

NLWJC - Kagan

DPC - Box 005 - Folder 013

**Budget Materials - FY2000 Tax
Proposals**

Budget - FY2000 - tax proposals



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
January 21, 1999

TO: Steve Ricchetti
Deputy Chief of Staff

FROM: Mike Froman *MF*
Chief of Staff

Linda Robertson *LR*
Assistant Secretary
Legislative Affairs & Public Liaison

SUBJECT: List of Revenue Measures Pertaining to Budget Rollout

Thank you for convening the meeting today and for your efforts at coordinating the Budget Rollout efforts, including the legislative, public liaison, and press components. Determining a strategy, setting forth both our priorities and a general schedule will enable us to better direct our staffs to fully assist in these efforts.

Per your request, what follows is our attempt to categorize the revenue-related initiatives contained in the President's Budget (with no attempt to presume to know the White House's order of priority.) We would propose that the proposals listed under each thematic category be introduced together, instead of one omnibus revenue title. This format worked well for the Administration last year. For each thematic legislative package, we would develop a specific rollout strategy in coordination with all parts of the Administration. We look forward to coordinating with you on this to ensure that Treasury's limited resources are allocated appropriately to the Administration's priorities.

- **Child Care**
Child and dependent care tax credit
Household maintenance test for child and dependent care tax credit elimination
Employer-provided child-care tax credit
Stay at home parents
- **Health Care**
Long-Term Care
Tax Credit for disabled workers
Small business health purchasing cooperatives
- **Pensions**
Immediate participation in TSP by new Federal employees
TSP rollovers from private plans

Rollovers between qualified retirement plans and 403(b) tax sheltered annuities
Rollovers from regular IRAs to qualified plans or 403(b) tax-sheltered annuities
Rollovers of after-tax contributions
Rollovers of contributions from governmental 457 plans to an IRA
Purchase of service credits in governmental defined benefit plans
Joint and seventy-five percent survivor annuity option
3-year subsidy plus voluntary excludable IRA- small firms and all qualified plans
Simplified pension plan for small business
Faster vesting of employer of employer 401(K) matching contributions
Pension right to know proposals
Simplified method for improving benefits for nonhighly compensated employees under the
safe harbor for 401(k) plans
Simplify definition of highly compensated employees
Simplify benefit limits for multiemployer plans under section 415
Simplify full funding limitation for multiemployer plans
Partial termination rules for multiemployer plans elimination

- **Education**

School Construction bonds
Work Place literacy
60 month limit on student loan interest deduction elimination
Tax Credit for contributions to qualified zone academies
Americorps
Employer-provided educational assistance and include graduate extension
education
Elimination of tax when forgiving student loans subject to income contingent
repayment

- **Communities**

Community Development Equity Credit
Low Income Housing Tax Credit
Brownfields
Better America Bonds
Work Opportunity Tax Credit
Welfare to Work Tax Credit
D.C. First time Homebuyer Tax Credit
Tax incentives for SSBICS
Wage credit for supplemental EZ extension

- **Environment**

Better America Bonds
Brownfields
Tax credit for energy efficient building equipment

Tax credit for new efficient homes

Electric vehicle credit, and credit for fuel efficient vehicles

Investment credit for combined heat and power systems

Tax credit for rooftop solar systems

Wind and biomass tax credit and expand eligible biomass sources extension

- **Corporate Tax Shelters**
(list being developed)

Existing Tax Cut Package	
PROPOSAL	5 YEAR COST (IN BILLIONS OF \$)
I. Child Care	
a. Dependent Care Tax Credit (DCTC)	5.1
b. Tax Credit for Employers	0.5
II. School Construction	5.0
III. Employer Provided Education (Sec. 127)	1.0
IV. Low Income Housing Tax Credit	1.6
V. Climate Change	3.6
VI. Pensions	0.9
VII. Extenders (R&E, WOTC, WTW, etc.)	3.3
VIII. International and Puerto Rico	1.4
IX. \$2,000 Severance Pay Exemption	0.8
TOTAL	\$24.2 billion
I. Savings: ½ year extenders	-1.6
II. Drop Severance Pay	-0.8
TOTAL	\$21.8 billion

New Tax Cut Proposals	
PROPOSAL	5 YEAR COST (IN BILLIONS OF \$)
I. Long-term Care Tax Credit	5.2
II. Tax Credit for the Disabled	0.7
III. Small Business Health Purchasing Cooperatives	0.2
IV. Stay at Home Moms (add to child care)	0.8
V. Taxation of Americorps Loan Forgiveness	na
VI. Tax Credit for Workplace Literacy	0.2
VII. Eliminate 60-month Limit on Student Loan Interest Deduction	0.3
VIII. Green Bonds	0.7
IX. Fund of Fund Tax Cut	0.9
X. Personal Credits and AMT	0.8
XI. Employee Telecommuter Expense	0.3
TOTAL	\$10.1 Billion
TOTAL OF 2 TAX PACKAGES	\$31.9 Billion

Proposals Left On the Table/Below the Line

<u>OPTION</u>	<u>5 YEAR COST (BILLIONS)</u>
Steel	na
Tax Credit for Work-Site Schools	na -- likely small
Tax Credit for Workplace Literacy	less than 0.2
Liberalize Lifetime Learning Tax Credit	Option Range: 2.8; 7.1
Exclusion for Americorp Education Awards	na -- may raise very small amount
Home Ownership Tax Credit	Roughly 0.5
CDFI Tax Credit	About 0.1
Financial Security (one new small tax item)	na -- likely small
Cap Gains Exclusion -- Land for Conservation	na -- likely small
Pensions -- WTW (DOL proposal)	na

Proposals Taken Off the Table by Group

<u>OPTION</u>	<u>5 YEAR COST (BILLIONS)</u>
Lifetime Learning Savings Accounts	About \$10 billion over ten years
WTW-WOTC Longer Extensions	Permanent -- roughly 2.5
Modify R & E Credit (Small business, consortia)	na -- likely small
Farm and Ranch Risk Management Accounts	na
Pensions (DOL proposals EZs, EITC)	na
Oil and Gas Marginal Wells (DOE)	na
HUD (multi-family exit, LIHTC carveout, elderly tax credit)	na

This would allow states at home parts of bill under 1 to claim ~~\$600~~ a 3050 credit
or \$600

The amount the
used to do nothing on an whole

1 R's ~~got away with spending~~ c. care package was that it ignored states ^{more}

For a ^{relatively} small amount of \$, we can breathe new life into c. care package

HRC/Advocates

PTMS 12.18

Not a close call

If learned anything in past yr, it's that our tobacco policy is on strongest ground
when we're focused on teen smoking & not when ~~we~~ we look like we're just
in it for the \$.

- That is only way this will be interpreted. If we take this \$ in 2000, we're not
spending it on
reducing teen smoking

~~write 50 gars - 50 A.G.s across party lines behind the message~~

SMS
- We're going to cut your SAMSUA ~~bill~~ on c. care or some state program
by § 1-2B so we can spend the \$ on discretionary prog in Wash.

If we hadle recoupment right, we have a chance to pass a ~~new~~
recoupment waiver that actually ~~gets~~

forces the states to spend the fed share of settlement \$ on a menu
of tobacco control prog like counteradvertising, other priorities
like c. care + children's health

- If we overreach, we'll write 50 gars - 50 A.G.s across party lines
behind a no-strings menu that gets us nothing

Also, recoupment is best engine for FDA, lookbacks, tobacco bill

We're ^{already} sending strong message to states. ~~Encourage~~ us to fix it this yr,
or we'll come after you

CLOSE HOLD

CLOSE HOLD

FY 2000 Budget Tax Proposals

FY 1999-2004
(\$'s in billions)

Tax Incentives

FY 1999 Budget Tax Incentives	-17.8
New Tax Cuts	-10.9
Extenders (1 year)	-3.4
Total FY 2000 Budget Tax Incentives	-32.1

Offsets

FY 1999 Budget Revenue Raisers	17.4
Consider discarding	
Hybrids - 98-11	-0.2
Exchanges of variable annuity contracts	-1.0
Investment in the contract and reserve rules	-0.1
Eliminate "Crummey" rule	-0.1
FY 1999 Budget Minus Discards	16.0
New revenue raisers ("less controversial")	10.0
Total Raisers	26.0
Balance before controversial	-6.0

Options to Close Gap

I. Modify Insurance Package		
Delete CARVM annuity rules		
Capitalization of Deferred Acquisition Costs	last yrs est = 4.6 now: take that off	-1.3
Total package 1		6.5
II. Various Tax Reforms		
S-corp ESOP		0.7
Repeal installment method for accrual basis taxpayers		0.4
Modify and clarify rules in debt-for-debt exchanges		0.5
Restrict use of cash method to small business		2.8
Tax investment income of trade associations		1.5
Freeze phase-down of luxury tax		0.6
Total package 2		6.5

| life insurance industry

Other possibilities

Repeal deduction for punitive damages	0.6
Simplify taxation of capital gains	0.5-1.0
Index exclusion for home sales	
Repeal 18 percent rate	
Reduce 10 percent rate to 8 percent	
Scale back stay at home parents	0.2
Scale back green bonds	?
Severance	-0.8
Increase school construction	-0.7 to -1.7

Existing Tax Cut Package (5-YEAR COST IN BILLIONS OF \$)

PROPOSAL	LOW	HIGH
I. Child Care		
a. Dependent Care Tax Credit (DCTC)	5.0	5.0
b. Tax Credit for Employers	0.5	0.5
II. School Construction	3.3	5.0
III. Employer Provided Education (Sec. 127)	1.0	1.0
IV. Low Income Housing Tax Credit	1.7	1.7
V. Climate Change	3.6	3.6
VI. Pensions	1.0	1.0
VII. Extenders (R&E, WOTC, WTW, etc.)	3.8	3.8
VIII. International, Puerto Rico, and Simplification	1.3	1.3
IX. \$2,000 Severance Pay Exemption	0.0 (dropped)	0.0 (dropped)
TOTAL	\$21.2 billion	\$22.9 billion

Highest Priority Tax Cut (5-YEAR COST IN BILLIONS OF \$)

PROPOSAL	LOW	HIGH
X. Long-term Care Tax Credit	5.5	5.5
NEW TOTAL (Combined with Existing Package)	26.7 billion	28.4 billion

New Tax Cut Priorities (5-YEAR COST IN BILLIONS OF \$)

PROPOSAL	LOW	HIGH
XI. Tax Credit for the Disabled	0.7	0.7
XII. Small Business Health Purchasing Cooperatives	0.1	0.1
XIII. Stay at Home Moms (add to child care)	1.3	1.5
xiv. Americorps	0.0	0.0
xv. Tax Credit for Workplace Literacy	0.1	0.1
XVI. Eliminate 60-mth. Limit on Student Loan Int. Ded.	0.3	0.3
XVII. Green Bonds	0.5	0.7
XVIII. Fund of Fund Tax Cut	0.9	0.9
XIX. Personal Credits and AMT	0.7	0.7
XX. Steel -- Carryback of Net Operating Losses	0.3	0.3
NEW TOTAL (Combined with Existing Tax Package and Highest Priority Tax package)	\$31.6 billion	\$33.7 billion

Tax Meeting Agenda

December 16, 1998

- I. Discuss starting point package -- modify on pay-as-you-go basis.**

- II. Prioritize how package would be shaved if insufficient offsets.**

- III. Prioritize how package would be modified/added to if additional offsets are found.**

Existing Tax Cut Package

<u>PROPOSAL</u>	<u>5 YEAR COST (IN BILLIONS OF \$)</u>
I. Child Care	
a. Dependent Care Tax Credit (DCTC)	5.1
b. Tax Credit for Employers	0.5
II. School Construction	5.0
III. Employer Provided Education (Sec. 127)	1.0
IV. Low Income Housing Tax Credit	1.6
V. Climate Change	3.6
VI. Pensions	0.9
VII. Extenders (R&E, WOTC, WTW, etc.) <i>1/2 yr</i>	3.3
VIII. International and Puerto Rico	1.4
IX. \$2,000 Severance Pay Exemption	0.8
TOTAL	\$24.2 billion
I. Savings: 1/2 year extenders	-1.6
II. Drop Severance Pay	-0.8
TOTAL	\$21.8 billion

New Tax Cut Proposals

<u>PROPOSAL</u>	<u>5 YEAR COST (IN BILLIONS OF \$)</u>
I. Long-term ^{care} Tax Credit	5.2 <i>(less than before - phase in)</i>
II. Tax Credit for the Disabled	0.7 <i>- phase in?</i>
III. Small Business Health Purchasing Cooperatives	0.2
IV. Stay at Home Moms (add to child care)	0.6 <i>5 = .8</i>
V. Tax Credit for Work-site Schools	0.2
VI. Tax Credit for Workplace Literacy	0.2
VII. Eliminate 60-month limit on interest deduction	0.3
VIII. Green Bonds	0.7
IX. Fund of Fund Tax Cut	0.9
X. Personal Credits and AMT	0.8
XI. Employee Telecommuter Expense	0.3
TOTAL	\$10.1 Billion
TOTAL OF 2 TAX PACKAGES	\$31.9 Billion

Items Not Discussed at the Last Meeting	
<u>Option</u>	<u>5 Year Cost (billions)</u>
Steel	na

Proposals Left On the Table/Below the Line from Last Meeting	
<u>Option</u>	<u>5 Year Cost (billions)</u>
Tax Credit for Work-Site Schools	na -- likely small
Tax Credit for Workplace Literacy	less than 0.2
Liberalize Lifetime Learning Tax Credit	Option Range: 2.8; 7.1
Exclusion for Americorp Education Awards	na -- may raise very small amount
Home Ownership Tax Credit	Roughly 0.5
CDFI Tax Credit	About 0.1
Financial Security (one new small tax item)	na -- likely small
Cap Gains Exclusion -- Land for Conservation	na -- likely small
Pensions -- WTW (DOL proposal)	na

Proposals Taken Off the Table at the Last Meeting	
<u>Option</u>	<u>5 Year Cost (billions)</u>
Lifetime Learning Savings Accounts	About \$10 bilion over ten years
WTW-WOTC Longer Extensions	Permanent -- roughly 2.5
Modify R & E Credit (Small business, consortia)	na -- likely small
Farm and Ranch Risk Management Accounts	na
Pensions (DOL proposals EZs, EITC)	na
Oil and Gas Marginal Wells (DOE)	na
HUD (multi-family exit, LIHTC carveout, elderly tax credit)	na

January 6, 1999

MEMORANDUM FOR NEC PRINCIPALS

RE: STATUS UPDATE — TAX SIDE OF BUDGET

This memorandum provides you with a brief update on the status of the tax package for the FY2000 budget and raises the few remaining issues that need your attention. We have also attached a revenue table that summarizes these issues.

FY 1999 Budget incentives. We have rescored the major initiatives in last year's package that were not enacted. The tax cut package from last year's budget is estimated to cost about \$22 billion over five years. The tax cuts carried over from last year include a child care package, school construction and other education initiatives, a climate change package, pension initiatives, a 1-year extenders package, an increase in the low-income housing tax credit, and a small simplification package. The major change from last year is that the same amount of proposed bond authority for school construction is estimated to cost \$3.3 billion this year, as compared to \$5 billion last year. Accordingly, an issue that needs to be discussed is whether to increase the amount of bond authority above last year's proposal in order to come closer to last year's estimate.

We could reduce the cost of the package by dropping Senator Torricelli's severance pay proposal, which would save about \$770 million over 5 years. Our impression from the last Principals' meeting is that there is little resistance to doing this.

New Tax Cut Initiatives. The new proposed tax cuts would cost about \$10.9 billion. The 5-year preliminary cost estimates of the new items is set forth below:

	<u>Proposal</u>	<u>5-year cost (\$Billions)</u>
1.	Long-term care tax credit	\$5.5
2.	Tax credit for disabled workers	\$0.7
3.	Small business health purchasing cooperatives	*
4.	Stay-at-home parents	\$1.5
5.	Workplace literacy	\$0.1
6.	Eliminate 60-month limit on interest deduction	\$0.3
7.	Green bonds	\$0.7
8.	Community development equity credit	\$0.9
9.	Allow personal credits against AMT	\$0.7
10.	Exclusion of Americorp scholarships	*
11.	NOL carry backs for steel	\$0.3
	Total	\$10.9

(Note: * means less than \$50 million.)

All of these proposals are pretty well developed, although they could be scaled back for revenue reasons. We are still working out final details on green bonds, the community development equity credit, and the climate change package. We could save a little revenue by scaling back two proposals that we have serious tax policy concerns about: green bonds and the tax credit for stay-at-home parents. We could scale back the green bonds proposal, by reducing the cap on bond authority or phasing it in. We could reduce the tax credit for stay-at-home parents to \$500 of eligible expenses, rather than the \$600 originally proposed.

FY 1999 Revenue Offsets. Under current scoring, last year's package of tax offsets raises about \$17.4 billion over 5 years. As previously discussed, however, we should consider dropping certain items from last year's package. These include proposals to eliminate tax-free exchanges of variable annuities (\$1 billion), to reduce basis in insurance contracts for mortality and expense charges (\$100 million), to repeal the Crummey rule (\$100 million), to modify calculation of insurance reserves (\$1.3 billion), and to provide regulatory authority to address use of hybrids (\$200 million). The first three of these proposals affect life insurance products and thus were a political hot button for agents last year. The fourth proposal regarding reserves was rhetorically lumped in with the first three last year even though it affects the insurance companies rather than the products. Also, our revised revenue estimates show substantially less revenue--about \$2 billion--from this provision than under last year's scoring. The fifth proposal raises the specter of Notice 98-11 and probably should be dropped. If all of these items are dropped other than the reserve piece, we would lose about \$1.4 billion from last year's offsets, leaving us with available offsets carried over from last year of \$16.0 billion.

New Revenue Offsets. We currently have identified about \$10.0 billion in relatively uncontroversial raisers. We have also developed certain more controversial raisers that need to be discussed (as listed on the attached table).

Tobacco Excess Profits Tax. Another option we have reviewed which is not included in the table is to tax a portion of gross profits from tobacco. A 10 percent tax on tobacco gross profits could raise about \$6 billion over five years. An "excess profits" tax, however, would produce little or no revenue. We have serious tax policy concerns about such a tax.

Attachment