preparation of wells for the production of oil and natural gas. Generally, IDCs do not include expenses for items which have a salvage value (such as pipes and casings) or items which are part of the acquisition price of an interest in the property. Under the special rules applicable to IDCs, an operator who pays or incurs IDCs in the development of an oil or natural gas property located in the United States may elect either to expense or capitalize those costs. The uniform capitalization rules do not apply to otherwise deductible IDCs. If a taxpayer elects to expense IDCs, the amount of the IDCs is deductible as an expense in the taxable year the cost is paid or incurred. Generally, IDCs that a taxpayer elects to capitalize may be recovered through depletion or depreciation, as appropriate; or in the case of a nonproductive well (“dry hole”), the operator may elect to deduct the costs. In the case of an integrated oil company (i.e., a company that engages, either directly or through a related enterprise, in substantial retailing or refining activities) that has elected to expense IDCs, 30 percent of the IDCs on productive wells must be capitalized and amortized over a 60-month period. A taxpayer that has elected to deduct IDCs may, nevertheless, elect to capitalize and amortize certain IDCs over a 60-month period beginning with the month the expenditure was paid or incurred. This rule applies on an expenditure-by-expenditure basis; that is, for any particular taxable year, a taxpayer may deduct some portion of its IDCs and capitalize the rest under this provision. This allows the taxpayer to reduce or eliminate IDC adjustments or preferences under the alternative minimum tax. The election to deduct IDCs applies only to those IDCs associated with domestic properties. For this purpose, the United States includes certain wells drilled offshore.

### Deduction of costs paid or incurred for any tertiary injectant used as part of tertiary recovery method

Taxpayers are allowed to deduct the cost of qualified tertiary injectant expenses for the taxable year. Qualified tertiary injectant expenses are amounts paid or incurred for any tertiary injectants (other than recoverable hydrocarbon injectants) that are used as a part of a tertiary recovery method to increase the recovery of crude oil. The deduction is treated as an amortization deduction in determining the amount subject to recapture upon disposition of the property.

### Exception to passive loss limitations provided to working interests in oil and natural gas properties

The passive loss rules limit deductions and credits from passive trade or business activities. Deductions attributable to passive activities, to the extent they exceed income from passive activities, generally may not be deducted against other income, such as wages, portfolio income, or business income that is not derived from a passive activity. A similar rule applies to credits. Suspended deductions and credits are carried forward and treated as deductions and credits from passive activities in the next year. The suspended losses and credits from a passive activity are allowed in full when the taxpayer completely disposes of the activity. Passive activities are defined to include trade or business activities in which the taxpayer does not materially participate. An exception is provided, however, for any working interest in an oil or natural gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest.

### Use of percentage depletion with respect to oil and natural gas wells

The capital costs of oil and natural gas wells are recovered through the depletion deduction. Under the cost depletion method, the basis recovery for a taxable year is proportional to the exhaustion of the property during the year. This method does not permit cost recovery deductions that exceed basis or that are allowable on an accelerated basis. A taxpayer may also qualify for percentage depletion with respect to oil and natural gas properties. The amount of the deduction is a statutory percentage of the gross income from the property. For oil and natural gas properties, the percentage ranges from 15 to 25 percent and the deduction may not exceed 100 percent of the taxable income from the property (determined before the deductions for depletion and domestic manufacturing). In addition, the percentage depletion deduction for oil and natural gas properties may not exceed 65 percent of the taxpayer's overall taxable income (determined before the deduction for depletion and with certain other adjustments). Other limitations and special rules apply to the percentage depletion deduction for oil and natural gas properties. In general, only independent producers and royalty owners (in contrast to integrated oil companies) qualify for the percentage depletion deduction. In addition, oil and natural gas producers may claim percentage depletion only with respect to up to 1,000 barrels of average daily production of domestic crude oil or an equivalent amount of domestic natural gas (applied on a combined basis in the case of taxpayers that produce both). This quantity limitation is allocated, at the taxpayer's election, between oil production and natural gas production and then further allocated within each class among the taxpayer's properties. Special rules apply to oil

and natural gas production from marginal wells (generally, wells for which the average daily production is less than 15 barrels of oil or barrel-of-oil equivalents or that produce only heavy oil). Only marginal well production can qualify for percentage depletion at a rate of more than 15 percent. The rate is increased in a taxable year that begins in a calendar year following a calendar year during which the annual average unregulated wellhead price per barrel of domestic crude oil is less than \$20. The increase is one percentage point for each whole dollar of difference between the two amounts. In addition, marginal wells are exempt from the 100-percent-of-net-income limitation described above in taxable years beginning during the period 1998-2007 and in taxable years beginning during the period 2009-2011. Unless the taxpayer elects otherwise, marginal well production is given priority over other production in applying the 1,000-barrel limitation on percentage depletion. A qualifying taxpayer determines the depletion deduction for each oil and natural gas property under both the percentage depletion method and the cost depletion method and deducts the larger of the two amounts. Because percentage depletion is computed without regard to the taxpayer's basis in the depletable property, a taxpayer may continue to claim percentage depletion after all the expenditures incurred to acquire and develop the property have been recovered.

#### Use of the domestic production manufacturing deduction

A deduction is allowed with respect to income attributable to domestic production activities (the manufacturing deduction). For taxable years beginning after 2009, the manufacturing deduction is generally equal to nine percent of the lesser of qualified production activities income for the taxable year or taxable income for the taxable year, limited to 50 percent of the W-2 wages of the taxpayer for the taxable year. The deduction for income from oil and natural gas production activities is computed at a six-percent rate. Qualified production activities income is generally calculated as a taxpayer's domestic production gross receipts (i.e., the gross receipts derived from any lease, rental, license, sale, exchange, or other disposition of qualifying production property manufactured, produced, grown, or extracted by the taxpayer in whole or significant part within the United States; any qualified film produced by the taxpayer; or electricity, natural gas, or potable water produced by the taxpayer in the United States) minus the cost of goods sold and other expenses, losses, or deductions attributable to such receipts. The manufacturing deduction generally is available to all taxpayers that generate qualified production activities income, which under current law includes income from the sale, exchange or disposition of oil, natural gas or primary products thereof produced in the United States.

#### 2-year amortization of independent producers' geological and geophysical expenditures

Geological and geophysical expenditures are costs incurred for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties. The amortization period for geological and geophysical expenditures incurred in connection with oil and natural gas exploration in the United States is two years for independent producers and seven years for integrated oil and natural gas producers.

## Expensing of exploration and development costs

In general, costs that benefit future periods must be capitalized and recovered over such periods for income tax purposes, rather than being expensed in the period the costs are incurred. In addition, the uniform capitalization rules require certain direct and indirect costs allocable to property to be included in inventory or capitalized as part of the basis of such property. In general, the uniform capitalization rules apply to real and tangible personal property produced by the taxpayer or acquired for resale. Special rules apply in the case of mining exploration and development expenditures. A taxpayer may elect to expense the exploration costs incurred for the purpose of ascertaining the existence, location, extent, or quality of an ore or mineral deposit, including a deposit of coal or other hard mineral fossil fuel. Exploration costs that are expensed are recaptured when the mine reaches the producing stage either by a reduction in depletion deductions or, at the election of the taxpayer, by an inclusion in income in the year in which the mine reaches the producing stage. After the existence of a commercially marketable deposit has been disclosed, costs incurred for the development of a mine to exploit the deposit are deductible in the year paid or incurred unless the taxpayer elects to deduct the costs on a ratable basis as the minerals or ores produced from the deposit are sold. In the case of a corporation that elects to deduct exploration costs in the year paid or incurred, 30 percent of the otherwise deductible costs must be capitalized and amortized over a 60-month period. In addition, a taxpayer that has elected to deduct exploration costs may, nevertheless, elect to capitalize and amortize those costs over a 10-year period. This rule applies on an expenditure-by-expenditure basis; that is, for any particular taxable year, a taxpayer may deduct some portion of its exploration costs and capitalize the rest under this provision. This allows the taxpayer to reduce or eliminate adjustments or preferences for exploration costs under the alternative minimum tax. Similar rules limiting corporate deductions and providing for 60- month and 10-year amortization apply with respect to mine development costs. The election to deduct exploration costs and the rule making development costs deductible in the year paid or incurred apply only with respect to domestic ore and mineral deposits.

## Percentage depletion for hard mineral fossil fuels

The capital costs of coal mines and other hard-mineral fossil-fuel properties are recovered through the depletion deduction. Under the cost depletion method, the basis recovery for a taxable year is proportional to the exhaustion of the property during the year. This method does not permit cost recovery deductions that exceed basis or that are allowable on an accelerated basis. A taxpayer may also qualify for percentage depletion with respect to coal and other hard-mineral fossil-fuel properties. The amount of the deduction is a statutory percentage of the gross income from the property. The percentage is 10 percent for coal and lignite and 15 percent for oil shale (other than oil shale to which a 7½-percent depletion rate applies because it is used for certain nonfuel purposes). The deduction may not exceed 50 percent of the taxable income from the property (determined before the deductions for depletion and domestic manufacturing). A qualifying taxpayer determines the depletion deduction for each property under both the percentage depletion method and the cost depletion method and deducts the larger of the two amounts. Because percentage depletion is computed without regard to the taxpayer's basis in the depletable property, a taxpayer may continue to claim percentage depletion after all the expenditures incurred to acquire and develop the property have been recovered.

### Capital gains treatment for royalties

Royalties received on the disposition of coal or lignite generally qualify for treatment as long-term capital gain, and the royalty owner does not qualify for percentage depletion with respect to the coal or lignite. This treatment does not apply unless the taxpayer has been the owner of the mineral in place for at least one year before it is mined. The treatment also does not apply to income realized as a co-adventurer, partner, or principal in the mining of the mineral or to certain related-party transactions.

### Use of the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels

A deduction is allowed with respect to income attributable to domestic production activities (the manufacturing deduction). For taxable years beginning after 2009, the manufacturing deduction is generally equal to nine percent of the lesser of qualified production activities income for the taxable year or taxable income for the taxable year, limited to 50 percent of the W-2 wages of the taxpayer for the taxable year. Qualified production activities income is generally calculated as a taxpayer's domestic production gross receipts (i.e., the gross receipts derived from any lease, rental, license, sale, exchange, or other disposition of qualifying production property manufactured, produced, grown, or extracted by the taxpayer in whole or significant part within the United States; any qualified film produced by the taxpayer; or electricity, natural gas, or potable water produced by the taxpayer in the United States) minus the cost of goods sold and other expenses, losses, or deductions attributable to such receipts. The manufacturing deduction generally is available to all taxpayers that generate qualified production activities income, which under current law includes income from the sale, exchange or disposition of coal, other hard-mineral fossil fuels, or primary products thereof produced in the United States.

### Exemption from the corporate income tax for fossil fuel publicly traded partnerships

Publicly traded partnerships are generally subject to the corporate income tax. Partnerships that derive at least 90 percent of their gross income from depletable natural resources, real estate, or commodities are exempt from the corporate income tax. Instead they are taxed as partnerships. They pass through all income, gains, losses, deductions, and credits to their partners, with the partners then being liable for income tax (or benefitting from the losses) on their distributive shares.

### Reasons for Change

The President agreed at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels. The oil, gas, and coal tax preferences the Administration proposes to repeal distort markets by encouraging more investment in the fossil fuel sector than would occur under a neutral system. This market distortion is detrimental to long-term energy security and is also inconsistent with the Administration's policy of supporting a clean energy economy, reducing our reliance on oil, and reducing greenhouse gas emissions. Moreover, the subsidies for oil, natural gas, and coal must ultimately be financed with taxes that cause further economic distortions including underinvestment in other, potentially more productive, areas of the economy.



## Proposal

The proposal would repeal: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and gas; (8) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the seven-year period used by integrated oil and gas producers; (9) expensing of exploration and development costs; (10) percentage depletion for hard mineral fossil fuels; (11) capital gains treatment for royalties; (12) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels; and (13) the exemption from the corporate income tax for publicly traded partnerships with qualifying income and gains from activities relating to fossil fuels.

Proposal parts (1) – (12) would be effective for production or for costs incurred after December 31, 2015, and, in the case of royalties, for amounts realized after taxable years beginning December 31, 2015. Proposal part (13), taxing fossil fuel publicly traded partnerships as C corporations, would be effective after December 31, 2020.

## **EXPAND THE DEFINITION OF SUBSTANTIAL BUILT-IN LOSS FOR PURPOSES OF PARTNERSHIP LOSS TRANSFERS**

### **Current Law**

Under section 743(b), a partnership does not adjust the basis of partnership property following the transfer of a partnership interest unless the partnership has made an election under section 754 to make basis adjustments or the partnership has a substantial built-in loss. If an election is in effect or the partnership has a substantial built-in loss, adjustments are made with respect to the transferee partner to account for the difference between the transferee partner's proportionate share of the adjusted basis of the partnership property and the transferee's basis in its partnership interest. These adjustments are intended to adjust the basis of partnership property to approximate the result of a direct purchase of the property by the transferee partner.

Prior to 2004, section 743(b) applied only if the partnership made an election under section 754. To prevent the duplication of losses, Congress amended section 743 to mandate section 743(b) adjustments if the partnership had a substantial built-in loss in its assets. Section 743(d) defines a substantial built-in loss by reference to the partnership's adjusted basis – that is, there is a substantial built-in loss if the partnership's adjusted basis in its assets exceeds by more than \$250,000 the fair market value of such property.

### **Reasons for Change**

Although the 2004 amendments to section 743 prevent the duplication of losses where the partnership has a substantial built-in loss in its assets, it does not prevent the duplication of losses where the transferee partner would be allocated a net loss in excess of \$250,000 if the partnership sold all of its assets in a fully taxable transaction for fair market value, but the partnership itself does not have a substantial built-in loss in its assets.

### **Proposal**

The proposal would amend section 743(d) to also measure a substantial built-in loss by reference to whether the transferee would be allocated a net loss in excess of \$250,000 upon a hypothetical disposition by the partnership of all of the partnership's assets, immediately after the transfer of the partnership interest, in a full taxable transaction for cash equal to the fair market value of the assets.

The proposal would apply to sales or exchanges after the date of enactment.

## **EXTEND PARTNERSHIP BASIS LIMITATION RULES TO NONDEDUCTIBLE EXPENDITURES**

### **Current Law**

Section 704(d) provides that a partner's distributive share of loss is allowed only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such loss occurred. Any excess is allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in its partnership interest to take the deductions. Section 704(d) does not apply to partnership expenditures not deductible in computing partnership taxable income and not properly chargeable to capital account.

### **Reasons for Change**

Even though a partner's distributive share of nondeductible expenditures reduces the partner's basis in its partnership interest, such items are not subject to section 704(d), and the partner may deduct or credit them currently even if the partner's basis in its partnership interest is zero.

### **Proposal**

The proposal would amend section 704(d) to allow a partner's distributive share of expenditures not deductible in computing the partnership's taxable income and not properly chargeable to capital account only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such expenditure occurred.

The proposal would apply to a partnership's taxable year beginning on or after the date of enactment.

## **TAX CARRIED (PROFITS) INTERESTS AS ORDINARY INCOME**

### **Current Law**

A partnership is not subject to Federal income tax. Instead, an item of income or loss of the partnership retains its character and flows through to the partners, who must include such item on their tax returns. Generally, certain partners receive partnership interests in exchange for contributions of cash and/or property, while certain partners (not necessarily other partners) receive partnership interests, typically interests in future profits (“profits interests” or “carried interests”), in exchange for services. Accordingly, if and to the extent a partnership recognizes long-term capital gain, the partners, including partners who provide services, will reflect their shares of such gain on their tax returns as long-term capital gain. If the partner is an individual, such gain would be taxed at the reduced rates for long-term capital gains. Gain recognized on the sale of a partnership interest, whether it was received in exchange for property, cash, or services, is generally treated as capital gain.

Under current law, income attributable to a profits interest of a general partner is generally subject to self-employment tax, except to the extent the partnership generates types of income that are excluded from self-employment taxes, e.g., capital gains, certain interest, and dividends.

### **Reasons for Change**

Although profits interests are structured as partnership interests, the income allocable to such interests is received in connection with the performance of services. A service provider’s share of the income of a partnership attributable to a carried interest should be taxed as ordinary income and subject to self-employment tax because such income is derived from the performance of services. By allowing service partners to receive capital gains treatment on labor income without limit, the current system creates an unfair and inefficient tax preference. The recent explosion of activity among large private equity firms and hedge funds has increased the breadth and cost of this tax preference, with some of the highest-income Americans benefiting from the preferential treatment.

### **Proposal**

The proposal would tax as ordinary income a partner’s share of income on an “investment services partnership interest” (ISPI) in an investment partnership, regardless of the character of the income at the partnership level. Accordingly, such income would not be eligible for the reduced rates that apply to long-term capital gains. In addition, the proposal would require the partner to pay self-employment taxes on such income. In order to prevent income derived from labor services from avoiding taxation at ordinary income rates, this proposal assumes that the gain recognized on the sale of an ISPI would generally be taxed as ordinary income, not as capital gain. To ensure more consistent treatment with the sales of other types of businesses, the Administration remains committed to working with the Congress to develop mechanisms to assure the proper amount of income recharacterization where the business has goodwill or other assets unrelated to the services of the ISPI holder.

An ISPI is a carried interest in an investment partnership that is held by a person who provides services to the partnership. A partnership is an investment partnership if substantially all of its assets are investment-type assets (certain securities, real estate, interests in partnerships, commodities, cash or cash equivalents, or derivative contracts with respect to those assets), but only if over half of the partnership's contributed capital is from partners in whose hands the interests constitute property not held in connection with a trade or business. To the extent (1) the partner who holds an ISPI contributes "invested capital" (which is generally money or other property) to the partnership, and (2) such partner's invested capital is a qualified capital interest (which generally requires that (a) the partnership allocations to the invested capital be in a same manner as allocations to other capital interests held by partners who do not hold an ISPI and (b) the allocations to these non-ISPI holders are significant), income attributable to the invested capital would not be recharacterized. Similarly, the portion of any gain recognized on the sale of an ISPI that is attributable to the invested capital would be treated as capital gain. However, "invested capital" will not include contributed capital that is attributable to the proceeds of any loan or other advance made or guaranteed by any partner or the partnership.

Also, any person who performs services for an entity and holds a "disqualified interest" in the entity is subject to tax at rates applicable to ordinary income on any income or gain received with respect to the interest. A "disqualified interest" is defined as convertible or contingent debt, an option, or any derivative instrument with respect to the entity (but does not include a partnership interest, stock in certain taxable corporations, or stock in an S corporation). This is an anti-abuse rule designed to prevent the avoidance of the proposal through the use of compensatory arrangements other than partnership interests. Other anti-abuse rules may be necessary.

The proposal is not intended to adversely affect qualification of a real estate investment trust owning a carried interest in a real estate partnership.

The proposal would be effective for taxable years ending after December 31, 2015.

## **REPEAL TECHNICAL TERMINATIONS OF PARTNERSHIPS**

### **Current Law**

Under section 707(b)(1)(B) of the Code, if within a 12-month period, there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits, the partnership is treated as having terminated for U.S. Federal income tax purposes.

### **Reasons for Change**

A termination of this kind is commonly referred to as a “technical termination” because the termination occurs solely for U.S. Federal income tax purposes, even though the entity continues to exist for local law purposes and the business of the partnership continues. Even though the business of the partnership continues in the same legal form, several unanticipated consequences occur as a result of a technical termination, including, among other things, the restart of section 168 depreciation lives, the close of the partnership’s taxable year, and the loss of all partnership level elections. Accordingly, this rule currently serves as a trap for the unwary taxpayer or as an affirmative planning tool for the savvy taxpayer.

### **Proposal**

The proposal would repeal section 708(b)(1)(B) effective for transfers after December 31, 2015.

**REVENUE ESTIMATES OF THE  
ADMINISTRATION'S FISCAL YEAR 2017 REVENUE PROPOSALS 1/ 2/**  
(fiscal years, in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
<b>ELEMENTS OF BUSINESS TAX REFORM</b>													
<b>Reform the U.S. international tax system:</b>													
Restrict deductions for excessive interest of members of financial reporting groups .....	0	2,822	4,986	5,485	6,033	6,637	7,300	8,030	8,833	9,717	10,688	25,963	70,531
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas .....	0	-11	-18	-20	-20	-21	-22	-23	-24	-26	-26	-90	-211
Repeal delay in the implementation of worldwide interest allocation .....	0	-1,406	-2,400	-2,496	-2,596	-1,055	0	0	0	0	0	-9,953	-9,953
Impose a 19-percent minimum tax on foreign income .....	0	24,201	38,418	35,969	33,192	32,831	34,211	35,651	37,117	38,635	40,166	164,611	350,391
Impose a 14-percent one-time tax on previously untaxed foreign income .....	Revenue reported after elements of business tax reform												
Limit shifting of income through intangible property transfers .....	0	88	167	201	237	275	315	361	413	473	542	968	3,072
Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates .....	0	411	657	697	731	771	815	848	882	918	958	3,267	7,688
Modify tax rules for dual capacity taxpayers .....	0	465	814	878	930	970	992	1,032	1,074	1,121	1,359	4,057	9,635
Tax gain from the sale of a partnership interest on look-through basis .....	0	146	251	264	277	291	305	321	337	354	371	1,229	2,917
Modify sections 338(h)(16) and 902 to limit credits when non-double taxation exists:													
Extend section 338(h)(16) to certain asset acquisitions .....	0	42	70	70	70	70	70	70	70	70	70	322	672
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated .....	0	17	32	35	35	35	35	35	36	36	37	154	333
Subtotal, modify sections 338(h)(16) and 902 to limit credits when non-double taxation exists .....	0	59	102	105	105	105	105	105	106	106	107	476	1,005
Close loopholes under subpart F:													
Create a new category of subpart F income for transactions involving digital goods or services .....	0	459	787	827	868	912	957	1,005	1,055	1,108	1,163	3,853	9,141
Expand foreign base company sales income to include manufacturing service arrangements .....	0	968	1,662	1,745	1,832	1,924	2,020	2,121	2,227	2,338	2,455	8,131	19,292
Amend controlled foreign corporation attribution rules .....	0	30	83	141	205	275	351	435	525	624	731	734	3,400
Eliminate the 30-day grace period before subpart F inclusions .....	0	60	103	108	114	119	125	131	138	145	152	504	1,195
Subtotal, close loopholes under subpart F .....	0	1,517	2,635	2,821	3,019	3,230	3,453	3,692	3,945	4,215	4,501	13,222	33,028
Restrict the use of hybrid arrangements that create stateless income:													
Restrict the use of hybrid arrangements that create stateless income .....	0	45	80	88	97	107	117	129	142	156	172	417	1,133
Limit the application of exceptions under subpart F for certain transactions that use reverse hybrids to create stateless income .....	0	70	121	127	133	140	147	154	162	170	178	591	1,402
Subtotal, restrict the use of hybrid arrangements that create stateless income .....	0	115	201	215	230	247	264	283	304	326	350	1,008	2,535
Limit the ability of domestic entities to expatriate .....	0	118	327	556	807	1,083	1,383	1,711	2,068	2,457	2,880	2,891	13,390
<b>Subtotal, reform the U.S. international tax system .....</b>	<b>0</b>	<b>28,525</b>	<b>46,140</b>	<b>44,675</b>	<b>42,945</b>	<b>45,364</b>	<b>49,121</b>	<b>52,011</b>	<b>55,055</b>	<b>58,296</b>	<b>61,896</b>	<b>207,649</b>	<b>484,028</b>
<b>Simplification and tax relief for small business:</b>													
Expand expensing for small business .....	0	-2,101	-2,863	-2,072	-1,625	-1,335	-1,132	-1,009	-961	-971	-997	-9,996	-15,066
Expand simplified accounting for small business and establish a uniform definition of small business for accounting methods .....	0	-6,248	-4,874	-2,819	-1,975	-1,814	-1,745	-1,724	-1,819	-1,839	-1,845	-17,730	-26,702
Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures .....	0	-490	-484	-477	-473	-471	-469	-465	-461	-456	-452	-2,395	-4,698
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance 3/ .....	-10	-170	-163	-146	-131	-100	-118	-80	-60	-27	-14	-710	-1,009
<b>Subtotal, simplification and tax relief for small business .....</b>	<b>-10</b>	<b>-9,009</b>	<b>-8,384</b>	<b>-5,514</b>	<b>-4,204</b>	<b>-3,720</b>	<b>-3,464</b>	<b>-3,278</b>	<b>-3,301</b>	<b>-3,293</b>	<b>-3,308</b>	<b>-30,831</b>	<b>-47,475</b>
<b>Incentives for job creation, manufacturing, research, and clean energy:</b>													
Enhance and simplify research incentives .....	0	-959	-1,896	-2,154	-2,409	-2,660	-2,913	-3,166	-3,426	-3,690	-3,964	-10,078	-27,237
Extend and modify certain employment tax credits, including incentives for hiring veterans .....	0	-2	-7	-9	-511	-1,062	-1,194	-1,308	-1,406	-1,492	-1,573	-1,591	-8,564
Provide new Manufacturing Communities tax credit .....	0	-97	-277	-483	-619	-693	-751	-788	-677	-417	-107	-2,169	-4,909

**REVENUE ESTIMATES OF THE  
ADMINISTRATION'S FISCAL YEAR 2017 REVENUE PROPOSALS 1/ 2/ -- continued**  
(fiscal years, in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Provide Community College Partnership tax credit .....	0	-109	-277	-380	-406	-405	-273	-124	-96	-79	-64	-1,577	-2,213
Designate Promise Zones 3/ .....	0	-301	-610	-681	-829	-902	-836	-786	-752	-730	-723	-3,323	-7,150
Modify and permanently extend renewable electricity production tax credit and investment tax credit 3/ .....	0	-122	-230	-345	-587	-1,041	-1,359	-1,633	-3,990	-6,549	-8,287	-2,325	-24,143
Modify and permanently extend the deduction for energy-efficient commercial building property .....	0	-159	-268	-281	-285	-283	-279	-277	-273	-270	-272	-1,276	-2,647
Provide a carbon dioxide investment and sequestration tax credit 3/ .....	0	-9	-34	-47	-48	-388	-709	-409	-791	-677	-338	-526	-3,450
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project .....	0	-74	-194	-1,118	-787	-111	-4	34	28	14	3	-2,284	-2,209
Extend the tax credit for second generation biofuel production .....	0	-87	-157	-172	-175	-175	-175	-153	-118	-83	-48	-766	-1,343
Provide a tax credit for the production of advanced technology vehicles .....	0	-505	-503	-497	-469	-386	-220	-83	161	296	267	-2,360	-1,939
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles .....	0	-44	-78	-85	-89	-93	-61	-15	0	0	0	-389	-465
Modify and extend the tax credit for the construction of energy-efficient new homes .....	0	-82	-182	-238	-268	-288	-306	-323	-351	-382	-405	-1,058	-2,825
<b>Subtotal, incentives for job creation, manufacturing, research, and clean energy .....</b>	<b>0</b>	<b>-2,550</b>	<b>-4,713</b>	<b>-6,490</b>	<b>-7,482</b>	<b>-8,487</b>	<b>-9,080</b>	<b>-9,031</b>	<b>-11,691</b>	<b>-14,059</b>	<b>-15,511</b>	<b>-29,722</b>	<b>-89,094</b>
<b>Incentives to promote regional growth:</b>													
Modify and permanently extend the New Markets Tax Credit .....	0	0	0	0	-97	-278	-483	-716	-970	-1,235	-1,505	-375	-5,284
Reform and expand the Low-Income Housing Tax Credit (LIHTC):													
Allow conversion of private activity bond volume cap into LIHTCs .....	0	-17	-93	-262	-499	-754	-1,014	-1,281	-1,555	-1,837	-2,128	-1,625	-9,440
Encourage mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income													Negligible revenue effect
Add furthering fair housing and preservation of publically assisted affordable housing to allocation criteria .....													Negligible revenue effect
Remove the qualified Census tract population cap .....	-1	-2	-6	-10	-13	-15	-17	-19	-21	-23	-24	-46	-150
Implement requirement that LIHTC-supported housing protect victims of domestic abuse .....													Negligible revenue effect
Subtotal, reform and expand LIHTC .....	-1	-19	-99	-272	-512	-769	-1,031	-1,300	-1,576	-1,860	-2,152	-1,671	-9,590
<b>Subtotal, incentives to promote regional growth .....</b>	<b>-1</b>	<b>-19</b>	<b>-99</b>	<b>-272</b>	<b>-609</b>	<b>-1,047</b>	<b>-1,514</b>	<b>-2,016</b>	<b>-2,546</b>	<b>-3,095</b>	<b>-3,657</b>	<b>-2,046</b>	<b>-14,874</b>
<b>Incentives for investment in infrastructure:</b>													
Provide America Fast Forward Bonds (AFFB) and expand eligible uses:													
Provide AFFB and expand eligible uses 3/ .....	0	0	0	0	1	-1	0	0	1	0	0	0	1
Allow eligible use of AFFB to include financing all qualified private activity bond program categories 3/ .....	0	-1	-4	-10	-15	-20	-26	-32	-38	-44	-48	-50	-238
Subtotal, provide AFFB and expand eligible uses .....	0	-1	-4	-10	-14	-21	-26	-32	-37	-44	-48	-50	-237
Allow current refundings of State and local governmental bonds .....	0	-1	-5	-5	-5	-5	-5	-5	-5	-5	-5	-21	-46
Repeal the \$150 million non-hospital bond limitation on qualified section 501(c)(3) bonds .....	0	0	-1	-3	-5	-7	-9	-11	-13	-16	-17	-16	-82
Increase national limitation amount for qualified highway or surface freight transfer facility bonds .....	-6	-28	-60	-93	-125	-153	-167	-163	-136	-96	-55	-459	-1,076
Provide a new category of qualified private activity bonds for infrastructure projects referred to as "Qualified Public Infrastructure Bonds" .....	0	-27	-121	-258	-397	-534	-646	-698	-714	-728	-741	-1,337	-4,864
Modify qualified private activity bonds for public educational facilities .....													Negligible revenue effect
Modify treatment of banks investing in tax-exempt bonds .....	0	-5	-38	-131	-225	-317	-405	-493	-574	-630	-616	-716	-3,434
Repeal tax-exempt bond financing of professional sports facilities .....	0	3	11	23	35	47	60	72	85	97	109	119	542
Allow more flexible research arrangements for purposes of private business use limits .....	0	0	0	0	-1	-1	-1	-3	-3	-3	-4	-2	-16
Modify tax-exempt bonds for Indian tribal governments .....	0	-4	-12	-12	-12	-12	-12	-12	-12	-12	-12	-52	-112
<b>Subtotal, incentives for investment in infrastructure .....</b>	<b>-6</b>	<b>-63</b>	<b>-230</b>	<b>-489</b>	<b>-749</b>	<b>-1,003</b>	<b>-1,211</b>	<b>-1,345</b>	<b>-1,409</b>	<b>-1,437</b>	<b>-1,389</b>	<b>-2,534</b>	<b>-9,325</b>



**Eliminate fossil fuel tax preferences:**

Eliminate fossil fuel tax preferences:

Repeal the enhanced oil recovery credit for eligible costs attributable to a

qualified enhanced oil recovery project ..... 0 235 559 792 979 1,070 1,049 1,011 1,010 1,038 1,060 3,635 8,803

Repeal the credit for oil and gas produced from marginal wells 4/ ..... 0 0 0 0 0 0 0 0 0 0 0 0 0

Repeal the expensing of intangible drilling costs ..... 0 966 1,541 1,439 1,645 1,526 1,100 733 472 340 288 7,117 10,050

Repeal the deduction for costs paid or incurred for any tertiary injectant  
used as part of a tertiary recovery method ..... 0 5 8 8 8 8 8 8 8 8 8 37 77

Repeal the exception to passive loss limitations provided to working  
interests in oil and natural gas properties ..... 0 9 12 12 12 11 10 10 9 9 9 56 103

Repeal the use of percentage depletion with respect to oil and gas wells .. 0 483 770 725 666 589 509 429 350 270 199 3,233 4,990

Repeal the ability to claim the domestic manufacturing deduction against  
income derived from the production of oil and gas ..... 0 470 836 869 901 932 962 993 1,026 1,062 1,098 4,008 9,149

Repeal two-year amortization of independent producers' geological and  
geophysical expenditures, instead allowing amortization over the  
seven-year period used by integrated oil and gas producers ..... 0 54 197 307 296 235 170 103 58 47 48 1,089 1,515

Repeal expensing of exploration and development costs ..... 0 20 35 35 33 32 30 27 25 24 24 155 285

Repeal percentage depletion for hard mineral fossil fuels ..... 0 113 183 177 145 114 99 87 75 66 62 732 1,121

Repeal capital gains treatment for royalties ..... 0 26 52 52 52 52 52 52 52 52 52 234 494

Repeal the ability to claim the domestic manufacturing deduction against  
income derived from the production of coal and other hard mineral  
fossil fuels ..... 0 11 20 21 22 23 24 25 26 27 28 97 227

Repeal the exemption from the corporate income tax for publicly traded  
partnerships with qualifying income and gains from activities relating  
to fossil fuels ..... 0 0 0 0 0 0 201 280 295 309 323 0 1,408

Subtotal, eliminate fossil fuel tax preferences ..... 0 2,392 4,213 4,437 4,759 4,592 4,214 3,758 3,406 3,252 3,199 20,393 38,222

**Subtotal, eliminate fossil fuel tax preferences ..... 0 2,392 4,213 4,437 4,759 4,592 4,214 3,758 3,406 3,252 3,199 20,393 38,222**

**Reform the treatment of financial and insurance industry products:**

Require that derivative contracts be marked to market with resulting gain or  
loss treated as ordinary ..... 0 3,674 5,415 4,347 2,743 1,665 1,124 679 466 434 405 17,844 20,952

Modify rules that apply to sales of life insurance contracts ..... 0 26 44 46 48 50 54 56 58 61 63 214 506

Modify proration rules for life insurance company general and separate  
accounts ..... 0 345 527 534 551 579 609 628 642 658 681 2,536 5,754

Expand pro rata interest expense disallowance for corporate-owned life  
insurance ..... 0 116 232 337 457 597 753 910 1,075 1,245 1,422 1,739 7,144

Conform net operating loss rules of life insurance companies to those of  
other corporations ..... 0 18 28 30 31 33 35 36 38 39 41 140 329

**Subtotal, reform the treatment of financial and insurance  
industry products ..... 0 4,179 6,246 5,294 3,830 2,924 2,575 2,309 2,279 2,437 2,612 22,473 34,685**

**Other business revenue changes and loophole closers:**

Repeal last-in, first-out method of accounting for inventories ..... 0 5,369 7,647 8,307 8,394 8,611 8,082 8,032 8,455 9,475 8,963 38,328 81,335

Repeal lower-of-cost-or-market inventory accounting method ..... 0 878 1,321 1,381 1,390 521 240 250 260 271 283 5,491 6,795

Modify like-kind exchange rules ..... 0 2,684 7,828 6,889 5,903 4,870 3,986 3,668 3,748 3,831 3,916 28,174 47,323

Modify depreciation rules for purchases of general aviation passenger  
aircraft ..... 0 48 159 260 345 460 511 434 346 286 208 1,272 3,057

Expand the definition of substantial built-in loss for purposes of partnership  
loss transfers ..... 0 7 8 8 8 9 9 10 10 10 10 40 89

Extend partnership basis limitation rules to nondeductible expenditures ..... 0 89 122 126 129 132 134 136 139 141 144 598 1,292

Deny deduction for punitive damages ..... 0 48 70 72 73 76 77 79 80 82 84 339 741

Conform corporate ownership standards ..... 0 1 16 31 32 33 34 35 36 38 40 113 296

Tax corporate distributions as dividends:

Prevent elimination of earnings and profits through distributions of certain  
stock with basis attributable to dividend equivalent redemptions ..... Negligible revenue effect

Prevent use of leveraged distributions from related corporations to avoid  
dividend treatment ..... 0 14 23 24 25 26 27 28 30 31 32 112 260

**REVENUE ESTIMATES OF THE  
ADMINISTRATION'S FISCAL YEAR 2017 REVENUE PROPOSALS 1/ 2/ -- continued**  
(fiscal years, in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
<i>Treat purchases of hook stock by a subsidiary as giving rise to deemed distributions</i> .....	0	3	5	6	6	6	6	7	7	7	7	26	60
<i>Repeal gain limitation for dividends received in reorganization exchanges</i> ..	0	31	54	57	60	63	66	69	72	76	80	265	628
Subtotal, tax corporate distributions as dividends .....	0	48	82	87	91	95	99	104	109	114	119	403	948
Repeal Federal Insurance Contributions Act tip credit .....	0	729	883	921	961	1,004	1,047	1,092	1,140	1,189	1,241	4,498	10,207
Repeal the excise tax credit for distilled spirits with flavor and wine additives ..	0	82	109	109	109	109	109	109	109	109	109	518	1,063
<b>Subtotal, other business revenue changes and loophole closers ..</b>	<b>0</b>	<b>9,983</b>	<b>18,245</b>	<b>18,191</b>	<b>17,435</b>	<b>15,920</b>	<b>14,328</b>	<b>13,949</b>	<b>14,432</b>	<b>15,546</b>	<b>15,117</b>	<b>79,774</b>	<b>153,146</b>
<b>Subtotal, elements of business tax reform .....</b>	<b>-17</b>	<b>33,438</b>	<b>61,418</b>	<b>59,832</b>	<b>55,925</b>	<b>54,543</b>	<b>54,969</b>	<b>56,357</b>	<b>56,225</b>	<b>57,647</b>	<b>58,959</b>	<b>265,156</b>	<b>549,313</b>
<b>Transition to a reformed business tax system:</b>													
Impose a 14-percent one-time tax on previously untaxed foreign income .....	0	35,930	59,883	59,883	59,883	59,883	23,953	0	0	0	0	275,462	299,415
<b>OTHER REVENUE PROPOSALS</b>													
<b>Middle-class and pro-work tax reforms:</b>													
Reform child care tax incentives 3/ .....	0	-684	-3,539	-3,720	-3,909	-4,081	-4,277	-4,459	-4,652	-5,009	-5,492	-15,933	-39,822
Simplify and better target tax benefits for education:													
<i>Expand and modify the American Opportunity Tax Credit and repeal the Lifetime Learning Credit 3/</i> .....													
	0	15	-2,524	-2,623	-2,623	-3,192	-3,552	-4,113	-4,490	-5,015	-5,018	-10,947	-33,135
<i>Make Pell Grants excludable from income 3/</i> .....	0	-29	-1,995	-2,029	-1,956	-1,924	-1,955	-1,917	-1,968	-1,940	-1,890	-7,933	-17,603
<i>Modify reporting of scholarships on Form 1098-T 3/</i> .....	0	1	19	48	37	37	39	40	42	44	46	142	353
<i>Repeal the student loan interest deduction and provide exclusion for certain debt relief and scholarships 3/</i> .....	0	-6	-18	-18	-19	-10	93	212	326	446	590	-71	1,596
Subtotal, simplify and better target tax benefits for education .....	0	-19	-4,518	-4,622	-4,561	-5,089	-5,375	-5,778	-6,090	-6,465	-6,272	-18,809	-48,789
Expand the EITC for workers without qualifying children 3/ .....	0	-468	-6,255	-6,387	-6,495	-6,628	-6,756	-6,894	-7,028	-7,176	-7,322	-26,233	-61,409
Simplify the rules for claiming the EITC for workers without qualifying children 3/ .....	0	-41	-550	-540	-547	-560	-572	-587	-601	-615	-629	-2,238	-5,242
Provide a second-earner tax credit 3/ .....	0	-2,037	-8,926	-9,065	-9,160	-9,281	-9,429	-9,563	-9,703	-9,841	-10,016	-38,469	-87,021
Extend exclusion from income for cancellation of certain home mortgage debt .....	0	-2,467	-822	0	0	0	0	0	0	0	0	-3,289	-3,289
<b>Subtotal, middle-class and pro-work tax reforms .....</b>	<b>0</b>	<b>-5,716</b>	<b>-24,610</b>	<b>-24,334</b>	<b>-24,672</b>	<b>-25,639</b>	<b>-26,409</b>	<b>-27,281</b>	<b>-28,074</b>	<b>-29,106</b>	<b>-29,731</b>	<b>-104,971</b>	<b>-245,572</b>
<b>Reforms to retirement and health benefit plans:</b>													
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment 3/ .....	0	0	-959	-1,556	-1,672	-1,722	-1,779	-1,885	-1,989	-2,119	-2,221	-5,909	-15,902
Expand penalty-free withdrawals for long-term unemployed .....	0	-226	-231	-235	-240	-245	-250	-255	-260	-265	-270	-1,177	-2,477
Require retirement plans to allow long-term part-time workers to participate ..	0	-46	-47	-49	-50	-51	-52	-53	-55	-56	-57	-243	-516
Facilitate annuity portability .....													
Simplify minimum required distribution rules .....	0	-5	-6	-2	4	19	37	61	91	127	172	10	498
Allow all inherited plan and IRA balances to be rolled over within 60 days .....													
Permit unaffiliated employers to maintain a single multiple-employer defined contribution plan .....	0	-97	-137	-147	-155	-169	-181	-196	-209	-230	-246	-705	-1,767
Improve the excise tax on high cost employer-sponsored health coverage .....	0	0	0	0	-66	-112	-138	-172	-209	-254	-314	-178	-1,265
<b>Subtotal, reforms to retirement and health benefit plans .....</b>	<b>0</b>	<b>-374</b>	<b>-1,380</b>	<b>-1,989</b>	<b>-2,179</b>	<b>-2,280</b>	<b>-2,363</b>	<b>-2,500</b>	<b>-2,631</b>	<b>-2,797</b>	<b>-2,936</b>	<b>-8,202</b>	<b>-21,429</b>
<b>Reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions:</b>													
Reduce the value of certain tax expenditures .....	0	31,092	50,403	54,946	59,515	63,910	68,322	72,776	77,183	81,525	85,866	259,866	645,538
Reform the taxation of capital income .....	0	14,757	24,669	20,639	22,015	23,211	23,426	24,696	25,976	27,254	28,565	105,291	235,208
Implement the Buffett Rule by imposing a new "Fair Share Tax" .....	0	7,848	-62	1,317	3,102	4,035	4,136	4,170	4,240	4,334	4,388	16,240	37,508
Impose a financial fee .....	0	5,653	11,084	10,949	11,163	11,420	11,683	11,952	12,226	12,508	12,795	50,269	111,433
<b>Subtotal, reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions .....</b>	<b>0</b>	<b>59,350</b>	<b>86,094</b>	<b>87,851</b>	<b>95,795</b>	<b>102,576</b>	<b>107,567</b>	<b>113,594</b>	<b>119,625</b>	<b>125,621</b>	<b>131,614</b>	<b>431,666</b>	<b>1,029,687</b>

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
<b>Loophole closers:</b>													
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt .....	0	4	12	20	28	34	42	50	58	69	79	98	396
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method .....	0	0	74	223	377	539	634	657	684	713	744	1,213	4,645
<b>Tax carried (profits) interests as ordinary income</b> .....	0	2,619	2,633	2,520	2,420	2,351	1,932	1,472	1,213	1,121	1,029	12,543	19,310
Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years .....	0	111	285	471	660	853	891	841	780	718	654	2,380	6,264
Limit the total accrual of tax-favored retirement benefits .....	0	1,616	2,302	2,406	2,639	2,947	3,084	3,465	3,606	3,828	4,085	11,910	29,978
Rationalize net investment income and Self-Employment Contributions Act taxes .....	0	16,660	23,276	24,773	25,913	26,943	28,124	29,421	30,816	32,163	33,570	117,565	271,659
Limit Roth conversions to pre-tax dollars .....	0	0	5	10	16	20	20	21	28	32	99	51	251
Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans .....	0	702	945	962	978	995	1,011	1,028	1,044	1,062	1,079	4,582	9,806
Repeal exclusion of net unrealized appreciation in employer securities .....	0	16	27	28	13	4	4	-12	-23	-23	-24	88	10
Disallow the deduction for charitable contributions that are a prerequisite for purchasing tickets to college sporting events .....	0	<u>150</u>	<u>237</u>	<u>255</u>	<u>272</u>	<u>290</u>	<u>308</u>	<u>327</u>	<u>348</u>	<u>369</u>	<u>391</u>	<u>1,204</u>	<u>2,947</u>
<b>Subtotal, loophole closers</b> .....	<b>0</b>	<b>21,878</b>	<b>29,796</b>	<b>31,668</b>	<b>33,316</b>	<b>34,976</b>	<b>36,050</b>	<b>37,270</b>	<b>38,554</b>	<b>40,052</b>	<b>41,706</b>	<b>151,634</b>	<b>345,266</b>
<b>Modify estate and gift tax provisions:</b>													
Restore the estate, gift, and generation-skipping transfer (GST) tax parameters in effect in 2009 .....	0	0	15,717	17,102	18,415	20,027	21,695	23,660	25,815	28,303	31,020	71,261	201,754
Expand requirement of consistency in value for transfer and income tax purposes .....	0	0	142	143	169	174	185	198	211	228	243	628	1,693
Modify transfer tax rules for grantor retained annuity trusts and other grantor trusts .....	0	0	1,123	1,241	1,478	1,622	1,969	2,374	2,743	3,194	3,405	5,464	19,149
Limit duration of GST tax exemption .....													Negligible revenue effect
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business .....	0	0	24	25	26	27	28	29	31	34	36	102	260
Modify GST tax treatment of Health and Education Exclusion Trusts .....	0	0	-35	-33	-30	-29	-27	-26	-24	-23	-20	-127	-247
Simplify gift tax exclusion for annual gifts .....	0	0	84	160	259	336	413	453	548	657	770	839	3,680
Expand applicability of definition of executor .....													Negligible revenue effect
<b>Subtotal, modify estate and gift tax provisions</b> .....	<b>0</b>	<b>0</b>	<b>17,055</b>	<b>18,638</b>	<b>20,317</b>	<b>22,157</b>	<b>24,263</b>	<b>26,688</b>	<b>29,324</b>	<b>32,393</b>	<b>35,454</b>	<b>78,167</b>	<b>226,289</b>
<b>Other revenue raisers:</b>													
<b>Impose an oil fee</b> .....	0	7,221	14,439	21,505	28,450	35,135	41,377	41,989	42,521	42,977	43,456	106,750	319,070
Increase and modify Oil Spill Liability Trust Fund financing .....	0	94	133	135	138	138	139	141	143	144	147	638	1,352
Reinstate Superfund taxes:													
Reinstate and extend Superfund excise taxes .....	0	920	1,175	1,242	1,273	1,340	1,354	1,402	1,436	1,473	1,507	5,950	13,122
Reinstate Superfund environmental income tax .....	0	<u>676</u>	<u>912</u>	<u>921</u>	<u>929</u>	<u>936</u>	<u>946</u>	<u>957</u>	<u>963</u>	<u>972</u>	<u>985</u>	<u>4,374</u>	<u>9,197</u>
Subtotal, reinstate Superfund taxes .....	0	1,596	2,087	2,163	2,202	2,276	2,300	2,359	2,399	2,445	2,492	10,324	22,319
Increase tobacco taxes and index for inflation .....	0	9,982	12,910	12,715	12,719	12,329	11,880	11,436	10,877	10,399	9,902	60,655	115,149
Make unemployment insurance surtax permanent .....	0	1,172	1,604	1,624	1,645	1,667	1,690	1,712	1,737	1,762	1,789	7,712	16,402
Expand Federal Unemployment Tax Act (FUTA) base and reform FUTA credit reduction rules .....	0	0	<u>3,128</u>	<u>3,185</u>	<u>3,923</u>	<u>4,303</u>	<u>5,424</u>	<u>6,802</u>	<u>6,068</u>	<u>6,346</u>	<u>7,113</u>	<u>14,539</u>	<u>46,292</u>
<b>Subtotal, other revenue raisers</b> .....	<b>0</b>	<b>20,065</b>	<b>34,301</b>	<b>41,327</b>	<b>49,077</b>	<b>55,848</b>	<b>62,810</b>	<b>64,439</b>	<b>63,745</b>	<b>64,073</b>	<b>64,899</b>	<b>200,618</b>	<b>520,584</b>
<b>Reduce the tax gap and make reforms:</b>													
<b>Expand information reporting:</b>													
Improve information reporting for certain businesses and contractors:													
Require a certified TIN from contractors and allow certain withholding .....	0	15	35	59	81	84	88	92	96	101	105	274	756
Require information reporting for private separate accounts of life insurance companies .....	0	0	1	1	1	1	1	1	1	1	1	4	9
Subtotal, improve information reporting for certain businesses and contractors .....	0	15	36	60	82	85	89	93	97	102	106	278	765

**REVENUE ESTIMATES OF THE  
ADMINISTRATION'S FISCAL YEAR 2017 REVENUE PROPOSALS 1/ 2/ -- continued**  
(fiscal years, in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Provide an exception to the limitation on disclosing tax return information to expand TIN matching beyond forms where payments are subject to backup withholding .....													
Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act .....													
Require Form W-2 reporting for employer contributions to defined contribution plans .....													
Subtotal, expand information reporting .....	0	15	36	60	82	85	89	93	97	102	106	278	765
<b>Improve compliance by businesses:</b>													
Increase certainty with respect to worker classification .....	5	93	451	871	1,038	1,127	1,220	1,321	1,428	1,544	1,668	3,580	10,761
Increase information sharing to administer excise taxes .....	0	4	9	13	14	16	17	17	18	18	19	56	145
Provide authority to readily share information about beneficial ownership information of U.S. companies with law enforcement .....	0	0	1	2	9	6	4	3	3	3	3	18	34
Subtotal, improve compliance by businesses .....	5	97	461	886	1,061	1,149	1,241	1,341	1,449	1,565	1,690	3,654	10,940
<b>Strengthen tax administration:</b>													
Modify the conservation easement deduction and pilot a conservation credit:													
Reform the deduction for donations of conservation easements .....	0	4	13	20	21	21	23	24	25	26	28	79	205
Eliminate the deduction for contributions of conservation easements on golf courses .....	0	5	21	38	50	56	60	62	66	69	73	170	500
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation .....	0	2	7	13	17	20	21	22	23	24	25	59	174
Pilot an allocable credit for conservation contributions and report to Congress .....	0	-5	-19	-25	-25	-25	-25	-25	-25	-25	-25	-99	-224
Subtotal, modify the conservation easement deduction and pilot a conservation credit .....	0	6	22	46	63	72	79	83	89	94	101	209	655
Impose liability on shareholders to collect unpaid income taxes of applicable corporations .....	0	395	423	442	461	481	502	524	546	570	595	2,202	4,939
Implement a program integrity statutory cap adjustment for tax administration .....	0	278	1,585	3,263	5,008	6,763	8,327	9,264	9,590	9,737	9,814	16,897	63,629
Revise offer-in-compromise application rules .....	0	1	2	2	2	2	2	2	2	2	2	9	19
Make repeated willful failure to file a tax return a felony .....	0	0	0	0	1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions .....	0	1	1	1	2	2	2	2	2	2	2	7	17
Improve investigative disclosure statute .....	0	0	0	0	1	1	1	1	2	2	2	2	10
Allow the IRS to absorb credit and debit card processing fees for certain tax payments .....	0	2	2	2	2	2	2	2	2	2	2	10	20
Provide the IRS with greater flexibility to address correctable errors 3/ .....	0	31	62	62	63	65	66	68	70	72	74	283	633
Enhance electronic filing of returns .....	0	0	0	0	1	1	1	1	2	2	2	2	10
Improve the whistleblower program .....													
Index all civil tax penalties for inflation .....													
Combat tax-related identity theft .....													
Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail .....													
Accelerate information return filing due dates 3/ .....	0	3	5	11	12	12	13	13	13	13	14	43	109
Increase oversight of paid tax return preparers 3/ .....	0	14	31	34	37	41	45	49	54	57	62	157	424
Enhance administrability of the appraiser penalty .....													
Subtotal, strengthen tax administration .....	0	731	2,133	3,863	5,653	7,443	9,041	10,010	10,374	10,555	10,672	19,823	70,475
<b>Subtotal, reduce the tax gap and make reforms .....</b>	<b>5</b>	<b>843</b>	<b>2,630</b>	<b>4,809</b>	<b>6,796</b>	<b>8,677</b>	<b>10,371</b>	<b>11,444</b>	<b>11,920</b>	<b>12,222</b>	<b>12,468</b>	<b>23,755</b>	<b>82,180</b>
<b>Simplify the tax system:</b>													
Modify adoption credit to allow tribal determination of special needs .....	0	0	0	0	-1	-1	-1	-1	-1	-1	-1	-2	-7
Repeal non-qualified preferred stock designation .....	0	33	55	55	53	50	46	41	36	32	29	246	430
Reform excise tax based on investment income of private foundations .....	0	-5	-5	-6	-6	-6	-6	-6	-7	-7	-7	-28	-61

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Simplify arbitrage investment restrictions .....	0	0	-2	-10	-18	-28	-38	-46	-58	-68	-76	-58	-344
Simplify single-family housing mortgage bond targeting requirements .....	0	0	-1	-3	-5	-7	-10	-12	-17	-20	-22	-16	-97
Streamline private activity limits on governmental bonds .....	0	0	-1	-3	-5	-7	-9	-11	-13	-15	-17	-16	-81
Repeal technical terminations of partnerships .....	0	13	19	21	23	25	27	29	30	32	33	101	252
Repeal anti-churning rules of section 197 .....	0	-24	-99	-198	-281	-338	-370	-378	-378	-378	-378	-940	-2,822
Repeal special estimated tax payment provision for certain insurance companies .....													
Repeal the telephone excise tax .....	0	-368	-327	-287	-248	-209	-170	-132	-94	-57	-44	-1,439	-1,936
Increase the standard mileage rate for automobile use by volunteers .....	0	-20	-62	-65	-68	-69	-71	-72	-74	-76	-79	-284	-656
Consolidate contribution limitations for charitable deductions and extend the carryforward period for excess charitable contribution deduction amounts .....	0	0	-93	-51	-6	-6	-6	-491	-1,188	-1,830	-2,416	-156	-6,087
Exclude from gross income subsidies from public utilities for purchase of water runoff management .....													
Provide relief for certain accidental dual citizens .....	0	-63	-108	-58	-23	-25	-26	-28	-29	-30	-32	-277	-422
<b>Subtotal, simplify the tax system .....</b>	<b>0</b>	<b>-434</b>	<b>-624</b>	<b>-605</b>	<b>-585</b>	<b>-621</b>	<b>-634</b>	<b>-1,107</b>	<b>-1,793</b>	<b>-2,418</b>	<b>-3,010</b>	<b>-2,869</b>	<b>-11,831</b>
<b>User fee:</b>													
Reform inland waterways funding .....	0	3	78	118	156	156	156	156	156	155	155	511	1,289
<b>Subtotal, user fee .....</b>	<b>0</b>	<b>3</b>	<b>78</b>	<b>118</b>	<b>156</b>	<b>156</b>	<b>156</b>	<b>156</b>	<b>156</b>	<b>155</b>	<b>155</b>	<b>511</b>	<b>1,289</b>
<b>Other initiatives:</b>													
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents .....													
Improve disclosure for child support enforcement .....													
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy .....													
Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration .....													
Modify indexing to prevent deflationary adjustments .....													
<b>Subtotal, other initiatives .....</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Subtotal, other revenue proposals .....</b>	<b>5</b>	<b>95,615</b>	<b>143,340</b>	<b>157,483</b>	<b>178,021</b>	<b>195,850</b>	<b>211,811</b>	<b>222,703</b>	<b>230,826</b>	<b>240,195</b>	<b>250,619</b>	<b>770,309</b>	<b>1,926,463</b>
<b>Total, Administration's Fiscal Year 2017 Revenue Proposals .....</b>	<b>-12</b>	<b>164,983</b>	<b>264,641</b>	<b>277,198</b>	<b>293,829</b>	<b>310,276</b>	<b>290,733</b>	<b>279,060</b>	<b>287,051</b>	<b>297,842</b>	<b>309,578</b>	<b>1,310,927</b>	<b>2,775,191</b>
Total, receipt effect .....	-12	165,645	278,240	292,772	311,257	330,088	313,269	303,831	314,771	327,996	341,889	1,378,002	2,979,758
Total, outlay effect .....	0	662	13,599	15,574	17,428	19,812	22,536	24,771	27,220	30,154	32,311	67,075	204,567

## Department of the Treasury

## Notes:

1/ Presentation in this table does not reflect the order in which these proposals were estimated. The date of enactment of the proposals is assumed to be July 15, 2016.

2/ Table 12-2 in the Analytical Perspectives of the FY 2017 Budget includes the effects of a number of proposals that are not reflected here. These proposals would: enact changes to the military retirement reform enacted in the FY 2016 National Defense Authorization Act, extend the Children's Health Insurance Program through 2019, create State option to provide 12-month continuous Medicaid eligibility for adults, standardize definition of American Indian and Alaska Native in the Affordable Care Act, modernize the unemployment insurance (UI) program, create a mandatory reemployment services eligibility assessment (RESEA) program, levy a fee on the production of hardrock minerals to restore abandoned mines, return fees on the production of coal to pre-2006 levels to restore abandoned mines, enhance UI program integrity, request a program integrity cap adjustment for the RESEA program, reauthorize special assessment on domestic nuclear utilities, establish user fee for Electronic Visa Update System, enact the Trans-Pacific Partnership Trade Agreement, and enact comprehensive immigration reform.

3/ This proposal affects both receipts and outlays. Both effects are shown above. The outlay effects included in these estimates are listed below.

Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance .....	0	21	23	19	17	12	14	10	7	4	2	92	129
Designate Promise Zones .....	0	27	29	29	31	31	33	35	37	37	39	147	328
Modify and permanently extend renewable electricity production tax credit and investment tax credit .....	0	58	155	281	453	695	973	1,300	1,695	2,117	2,629	1,642	10,356
Provide a carbon dioxide investment and sequestration tax credit .....	0	0	0	0	0	142	280	123	338	226	0	142	1,109
Provide AFFB and expand eligible uses .....	0	239	1,085	2,328	3,635	5,002	6,407	7,836	9,282	10,743	12,217	12,289	58,774
Allow eligible uses of AFFB to include financing all qualified private activity bond program categories .....	0	49	221	475	742	1,020	1,307	1,599	1,894	2,192	2,492	2,507	11,991
Reform child care tax incentives .....	0	0	962	1,009	1,051	1,091	1,147	1,182	1,227	1,264	1,268	4,113	10,201

**REVENUE ESTIMATES OF THE  
ADMINISTRATION'S FISCAL YEAR 2017 REVENUE PROPOSALS 1/ 2/ -- continued**  
(fiscal years, in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Expand and modify the AOTC and repeal the Lifetime Learning Credit .....	0	0	2,682	2,813	2,817	3,015	3,389	3,608	3,980	4,207	4,231	11,327	30,742
Make Pell Grants excludable from income .....	0	0	1,705	1,747	1,689	1,675	1,726	1,692	1,753	1,731	1,679	6,816	15,397
Modify reporting of tuition expenses and scholarships on Form 1098-T .....	0	0	-10	-39	-27	-27	-29	-30	-32	-33	-35	-103	-262
Repeal the student loan interest deduction and provide exclusion for certain debt relief and scholarships .....	0	0	0	0	0	0	-7	-15	-22	-35	-42	0	-121
Expand the EITC for workers without qualifying children .....	0	273	5,468	5,577	5,677	5,796	5,906	6,020	6,134	6,262	6,383	22,791	53,496
Simplify the rules for claiming the EITC for workers without qualifying children .....	0	24	484	475	481	492	503	516	528	541	553	1,956	4,597
Provide a second-earner tax credit .....	0	0	739	735	735	740	754	758	760	759	754	2,949	6,734
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment .....	0	0	126	198	203	207	215	222	228	230	236	734	1,865
Provide the IRS with greater flexibility to address correctable errors .....	0	-26	-53	-52	-53	-54	-55	-56	-58	-59	-61	-238	-527
Accelerate information return filing due dates .....	0	-1	-3	-6	-7	-7	-8	-8	-8	-8	-8	-24	-64
Increase oversight of paid tax return preparers .....	<u>0</u>	<u>-2</u>	<u>-14</u>	<u>-15</u>	<u>-16</u>	<u>-18</u>	<u>-19</u>	<u>-21</u>	<u>-23</u>	<u>-24</u>	<u>-26</u>	<u>-65</u>	<u>-178</u>
Total, outlay effect .....	0	662	13,599	15,574	17,428	19,812	22,536	24,771	27,720	30,154	32,311	67,075	204,567

4/ This provision is estimated to have zero receipts effect under the Administration's current economic projections.