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White House budget proposal takes aim at familiar revenue targets

President Obama released a fiscal year 2015 budget blueprint on March 4 that includes tax increases primarily targeting multinational corporations and high-income individuals to pay for lower- and middle-class tax relief, increased spending on transportation infrastructure, and deficit reduction.

The majority of the revenue proposals in the budget blueprint – such as proposals to implement the "Buffett Rule," tax income from carried interests as ordinary income, reform the tax treatment of large financial institutions, repeal long-standing tax provisions benefiting the oil and gas industry, and tighten international tax rules – have been carried over from previous years. Likewise, a variety of previously proposed tax incentives to encourage domestic manufacturing and infrastructure development and provide relief to small businesses and middle-class individuals make another appearance this year.

This latest tax and spending plan, however, also includes several significant new proposals to tighten the tax rules for corporations and individuals, a handful of new tax incentives, and discrete proposals to address certain temporary tax provisions that expired at the end of last year.

This report will focus on the revenue provisions and tax incentives that have not appeared in prior Obama administration budget proposals. It also discusses how the administration proposes to address certain tax extenders. Descriptions are based on details in the so-called "Green Book," which provides the Treasury Department's explanations of the revenue provisions in the budget proposal.
URL: http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2015.pdf

The budget's projected debt and deficit picture

According to estimates from the White House Office of Management and Budget, the president's budget blueprint calls for nearly $43.8 trillion in revenue and nearly $48.7 trillion in spending over the 10-year budget window (fiscal years 2015-2024).

As projected in the budget, total revenues as a share of gross domestic product (GDP) would rise from 17.3 percent in fiscal 2014 to 19.9 percent in fiscal 2024, for an average of 19.2 percent over the 10-year budget window; outlays would rise from 21.1 percent in 2014 to 21.5 percent in 2024, for a 10-year average of 21.4 percent.

The budget anticipates a fiscal year 2014 deficit of $649 billion, or 3.7 percent of GDP. The deficit would be reduced to 1.9 percent of GDP by 2018, rise to between 2.1 percent and 2.3 percent from 2019-2022, and fall to 1.6 percent by 2024. The deficit would average 2.2 percent of GDP over the 10-year window. Debt held by the public – a frequently cited metric of the level of government indebtedness – would hover around 74.5 percent of GDP between fiscal years 2014 and 2016 before declining beginning in fiscal year 2017 and dropping to 69 percent of GDP by 2024.

Notable 'returning' revenue raisers

Among the key revenue raisers carried over from last year's budget package are proposals to:

- Implement the so-called "Buffett Rule," which would require households with incomes over $1 million (subject to phase-ins) to pay at least 30 percent of their income (after charitable giving) in taxes;
- Cap the value of itemized deductions and certain income exclusions for high-income taxpayers at 28 percent;
- Require that a grantor retained annuity trust have a minimum term of 10 years and a maximum term of 10 years more than the annuitant's life expectancy (instead of a more typical term of two years);
- Permanently extend the 2009 estate, gift, and generation-skipping transfer tax parameters;
- Tighten the international tax rules, including provisions to defer deductions of interest expense related to deferred income of foreign subsidiaries, determine foreign tax credits on a pooling basis, tax currently excess returns associated with transfers of intangibles offshore, curtail the use of leveraged distributions to avoid dividend treatment, and limit shifting of income through intangible property transfers;
- Impose a financial crisis responsibility fee on certain large financial institutions;
- Tax income from carried interests at ordinary rates;
- Repeal the nonqualified preferred stock designation and eliminate the "boot-within-gain" limitation under section 356(a)(2);
- Repeal certain longstanding deductions and credits for oil and gas companies; and
- Slow the depreciation schedule for corporate jets.

For details on these and other provisions which were also in the president's fiscal year 2014 budget, see Tax News & Views, Vol. 14, No. 16, Apr. 11, 2013.
URL: http://newsletters.usdbriefs.com/2013/Tax/TNV/130411_1.html

New revenue proposals affecting multinational corporations

The president's budget proposal includes 10 international tax proposals that are repeated virtually unchanged from the fiscal year 2014 budget and would raise roughly $170 billion over the 10-year budget window.

This year's budget also includes six *new* multinational proposals raising over $100 billion that would tighten the subpart F, thin capitalization, and anti-inversion rules. These new proposals are discussed below.

Restrict deductions for what is defined as excessive interest of members of financial reporting groups – The proposal would generally impose a limit on the U.S. interest deductions of certain members of a group of entities based on their shares of the group's earnings before net interest expense, taxes, depreciation, and amortization (EBITDA), in the case of a group that reports at least $5 million of net interest expense on U.S. tax return(s) for a taxable year. Members of a group that is subject to the proposal would be exempt from section 163(j).

The proposal would apply to entities – other than "financial services entities" – that are members of a "financial reporting group": that is, a group that prepares consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS), or other reporting standards prescribed under regulations (which would be expected to include other countries' GAAP in appropriate circumstances).

A member's U.S. interest expense deduction would be limited to (1) the member's interest income plus (2) the member's "proportionate share" of the financial reporting group's net interest expense computed under U.S. income tax principles. "Proportionate share" would generally be based on the member's share of the group's reported EBITDA. If such share is not substantiated, or the member so elects, the limit on its interest deduction would be 10 percent of adjusted taxable income (ATI) as defined in section 163(j).

Consistent with present-law section 163(j), disallowed interest would be carried forward indefinitely, and excess limitation would be carried forward three years.

Where applicable, the proposal would apply before the application of the administration's prior proposal that defers interest deductions allocable to deferred foreign earnings.

This proposal would be effective for taxable years after December 31, 2014, and would raise more than $48.5 billion over 10 years.

Create a new category of subpart F income for transactions involving digital goods or services – The proposal would create a new category of subpart F income known as "foreign base company digital income" (FBCDI). FBCDI would generally include income from the lease or sale of a digital copyrighted article or from the provision of a digital service provided that (1) the controlled foreign corporation (CFC) uses intangible property developed by a related person, including property developed pursuant to a cost sharing agreement, to produce the income; and (2) the CFC does not, through its own employees, make a substantial contribution to the development of the property or services that give rise to the income. A same-country exception would exclude income earned by a CFC from customers located in the CFC's country of incorporation, provided that the digital product or service is used or consumed in that country.

This proposal would be effective for taxable years beginning after December 31, 2014, and would raise more than $11.6 billion by 2024.

Prevent avoidance of foreign base company sales income through manufacturing services arrangements – The proposal would expand foreign base company sales income (FBCSI) to include income of a CFC from the sale of property manufactured on behalf of the CFC by a related person (within or outside the United States). The existing exceptions to FBCSI (e.g., the same-country exceptions based on place of production, or the place of use, consumption, or disposition for which the property is sold) would continue to apply.

It would be effective for taxable years beginning after December 31, 2014, and would raise about $24.6 billion over 10 years.

Restrict the use of hybrid arrangements that create "stateless" income – The proposal would deny deductions for interest and royalty payments made to related parties under certain circumstances involving hybrid arrangements. The Green Book provides no further definition of "certain circumstances" or "hybrid arrangements," although it mentions "repos," hybrid instruments, and hybrid entities as targets of the proposal.

By way of examples, the Green Book explains that the proposal would deny a U.S. deduction when a taxpayer makes an interest or royalty payment to a related party, and either (1) as a result of the hybrid arrangement, there is no corresponding inclusion to the recipient in the foreign jurisdiction; or (2) the hybrid arrangement would permit the taxpayer to claim an additional deduction for the same payment in another jurisdiction.

Regulations could deny deductions:

- From certain conduit arrangements that involve a hybrid arrangement between at least two of the parties to the arrangement;
- From hybrid arrangements involving unrelated parties in appropriate circumstances, such as structured transactions; and
- With respect to payments that, as a result of the hybrid arrangement, are subject to inclusion in the recipient's jurisdiction pursuant to a preferential regime that has the effect of reducing the generally applicable statutory rate by at least 25 percent.

The proposal would be effective for taxable years beginning after December 31, 2014, and is estimated to raise just under $1 billion by 2024.

Limit subpart F exceptions for transactions that use hybrids to create "stateless" income – The proposal would provide that the exceptions from foreign personal holding company income in sections 954(c)(3) and 954(c)(6) (the "same country exceptions" and the "CFC lookthrough" rule, respectively) do not apply to payments made to a foreign reverse hybrid held directly by a U.S. owner when such amounts are treated as deductible payments received from foreign related persons.

The proposal would be effective for taxable years beginning after December 31, 2014, and would raise about $1.3 billion over 10 years.

Further limit the ability of domestic entities to expatriate, including restrictions on foreign corporations "managed and controlled" in the United States – The proposal would tighten the anti-inversion rules of section 7874 in several ways:

- All "surrogate foreign corporations" as defined in the revised section 7874 would apparently be treated as domestic for U.S. tax purposes. Therefore, the alternative to domestic treatment, which now appears in section 7874(a)(1) (and applies only when continuity of ownership is at least 60 percent but less than 80 percent), would be eliminated.
- The definition of surrogate foreign corporation would generally be based on a greater-than-50 percent continuity of ownership test with respect to an expatriated entity, rather than the at-least-60 percent ownership test in current law.
- A foreign corporation could also be a surrogate foreign corporation, notwithstanding 50 percent-or-less continuity of ownership, if its affiliated group has substantial business activities in the United States and the corporation itself is primarily managed and controlled in the United States.

In the case of expatriated entities that are domestic partnerships, section 7874 could be applicable to an acquisition either of (1) substantially all of the assets of the domestic partnership (regardless of whether such assets constitute a trade or business), or of (2) substantially all of the assets of a trade or business of a domestic partnership.

The proposal would be effective for transactions completed after December 31, 2014, and is estimated to raise $17 billion by 2024.

Other corporate revenue provisions

Modify like-kind exchange rules for real property – Under current law, no gain or loss is recognized when business or investment property is exchanged for "like-kind" property. According to the Green Book, the administration sees little justification for deferring gain on real property when other capital assets do not qualify for like-kind treatment, and proposes limiting the amount of capital gain that could be deferred under section 1031 to $1 million (indexed for inflation) per taxpayer per taxable year.

The proposal would be effective for all like-kind exchanges completed after December 31, 2014. It is estimated the proposal would raise more than $18.2 billion over 10 years.

Conform corporate ownership standards – The administration believes that taxpayers can manipulate the differences between the control test of section 368 for tax-free reorganizations, exchanges, and distributions and the affiliation test of section 1504 for consolidated return filing. The proposal would align the two tests to the section 1504 standard, so that control would be defined as the ownership of at least 80 percent of the total voting power and at least 80 percent of the total value of stock of a corporation.

The provision would be effective for transactions occurring after December, 31, 2014, and would raise about $564 million by 2024.

Prevent elimination of earnings and profits (E&P) through distributions of certain stock – The administration says that there "has been a proliferation of transactions in which corporations distribute stock in subsidiaries having artificially high bases but minimal value in an effort to reduce earnings and profits prior to making large distributions in the subsequent taxable period."

The Green Book explains that the proposal would amend the general E&P adjustment rules for distributions of another corporation's stock, so that the distribution would reduce the distributing corporation's E&P "by the greater of the stock's fair market value or the corporation's basis in the stock." The Green Book further notes that for purposes of this provision, the distributing corporation's basis in the distributed stock would be determined without regard to any adjustments resulting from actual or deemed dividend equivalent distributions or "transactions undertaken with a view to create and distribute high-basis stock of any corporation." Treasury would be granted regulatory authority necessary or appropriate to carry out the proposal.

The proposal would be effective on enactment and would raise just under $400 million over 10 years.

Business incentives

Start-up and organizational expenditures – Under current law, a taxpayer may deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins and amortize the remaining amount ratably over the following 180-month period. Similarly, a taxpayer may deduct up to $5,000 of organizational expenditures in the taxable year in which the corporation or partnership begins business and amortize the remaining amount ratably over the following 180-month period. With respect to start-up and organizational expenditures, each $5,000 deductible amount is reduced (but not below zero) by the amount by which the expenditures exceed $50,000.

The administration proposes to permanently allow up to $20,000 of "new business expenditures" to be deducted in the taxable year in which a trade or business begins and to amortize the remaining amount ratably over the 180-month period beginning with the month in which the business begins. The maximum amount of expensed new business expenditures would be reduced (but not below zero) by the amount by which new business expenditures with respect to the business exceed $120,000.

Under the budget proposal, "new business expenditures" would include amounts incurred in connection with:

- Investigating the creation or acquisition of an active trade or business;
- Creating an active trade or business;
- Any activity engaged in for profit and for the production of income before the day on which the active trade or business begins, in anticipation of such activity becoming an active trade or business; and
- Expenditures that are incident to the creation of an entity taxed as a corporation or partnership, chargeable to a capital account, and are of a character which, if expended incident to the creation of a corporation or partnership having a limited life, would be amortizable over such life.

The provision would be effective for taxable years ending on or after the date of enactment. Over the next 10 years, the provision would reduce revenues by an estimated $4.3 billion.

Excise taxes on liquefied natural gas (LNG) – The budget would lower to 14.1 cents per gallon (from 24.3 cents per gallon) the excise tax on liquefied natural gas. Under current law, the 24.3 cents per gallon excise tax is imposed on diesel fuel and LNG used as highway motor fuels to fund the Highway Trust Fund.

The Green Book states that reducing the excise tax on LNG brings it into parity with diesel fuel on an energy-content adjusted basis.

The provision would be effective beginning after December 31, 2014. It would reduce revenues by an estimated $20 million over the next 10 years.

Simplifying the gift tax exclusion for annual gifts

The FY 2015 budget proposes to eliminate the present interest requirement for gifts that qualify for the gift tax annual exclusion, but it would impose an annual limit of $50,000 per donor on transfers of certain property.

In 2014, a donor may give $14,000 of gifts to an individual donee without being subject to tax. There is no limit on the number of donees to whom a donor may give such excluded gifts in any one year. However, each gift must be of a present interest rather than a future interest – such as to a trust for the donee – in the donated property. However, in *Crummey v. Comm'r*, the Ninth Circuit held that a transfer to a trust can qualify as a present interest if the beneficiary has the unrestricted right to withdraw the contribution from the trust, if even for a limited period of time.

The administration argues that the *Crummey* rules are creating significant compliance and enforcement costs and that the IRS is increasingly concerned about the lack of a limit on the number of beneficiaries to whom *Crummey* powers are given. Therefore, the administration proposes to cap the total amount of transfers of property that fall within a new category.

The new category of transfers subject to the proposed annual $50,000 limit per donor would include:

- Transfers in trust (other than to a trust described in section 2642(c)(2));
- Transfers of interest in passthrough entities;
- Transfers of interests subject to a prohibition on sale; and
- Other transfers of property that, without regard to withdrawal, put, or other such rights in the donee, cannot immediately be liquidated by the donee.

The proposal would not affect the current-law rule allowing an unlimited number of donees to receive up to the annual exclusion amount for gifts that do not fall in the above new category.

The proposal would be effective for gifts made after the year of enactment and would raise an estimated $2.9 billion over 10 years.

Earned Income Tax Credit (EITC) relief for workers without qualifying children

The budget includes separate proposals to expand the EITC for workers without qualifying children and simplify the rules for those workers to claim the credit.

Expanded credit for workers without qualifying children – Under current law in 2015, the EITC is phased in at a rate of 7.65 percent on earnings up to roughly $6,570 for workers without qualifying children, meaning that the maximum credit will be about $500. The credit is phased out at a rate of 7.65 percent on income in excess of $8,220 for singles ($13,720 for joint filers) and is completely phased out at incomes of $14,790 for singles ($20,290 for joint filers). Workers without qualifying children must be between the ages of 25 and 65 to be eligible for the EITC, but there is no such age limitation for workers with qualifying children.

The administration argues that the EITC for workers without qualifying children is relatively small and phases out at low income thresholds, and that the current age restrictions prevent young workers and older workers from claiming the credit.

The budget would expand the EITC for workers without qualifying children by:

- Increasing the phase-in and phase-out rates to 15.3 percent, thereby doubling the maximum credit to about $1,000;
- Increasing the beginning of the phase-out range for 2015 to $11,500 for single filers and to $17,000 for joint filers and indexing those amounts in future years; and
- Expanding the age requirements to allow workers between the ages of 21 and 66 without qualifying children to claim the EITC if they are otherwise eligible for the credit.

The provision would take effect for tax years beginning after December 31, 2014, and would increase the deficit by an estimated $59.7 billion over the next 10 years.

Simpler rules for claiming the credit – Under current law, an individual who resides with a qualifying child but does not claim the child on the EITC (for example, if the child is claimed by someone else for purposes of the EITC) is not eligible for any EITC, even the lower credit amount for childless workers. The president's budget proposes to address this by allowing such individuals to receive the EITC for workers without qualifying children. The provision would take effect for tax years beginning after December 31, 2014, and would increase the deficit by an estimated $5.5 billion over 10 years.

Regulation of paid tax return preparers

The budget includes a proposal that would "explicitly provide that the Secretary has the authority to regulate all paid tax return preparers." The Internal Revenue Service had previously issued regulations that imposed requirements, such as registration and continuing education, on paid tax return preparers. These regulations were challenged in court, and the

United States District Court for the District of Columbia concluded in *Loving v. IRS* that current law did not allow the IRS to regulate unenrolled tax return preparers who do not practice – that is, advise or assist taxpayers – before the Internal Revenue Service. This decision was recently affirmed by the United States Court of Appeals for the District of Columbia. The proposal would reverse the court decisions by providing that the IRS has authority to regulate all paid tax return preparers.

The administration's budget proposal would be effective upon enactment and would have no revenue impact.

Changes to filing deadlines

The budget proposes several changes to tax return due dates which the administration says will simplify the filing process. Under the proposal, calendar year partnership and calendar year S corporation returns (Forms 1065 and Forms 1120-S), as well as Schedules K-1 furnished to partners and shareholders, would be due March 15. In addition, returns of calendar year corporations other than S corporations would be due April 15 instead of March 15. The proposal also would accelerate deadlines for filing information returns, such as Forms W-2 and 1099.

The proposal would be effective for returns required to be filed after December 31, 2014, and would raise an estimated $2.6 billion over 10 years.

Limited extenders included

The budget package does not explicitly address many of the 55 temporary tax deductions, credits, and exclusions that expired at the end of 2013. (Significant provisions not mentioned include, among others, the subpart F exception for active financing income and lookthrough rules for CFCs; additional first-year depreciation for 50 percent of basis of qualified property; 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements; and the deduction for state and local general sales taxes.)

The budget proposal does however, include provisions that would renew or make permanent several tax "extenders."

Expand and permanently extend the research and experimentation (R&E) credit – The proposal would make the R&E tax credit permanent for expenditures paid or incurred after December 31, 2013, and increase the rate of the alternative simplified credit from 14 percent to 17 percent, effective for expenditures paid or incurred after December 31, 2014. It would reduce revenues by an estimated $108.1 billion over 10 years.

Modify and permanently extend the renewable energy production tax credit – The proposal would extend the renewable energy production tax credit for facilities on which construction begins before the end of 2014, and make the credit refundable and permanent for facilities on which construction begins after 2014.

The renewable electricity production tax credit also would be available to otherwise eligible renewable electricity consumed directly by the producer, rather than sold to an unrelated third party, to the extent that its production can be independently verified. Solar facilities that currently qualify for the investment tax credit would be eligible for the renewable electricity production tax credit in lieu of the investment tax credit through 2016. Solar facilities placed in service after 2016 would only be eligible for the renewable electricity production tax credit.

The permanent 10 percent business energy credit for solar and geothermal property would be repealed for property placed in service after December 31, 2016. The temporary 30 percent credit for solar investments and the temporary credits for qualifying geothermal heat pump property, small wind property, combined heat and power property fuel cells, and microturbines would be allowed to expire.

The proposal would reduce revenues by an estimated $19.3 billion over 10 years.

Permanently extend the deduction for energy-efficient commercial building property – The proposal would extend the current law for property placed in service before January 1, 2015, and update it to apply Standard 90.1-2004 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America (a nationally accepted building energy code adopted by state and local jurisdictions throughout the United States). For facilities placed in service after December 31, 2014, the proposal would permanently extend and modify the current deduction with a larger fixed deduction of $3.00 per square foot (from $1.80) for improvements that are part of a certified plan designed to reduce energy use by the building as a whole by at least 50 percent, relative to a reference building that meets the minimum requirements of Standard 90.1-2004.

For improvements that are part of a certified plan to reduce energy use by one of the separate building systems by a proportion that would lead to at least 50 percent savings if applied to the building as a whole, the deduction would be $1.00 per square foot. For taxpayers that simultaneously satisfy the energy savings targets for both the building envelope and heating, cooling, ventilation, and hot water systems, the deduction would be $2.20. Energy-savings reference standards would be updated every three years by the Secretary of Treasury in consultation with the Secretary of Energy to encourage innovation by the commercial building industry.

The proposal would also provide a new deduction based on projected energy savings achieved by the retrofitting of existing commercial buildings. Deduction amounts and energy-savings targets would be the same as for new commercial buildings but the building's projected energy savings would be measured relative to a specified energy-use baseline. The new deduction for retrofitting would only apply to existing buildings with at least 10 years of occupancy. Projections of energy savings and specification of the comparison energy-use baselines for existing buildings would be based on methods and procedures provided by Secretary of Treasury in consultation with Secretary of Energy.

Special rules would be provided to allow the credit to benefit a real estate investment trust or its shareholders.

A taxpayer would be permitted to take only one deduction for each commercial building property.

The deduction would be available for property placed in service after December 31, 2014, and would reduce revenues by an estimated $6.1 billion over 10 years.

Modify and extend the tax credit for the construction of energy-efficient new homes – The proposal would extend the tax credit for homes acquired prior to January 1, 2015. For homes acquired after December 31, 2014, and before January 1, 2025, the proposal would provide a $1,000 energy-efficient new home tax credit for the construction of a qualified Energy Star certified new home acquired for use as a residence. In addition, a $4,000 tax credit would be provided for the construction of a qualified Department of Energy (DOE) Challenge Home acquired for use as a residence. To ensure that a new home meets Energy Star or DOE Challenge Home guidelines, verification by a qualified third party would be required. The provision would reduce revenues by an estimated $2 billion over 10 years.

Modify and extend the tax credit for cellulosic biofuels – The proposal would retroactively extend the tax credit for blending cellulosic fuel at $1.01 per gallon through December 31, 2020, and would then reduce the amount of the credit by 20.2 cents per gallon in each subsequent year, so that the credit would expire after December 31, 2024. The provision would reduce revenues by an estimated $1.7 billion over 10 years.

Modify and permanently extend the Work Opportunity Tax credit and Indian employment credit – The budget proposal would permanently extend the Work Opportunity Tax Credit, making it applicable to wages paid to qualified individuals who begin work for the employer after December 31, 2013. For individuals who begin work for the employer after December 31, 2014, the proposal also would expand the definition of a qualified veteran to include disabled veterans who use G.I. Bill benefits to attend a qualified educational institution or training program within one year of being discharged or released from active duty and who are hired within six months of ending attendance at the qualified educational institution or training program. Qualified first-year wages of up to $12,000 paid to such individuals would be eligible for the credit.

The budget proposal also would permanently extend the Indian employment credit to apply to wages paid to qualified employees in tax years beginning after December 31, 2013, and modify the calculation of the credit.

These provisions would reduce revenues by a combined $9.7 billion over 10 years.

Modify and permanently extend the New Markets Tax Credit – The proposal would make the New Markets Tax Credit permanent, with $5 billion allocated each year. It also would permit credit amounts resulting from qualified equity investments made after December 31, 2013, to offset alternative minimum tax liability. The proposal would be effective upon enactment and is estimated to reduce revenues by $8.7 billion over 10 years.

Permanently extend the 2013 section 179 expensing and investment limitations – The proposal would permanently extend the 2013 section 179 expensing and investment limitations. The deduction limit of $500,000 and the $2 million level for beginning the phase-out would be indexed for inflation for all taxable years beginning after 2013, as would the dollar limitation on the expensing of sport utility vehicles. Qualifying property would permanently include off-the-shelf computer software, but would not include real property. An election under section 179 would be revocable by the taxpayer with respect to any property, but a revocation, once made, would be permanent. The proposal would be effective for qualifying property placed in service in taxable years beginning after December 31, 2013, and would reduce revenues by an estimated $56.8 billion over 10 years.

Enhance and make permanent (with modifications) the deduction for contributions of conservation easements – This proposal would make permanent the temporary enhanced incentives for conservation easement contributions that expired on December 31, 2013. The enhanced incentives would: (1) allow individuals to deduct up to 50 percent of their contribution base and allow individuals who are qualified farmers and ranchers to deduct up to 100 percent of their contribution base; (2) allow certain corporate farmers and ranchers to deduct the value of contributions of property used in agriculture or livestock production (and restricted so as to remain available for such production) up to 100 percent of taxable income; and (3) allow all of these donors to deduct any remaining value of the donated easement over the succeeding 15 years. The proposal would be effective for contributions made on and after January 1, 2014, and would reduce revenues by $331 million over 10 years.

Note: Although the budget would permanently extend the deduction for contributions of conservation easements, it also includes revenue proposals from prior years that would (1) eliminate the deduction for any contribution of a partial interest in property that is, or is intended to be, used as a golf course and (2) deny the charitable deduction for any value of a historic preservation easement associated with forgone upward development above a historic building. Both proposals would be effective for contributions made after the date of enactment and are estimated to raise a combined $853 million over 10 years.

Extend the exclusion from income for cancellation of certain home mortgage debt – The exclusion for income from the discharge of qualified principal residence indebtedness would be extended to amounts that are discharged before January 1, 2017, and to amounts that are discharged pursuant to an arrangement entered into before that date. The proposal would reduce revenues by an estimated $7.7 billion over 10 years.

A call for tax reform, but few specifics

As with prior budgets, the president affirms his support for revenue-neutral business tax reform and calls for several revenue raisers in the package to be used to offset the cost of that reform, including a cut in the 35 percent corporate tax rate. However, the budget lacks many specific details: for example, there is no explicit proposal to reduce the corporate tax rate. Moreover, while it is encouraging that the budget calls for some of the revenue raisers in the plan to be used to finance lower tax rates, the amount those provisions would raise is unlikely to be enough to meaningfully reduce tax rates on businesses.

Also following the pattern of prior budgets, the administration does not lay out a path for overhauling the individual income tax rules other than by calling on Congress to "immediately begin work on individual and business tax reform."

Congressional action unlikely

The president's latest budget package reflects the static nature of the tax and spending debate in Washington today. With spending limits in place through fiscal year 2015 – thanks to the budget agreement brokered late last year by House Budget Committee Chair Paul Ryan, R-Wis., and Senate Budget Committee Chair Patty Murray, D-Wash., – and the debt ceiling addressed until next March, there appears to be little desire on the part of Democrats or Republicans to engage in a negotiation to reorient our spending and revenue policies prior to the 2014 midterm elections.

In last year's budget for example, the president called for adopting a more conservative method for calculating inflation adjustments (so-called chained CPI) for spending and tax programs, which he said was being offered to show Republicans his good-faith commitment to a "grand bargain" on spending and revenues. Now that the notion of a grand bargain to bring down the deficit is off the table, this year's budget does not include the chained CPI proposal.

The administration's annual budgeting submission is often received on Capitol Hill with little fanfare or call for action. This year's budget does not appear to be an exception. House Ways and Means Committee Chairman Dave Camp, R-Mich., remarked at a March 6 hearing on the tax and spending blueprint that "increasing taxes to pay for new spending and a larger government, which this budget does, is not real tax reform, and it certainly isn't a plan that will create a stronger economy."

In remarks at a House Budget Committee hearing on March 5, Chairman Ryan likewise dismissed the president's proposal as "just more of the same: higher taxes, more spending, and weak economic growth." Ryan is expected to move his own budget plan through committee in the coming weeks.

Across the Capitol, Sen. Ron Wyden, D-Ore., who recently took over leadership of the Senate Finance Committee, expressed support for the administration's call for business tax reform during a March 5 hearing, but added that a "broader approach that comprehensively overhauls our broken, dysfunctional code would do more to give all Americans – especially in the middle class – the opportunity to get ahead. And we're going to work in a bipartisan way and with the administration closely on that matter."

For her part, Senate Budget Committee Chair Murray released a statement on March 4 calling the president's proposal a "strong blueprint for building on our bipartisan budget deal to create jobs, expand opportunities, and tackle our deficits and debt fairly and responsibly." Murray has also indicated, however, that she does not plan to move a budget resolution through the Senate this year – something many people will cite as evidence that the president's budget should be read more as a document to stake out the differences between the parties leading up to the 2014 midterm elections than as a blueprint for tax and spending decisions this year. Although some lawmakers, particularly in the Democratic-controlled Senate, can be expected to take up some of these proposals on their own or packaged with other revenue and spending initiatives, their goal in doing so may well be to highlight partisan differences rather than to move legislative proposals that can garner enough support to clear both chambers of Congress and make their way to the president's desk.

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