

California Tax Reform Proposals and Their Prospects

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WHO IS CALIFORNIA FORWARD?

- We want to reform state government so it is more responsive and closer to the people it serves
- Non-partisan, nonprofit
- Created in 2008 by five major California foundations →
- Combat state dysfunction and reshape the future of CA by changing the way government operates



1. The California Endowment
2. The Evelyn and Walter Haas, Jr. Fund
3. The William and Flora Hewlett Foundation
4. The James Irvine Foundation
5. The David and Lucille Packard Foundation

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CALIFORNIA TAX AND FISCAL REFORM PROPOSALS AND THEIR PROSPECTS

- A. Measures to raise taxes:
 - 1. Income and sales tax
 - 2. Property tax/splitting the assessment roll
- B. Measures to revise state fiscal processes:
 - 1. The state budget making process
 - 2. The spending limit and vote requirements for fees/taxes

3



TAX MEASURES

GOVERNOR BROWN'S PROPOSAL

Objective: Improve Fiscal Balance

- Adds three new income tax rates:
 - 10.3% ^ \$250,000/\$500,000
 - 10.8% ^ \$300,000/600,000
 - 11.3% ^ \$500,000/\$1,000,000
- Increases state sales tax by .5%
- Revenue estimate depends on the assumptions (\$4.8 B to \$6.9 B)
- Tax increases are temporary and provide revenue for 5 budgets through the 2016-17 fiscal year
- Money goes to the General Fund

4



TAX MEASURES

ADVANCEMENT PROJECT'S PROPOSAL

Objective: Increase funding for K-12 and early childhood education

- Significant changes in income tax rates across the income ladder
- 85% of the proceeds go to K-12 education
- 15% of proceeds go to early childhood education
- Small help to state fiscal condition by paying off state school bonds
- Revenue estimate approximately \$10 B depending on assumptions



TAX MEASURES

CA FEDERATION OF TEACHERS' PROPOSAL

Objective: Increase funding for a variety of state and local programs

- Adds Income tax rates for income <\$1 million and \$2 million
 - Revenue estimate is \$5 – \$6 billion depending on assumptions
- 60% to education
25% to children and senior services
10% to public safety
5% to local road and bridges



TAX MEASURES

SPLIT PROPERTY TAX ASSESSMENT ROLL PROPOSAL (MYSTERY SPONSOR)

Objective: Bring non-residential property assessment closer to market value

- Places non-residential property on a three year reassessment cycle
- Exempts up to \$1 million personal property
- Doubles the homeowner exemption
- Raises \$4 billion per year for the state General Fund

7



CALIFORNIA FISCAL REFORM PROPOSALS AND THEIR PROSPECTS

- Revise the state budget-making process
- Revise that spending limit and vote requirements for fees/taxes
- Revise the vote requirements for certain fees

8



REVISING THE STATE'S FISCAL AFFAIRS

CALIFORNIA FORWARD'S PROPOSAL

Objective: Revise state and local budget processes to focus on results; Increase authority to integrate local services

- Establishes a state multiyear results based budgeting system
- Major new programs identify a means of finance
- Public programs should work collaboratively, with a focus on performance
- Programs should be transparent and accountable for results



REVISING THE STATE'S FISCAL AFFAIRS

CAL-TAX AND THE HOWARD JARVIS TAXPAYERS ASSOC. PROPOSAL

Objective: Revise the state spending limit

- Resets the spending limit base year to 2010-11
- Changes the allocation of money that is in excess of the limit; Reprioritizes use of surplus revenues to pay down debt
- Clarifies the two-thirds legislative approval for tax increases (Prop. 26 fix)
- Major fiscal effects: probably limits growth in state spending over time



REVISING VOTE REQUIREMENTS FOR CERTAIN FEES

ENVIRONMENTAL GROUPS' PROPOSAL

Objective: Allow the Legislature to raise fees for environmental regulatory processes.

- *Allows the legislature to raise fees with a majority vote for environmental and public health regulatory activities*
- *The fee must bear a reasonable relationship to the cost of the activity financed by the fee*

11



THINKING AHEAD ABOUT THE FUTURE OF TAX POLICY

- High reliance on the income tax while sales tax base continues to narrow with higher tax rates
- Nellen Rules of Sound Tax Policy continue to be violated by the Legislature
- California Forward and The Think Long Committee are committed to engaging in a community dialogue on issues of state/social tax policy

12



ADVICE FOR LATE OCTOBER...



13



Tax Policy Conference

02.03.12



California - Governor's Proposed Budget

The Budget of Uncertainties:

- Assumes receipt of \$7 billion from income and SUT increases not yet approved by voters
- Revenue \$3 billion higher than LAO's predictions
- Assumes \$2 billion in PIT growth
- Assumes \$1 billion SUT growth
- Couple billion of fund shifts and deferrals



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Governor's Proposed Budget

Deep cuts, yet 7% General Fund spending increase



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Governor's Proposed Budget

If voters reject tax increase, then trigger cuts...maybe

Program Reductions	Amount (in millions)	Percent of Trigger
Schools (Proposition 98)	\$4,836.9	89.74
Universities (UC & CSU)	400.0	7.42
Courts	125.0	2.32
Forestry and Fire Protection	15.0	0.28
Flood Control	6.6	0.12
Fish and Game	3.5	0.06
Parks	2.0	0.04
Department of Justice	1.0	0.02
Total Ballot Trigger Cuts	\$5,390.0	100.00%



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Governor's Proposed Budget

Tax-Related Proposals:

- **Mandatory Single Sales Factor**
- **Cap-and-Trade**
- **Unemployment Insurance – New Employer Surcharge**
- **Mini Tax Agency Consolidation**
- **FIRM Expansion**



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REFORMING CALIFORNIA'S SALES AND USE TAX LAW



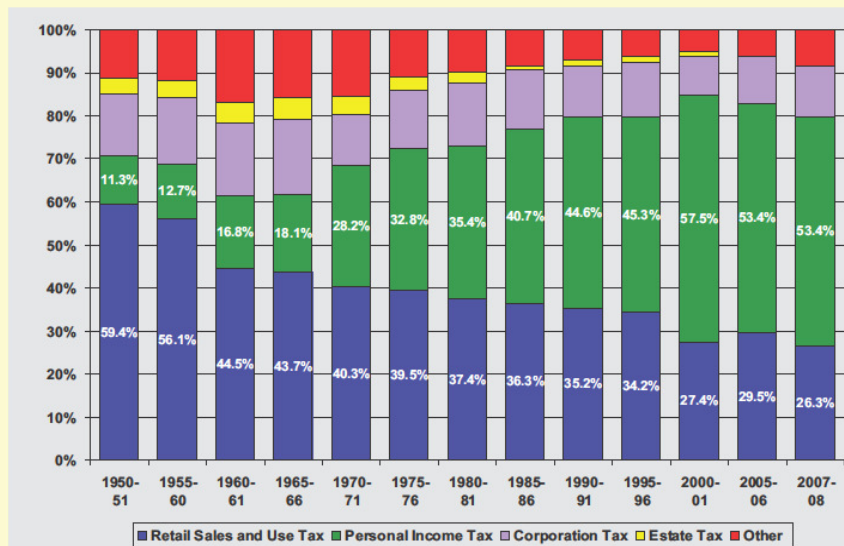
Current Law: An Overview

- California's Sales and Use Tax (SUT) Law imposes a sales tax on *retailers* for the privilege of selling tangible personal property (TPP), absent a specific exemption.
- The tax is based upon a retailer's gross receipts from TPP sales in California.

Where Do Sales Taxes Fit in the Overall Budget Picture?

- The SUT represents the state's second largest source of General Fund (GF) revenues.
- Nevertheless, the past 60 years have seen a dramatic reduction in the state's reliance on the SUT and a corresponding increase in its reliance on personal income tax revenues.
- In FY 2011-12, SUT revenues are estimated to comprise 21% of the state's GF revenues, down from nearly 60% in FY 1950-51.

California State Revenues by Source



Source: Commission on the 21st Century Economy, 2009 Report

Why the Decreased Reliance?

- The SUT Law was enacted in a very different era.
- In the 1930s, California's economy was largely dominated by manufacturing and agriculture, and residents mostly bought and sold tangible goods.
- It made sense to impose the tax on sales of TPP – personal property that may be “seen, weighed, measured, felt, or touched”

A New Era, A New Economy

- Over the past 80 years, California's economy has seen a dramatic increase in the service and technology sectors, resulting in a significant erosion of the SUT base.
- As a result, the ratio of taxable sales to income is currently about 35%, compared to 55% in 1980.

Expanding the Base

- Expanding the SUT to cover “digital equivalents.”
- Taxing Selected Services.
 - California currently imposes a tax on only 21 services, while some other states tax nearly all services (e.g., Hawaii and New Mexico).

Prior Administration’s Proposal

- In his budget proposal for FY 2009-10, Governor Schwarzenegger proposed extending the SUT to the following services:
 - Appliance and furniture repairs.
 - Vehicle repairs.
 - Veterinarian services.
 - Amusement parks, sporting events, and golf courses.(Revenues estimated at \$1.154 billion per FY.)

Think Long Committee for California

- Reduces the sales tax on goods from 5% to 4.5%.
- Expands the sales tax to services at a rate of 5% to 5.5%.
- Exempts education and medical care from the new tax on services.
- Provides unspecified relief to those with low incomes.

Think Long Committee for California (Continued)

- The service tax *rate* would be “phased-in” over a two year period.
- The service tax would apply to all purchases – both personal and business.

Policy Considerations for Any Service Tax Proposal

- Administrative Feasibility
 - How difficult will it be for the Board of Equalization (BOE) to identify new taxpayers?
 - Should the tax be extended first to businesses already registered with the BOE?
 - Time and resources will be needed to draft new regulations, train staff, register new taxpayers, and inform the public of the change in law.
 - Delayed implementation?

Policy Considerations (Continued)

- Avoiding Perverse Incentives
 - Will taxing a particular service encourage consumers to purchase the service out-of-state?
 - For example, if a service tax were imposed on financial advising, many customers would have a large incentive to purchase these services out-of-state.

Policy Considerations (Continued)

- Avoiding the Taxation of Services Purchased by Businesses
 - Any service tax paid by a business will be factored into the prices it charges for goods and services, which, in turn, may be subject to taxation.
 - This results in consumers paying a tax on a tax (i.e., pyramiding), making the tax system less transparent.
 - Could also inadvertently hurt small businesses.

Policy Considerations (Continued)

- Promoting Progressivity
 - California's SUT is already inherently regressive, because lower-income individuals typically spend a larger percentage of their earnings on taxable goods.
 - May wish to consider taxing services primarily consumed by higher-income earners (e.g., golfing, skiing, etc.).

Policy Considerations (Continued)

- Assistance for Newly Registered Service Providers
 - ▣ Adoption of a refundable tax credit to help cover the costs of getting ready to collect the tax.

Policy Considerations (Continued)

- Mechanics of Broadening the Base
- Two Main Options:
 - ▣ The comprehensive approach
 - ▣ The targeted approach

What are the Benefits?

- Promotes fairness, stability, and economic neutrality.
- Revenue.
 - Could prevent cuts to vital services and/or
 - Provide funds to reform other areas of tax law.
- Prevention of higher rates, with their attendant drawbacks (e.g., tax-motivated interstate shopping).

Contact Information

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Number	Link to CalTax Analysis	Official Ballot Measure Title	Status	Primary Committees, with Committee Website Links	Approximate Funding to Date*	Summary	Link to Full Text	Proponent	Editorial Boards	Other Positions	CalTax Position
Key Measures of Interest to Taxpayers, Proposed & Pending: November 6, 2012											
12-0001 (NEW & UPDATED)	-	Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment.	Proponents are gathering signatures. Signatures must be submitted by 06/18/2012.	Support: Californians to Protect Schools, Universities and Public Safety, A Ballot Measure Committee Supported by Governor Jerry Brown	\$1.45 million	Increases the personal income tax rate for top income earners. Increases the state sales and use tax by 0.5 percent from January 1, 2013 through January 1, 2017. Freezes the governor's realignment funding into the constitution for state/local prison funding. Voids a challenge currently being litigated by schools. Earmarks additional revenue for K-14 schools, generally in proportion to revenue limits. The appropriation is self-executing, and funds will be allocated even if no state budget is passed.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i104_9_12-0001_governors_initiative_v2.pdf	Governor Jerry Brown	-	-	-
11-0100	-	Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act Version 2 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office		-	Adds an income tax surcharge to the existing PIT and the 1 percent "millionaire's tax." Taxes would be graduated. Revenue would be spent on various education-related costs and the revenue would be exempted from the state constitution's appropriations limit, and from the Proposition 98 formula for establishing the minimum general fund spending for schools. The taxes would expire December 31, 2024, unless the voters re-approve an extension of the act.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i104_5_11-0100_funds_for_education_v2).pdf	Molly Munger	-	-	-
11-0096	-	The Higher Education, Schools, Public Safety and Healthcare Preservation Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office		-	Imposes a 12.5 percent oil severance tax to fund higher education.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i104_1_11-0096_(revenue_for_higher	John Burton	-	-	-
11-0092	-	The Government Spending Limit Act of 2012 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	Support: Californians Against Excessive Government Spending, sponsored by the California Taxpayers Association, the Howard Jarvis Taxpayers Association and the Small Business Action Committee	-	Limits annual state appropriations to the prior year's level, adjusted for growth in the state's personal income. Requires surplus revenue to be spent on debt service, strengthens the two-thirds vote requirement for legislative enactment of laws that authorize or raise taxes. Imposes fiscal discipline on government, and forces the state to live within its means.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i103_7_11-0092_(spending_cap).pdf	California Taxpayers Association, the Small Business Action Committee, and the Howard Jarvis Taxpayers Association	-	-	-
11-0091	-	The California Funding Restoration Act of 2012 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office		-	Increases personal income taxes for top-income brackets by adding an additional surcharge. For taxpayers with a taxable income of \$1 million or more, an income tax of 3 percent would be applied and for incomes above \$2 million a rate of 5 percent would be applied.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i103_6_11-0091_(personal_income_tax_for_revenue).pdf	California Federation of Teachers	-	-	-

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11-0087 (UPDATED)	-	Requires Assessment of Most Commercial Property Every Three Years. Provides Tax Reduction for Homeowners, Renters, and Businesses. Initiative Constitutional Amendment and Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/21/2012.	-	-	Eliminates Proposition 13 protections for business properties by requiring local county assessors assess business properties at fair market value.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1031_11-0087_(tax_loopholes).pdf	Remcho Johanssen and Purcell (Past clients include the California Teachers Association)	-	-	-
11-0080 (UPDATED)	-	Tax Treatment for Multistate Businesses. Clean Energy and Energy Efficiency Funding. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/11/2012.	-	-	Requires businesses to calculate corporate taxes by using the single sales factor apportionment formula. Raises \$1 billion annually to fund energy efficiency projects for public and private buildings, job training programs, and K-12 schools and community colleges.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1024_11-0080_(clean_energy_jobs).pdf	Joseph Caves, Conservation Strategy Group (Clients include LA County, Environmental Defense Fund, Natural Resources Defense Council, and others)	-	Support: Tom Steyer	-
11-0079 & 11-0078 (UPDATED)	-	Voting Requirement. Polluter Fees. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/18/2012.	-	-	Repeals provisions of Proposition 26 by authorizing the state to impose certain environmental-related hidden taxes by a majority vote. The key difference between 11-0078 and 11-0079 is that 11-0078 applies to any activity that has an environmental impact, while 11-0079 applies to any business activity that causes an environmental impact.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1023_11-0079_(polluters_v2).pdf	Joseph Caves, Conservation Strategy Group (Clients include LA County, Environmental Defense Fund, Natural Resources Defense Council, and others)	-	-	-

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11-0068	-	State Budget. State and Local Government. Initiative Constitutional Amendment and Statute.	In circulation. Signatures must be submitted by 5/29/2012.	Support: California Forward Issues Action Fund	\$717,412	Contains a number of changes to the budget process and government accountability. One provision would effectively prohibit legislation (including the Governor's budget) that reduces taxes by \$25 million or more, unless another tax is increased or funding for an existing program is reduced or eliminated.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1011-11-0068_government_performance.pdf	California Forward	-	-	-
11-0045	-	Tax on Controlled Substances. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 04/19/2012.	-	-	Imposes a tax of \$0.0025 on every pill manufactured in or imported into the State of California. Proponents believe this would raise \$5 million for drug enforcement programs of the Attorney General. The initiative only applies to drugs identified by Schedule II, III or IV of the Drug Enforcement Administration.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i988-11-0045_fund_for_cures.pdf	Robert Pack, Founder of the Troy and Alana Pack Foundation	-	-	-
11-0044	-	Tax on California Oil and Natural Gas. Revenues to Education. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 04/19/2012.	-	-	Imposes a 15 percent oil extraction tax on the value of every barrel of oil extracted onshore and offshore in California. The funds would be allocated to the University of California, the California State University and the California Community College systems.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i986-11-0044_oil_for_education.pdf	Peter Matthews, Rescue Education	-	-	-
11-0033	-	Tax on California Oil and Natural Gas. Revenues to Education. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 03/19/2012.	Save Californians Education	-	Imposes a tax of 10 percent of the gross value of each barrel of oil or gas extracted within the state. The ballot-box-budget initiative would earmark the revenue from this tax increase to the California State University, University of California, California Community Colleges, K-12 education and Cal Grants for low-income students.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i976-11-0033_tax_on_oil_to_fund_higher_education.pdf	Phillip D. Sales II	-	-	-
Other Key Measures of Interest to Taxpayers: November 6, 2012											
11-0097	-	The Corporate Political Accountability Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Prohibits corporations from making any expenditure for a political purpose, unless the company's shareholders approve the expenditure.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1042-11-0097_corporate_accountability.pdf	Remcho, Johansen & Purcell, LLP	-	-	-
11-0086 (UPDATED)	-	Tax to Pay Tuition and Fees at California Public Universities. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/21/2012.	-	-	Taxes high-income brackets to provide free tuition to California residents enrolled at UC and CSU.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1030-11-0086_resident_school_tuition.pdf	Suneal Kolluri, Richard Boettner, and Kara Duros	-	-	-

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11-0064	-	Government Employee Pension Reform Act 2 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Authorizes the Legislature to implement a hybrid retirement system for government employees hired on or after July 1, 2013. The hybrid system provides a maximum combined benefit to 75 percent of base wages, and limits the defined benefit portion of the hybrid plan to specified pension payments, employer contributions, and accounting/actuarial assumptions to avoid unfunded liabilities.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1007-11-0064_pension_reform_v2.pdf	Roger Niello, Dan Pellissier, and Mike Genest	-	-	-
11-0063	-	Government Employee Pension Reform Act 1 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Proposes a comprehensive two-pronged approach to bring pension costs for state and local new hires and existing employees under control, and to increase retirement board expertise.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1006-11-0063_pension_reform_v1.pdf	Roger Niello, Dan Pellissier, and Mike Genest	-	-	-
Referendum Measures Filed: November 6, 2012											
11-0028 (UPDATED)	-	Redistricting, State Senate Districts, Referendum.	Signature gathering complete. Signatures are being verified by election officials.	Oppose: F.A.I.R. - Fairness & Accountability in Redistricting	\$ 2.75 million	Refers senate district maps approved by the Citizens Redistricting Commission to voters for enactment. Once signatures are submitted, the maps will not go into effect and the California Supreme Court will redraw the maps. A yes vote would keep the maps in effect, a no vote would require the courts to redraw these districts.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i968_redistricting_maps.pdf	California Republican Party	-	-	-
All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
12-0004 (NEW)	-	Stop the \$100 Billion Bullet Train to Nowhere Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Prohibits the State of California from issuing bonds to fund high speed rail.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1052-12-0004_bullet_train.pdf	Senator Doug LaMalfa	-	-	-
12-0003 (NEW)	-	Corporations are Not People Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Adds to the state constitution that a "corporation is not a person, and corporations are not due constitutional rights which human beings are naturally due."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1051-12-0003_corporations.pdf	Kyle L. Sison	-	-	-
12-0002	-	Brain Syndrome and Severely Disabled Veterans Property Tax Exemption Initiative (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Provides a property tax exemption for veterans who are blind or severely disabled.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1050-12-0002_proper.pdf	Veterans of American Base 0200	-	-	-
11-0095	-	The Citizen Legislature Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	Support: Citizen Legislature - 2012	\$ 35,000	Would make California's legislature a part-time body. Starting January 1, 2013, the Legislature would meet for 30 days, then recess, and reconvene in May for 60 days.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1040-11-0095_part_time.pdf	Assemblywoman Shannon Grove	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0094	-	Undocumented Immigrants. Requires State Law Enforcement Officers to Enforce Federal Immigration Law. Denies Driver's Licenses to Undocumented Immigrants. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/28/2012.	-	-	Prohibits state from accepting drivers license or identification card for proof of lawful status.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1039_11-0094_(transnational_gang_protection).pdf	Ted Hilton	-	-	-
11-0093	-	Children Learning Accurate Social Science Act	Awaiting Title and Summary from the Attorney General's Office	-	-	Repeals state laws requiring public schools to include curriculum relating to the sexual orientation of historical figures.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1038_11-0093_(no_on	Kevin T. Snider, Pacific Justice Institute	-	-	-
11-0099	-	The California Right to Know Genetically Engineered Food Act (No Official Title and Summary at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Requires food labels to identify if food has been genetically modified.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1044_11-0099_(genetically_engineered_food_v2).	James Wheaton	-	-	-
11-0098	-	The Medical Marijuana Regulation, Control and Taxation Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Amends state statutes on medical marijuana.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1044_11-0099_(genetically_engineered_food_v2).	James Wheaton	-	-	-
11-0089	-	The California Opportunity and Prosperity Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Authorizes illegal immigrants without a social security number to pay personal income taxes in California.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1033_11-0089_(payment_of_state_income_taxes).	Felipe Fuentes and John Cruz	-	-	-
11-0085	-	Education. Repeals Non-Discrimination Requirements for School Instruction. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/25/2012.	-	-	Repeals state laws requiring public schools to include curriculum relating to the sexual orientation of historical figures.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1027_11-0083_(sb_48).pdf	Richard Rios	-	-	-
11-0084 (UPDATED)	-	Elimination of California High Speed Rail Authority. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/21/2012.	-	-	Requires that the California High Speed Rail project be halted effective immediately.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1028_11-0084_(high_s	Peter Seidel	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0083	-	The Bipartisan Initiative to Restore Local School Board Control Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Repeals state laws requiring public schools to include curriculum relating to the sexual orientation of historical figures.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1027_11-0083_(sb_48).pdf	Louis P. Sheldon of the Traditional Values Coalition	-	-	-
11-0082 (UPDATED)	-	Limits on Hospital Charges. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/18/2012.	Support: Yes for a Healthy California, sponsored by SEIU United Healthcare West	-	Changes various laws regulating for-profit and non-profit hospitals.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1026_11-0082_(health_care_pricing).pdf	Drafted by Olson, Hagle Fishburn. Filed by SEIU members.	-	-	-
11-0081 (UPDATED)	-	Nonprofit Hospitals. Required Minimum Charity Care. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/18/2012.	Support: Yes for a Healthy California, sponsored by SEIU United Healthcare West	-	Changes tax treatment of non-profit hospitals.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1025_11-0081_(health_care).pdf	Drafted by Olson, Hagle Fishburn. Filed by SEIU members.	-	-	-
11-0077 (UPDATED)	-	Prohibits Abortions for Females Under 18 Without Parental Notification and Waiting Period. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/11/2012.	-	-	Changes constitution to prohibit abortion for minors until physician notifies parent/legal guardian. Requires physicians to report abortion information to Dept. of Public Health. Physicians can be sued for violating these provisions up to 12 years after abortion.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1020_11-0077_(parental_notification_2c).pdf	John Smith	-	-	-
11-0076 (UPDATED)	-	Prohibits Abortions for Females Under 18 Without Parental Notification. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/11/2012.	-	-	Changes constitution to prohibit abortion for minors until physician notifies parent/legal guardian. Requires physicians to report abortion information to Dept. of Public Health. Physicians can be sued for violating these provisions up to 12 years after abortion.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1019_11-0076_(parental_notification_1c).pdf	John Smith	-	-	-
11-0075 (UPDATED)	-	Education. Permits Parents to Excuse Children from Instruction in Social Sciences and Family Life. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/11/2012.	Committee for Parental Rights in Education	-	Authorizes parents to excuse their children from public instruction in health, social science and family life courses, if the educational material conflicts with a religious training or beliefs, or other moral convictions.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1018_11-0075_(equality_in_education).pdf	Richard Rios	-	-	-
11-0074 (UPDATED)	-	Education. Repeals Non-Discrimination Requirements for School Instruction. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 06/11/2012.	Committee to Repeal SB 48	-	Repeals state laws requiring public schools to include curriculum relating to the sexual orientation of historical figures.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1017_11-0074_(repeal_sb_48).pdf	Richard Rios	-	-	-

Number	Link to CalTax Analysis	Official Ballot Measure Title	Status	Primary Committees, with Committee Website Links	Approximate Funding to Date*	Summary	Link to Full Text	Proponent	Editorial Boards	Other Positions	CalTax Position
All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0073	-	Marijuana Legislation. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/4/2012.	-	-	Legalizes marijuana consumption for individuals age 21 and over. Prohibits state and local law enforcement from using funds for assisting federal law enforcement of marijuana laws.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11016_11-0073_(hemp_legalization).pdf	Michael Jolson and Berton Duzy	-	-	-
11-0072	-	Approval of Healthcare Insurance Rate Changes. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/4/2012.	-	-	Requires insurance companies to publically disclose justification for their rates.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11015_11-0072_(insurance_affordability_v2).pdf	Jamie Court	-	-	-
11-0071	-	Genetically Engineered Foods. Mandatory Labeling. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/4/2012.	-	-	Requires food labels to identify if food has been genetically modified.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11014_11-0071_(genetically_engineered_food).pdf	James Wheaton	-	-	-
11-0070	-	Approval of Healthcare Insurance Rate Changes. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/1/2012.	Oppose: Californians Against Higher Healthcare Costs. A Coalition of Doctors, Hospitals, Health Insurers, and California Employers.	-	Requires insurance companies to publically disclose justification for their rates.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11013_11-0070_(insurance_affordability).pdf	Jamie Court	-	-	-
11-0069	-	Equal Male/Female Membership of the Legislature. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/29/2012.	-	-	Requires legislative representation to be composed of a population that is 50 percent male and 50 percent female.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11012_11-0069_(equality_in_legislature).pdf	BC Keith	-	-	-
11-0067	-	Legislative Expansion. Legislative Process. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/1/2012.	-	-	Increases the number of representatives serving in the Assembly and Senate. Creates model of representation based on neighborhoods.	http://ag.ca.gov/cms_attachments/initiatives/pdfs/11011_11-0067_(legislature_reform).pdf	John Cox	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0066	-	Elimination of Benefits for Part-Time Local Officials. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/25/2012.	-	-	Bans part-time local government officials from receiving any benefit other than monetary compensation. The ban would apply to health insurance, pensions, car allowances, home allowances, membership dues and all other perks.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1009_11-0066_(part-time_politicians).pdf	Peter Foy, Member of the Ventura County Board of Supervisors	-	-	-
11-0065	-	Undocumented Immigrants. Requires State Law Enforcement Officers to Enforce Federal Immigration Law. Denies Driver's Licenses to Undocumented Immigrants. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/25/2012.	-	-	Increases crimes and penalties for individuals and employers that violate federal immigration laws.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1008_11-0065_(taxpayer_protection).pdf	Ted Hilton	-	-	-
11-0062	-	Online K-12 Education. College Preparatory Courses. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 6/1/2012.	-	-	Improves student education through more efficient practices, such as online course college-prep class offerings for high school students.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1005_11-0062_(student_rights).pdf	Philip D. Kohn	-	-	-
11-0060	-	Health Insurance. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/25/2012.	-	-	Protects consumers from various health insurance practices, sponsors claim. The initiative would prohibit health insurers from practicing deceptive or fraudulent acts.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1003_11-0060_(health_insurer_accountability).pdf	John Mertz	-	-	-
11-0059	-	Human Trafficking. Penalties. Sex Offender Registration. Initiative Statute.	In circulation. Signatures must be submitted by 5/21/2012.	Support: Californians Against Sexual Exploitation - sponsored by a coalition of criminal justice organizations	\$ 142,078	Increases penalties for individuals convicted of trafficking humans for sexual exploitation.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1002_11-0059_(human_trafficking).pdf	Remcho Johanssen and Purcell on behalf of Daphne Phung, Californians Against Slavery; and Christopher Kelly, former Facebook executive.	-	-	-
11-0058	-	Reinstates Right of Same-Sex Couples to Marry. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/14/2012.	-	-	Redefines marriage, definition reads: "Marriage is between only two persons and shall not be restricted on the basis of race, color, national origin, sex, gender, sexual orientation, or religion."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1001_11-0058_(civil_marriage).pdf	Love, Honor, Cherish, by Thomas B. Watson	-	-	-
11-0057	-	Three Strikes Law. Sentencing for Repeat Felony Offenders. Initiative Statute.	In circulation. Signatures must be submitted by 5/14/2012.	Support: Committee for Three Strikes Reform Sponsored by the NAACP Legal Defense Fund and the Educational Fund, Inc.	\$ 358,000	Changes state penal code to reduce criminal sentences for long-term health care for elderly inmates, low-risk criminals, and non-violent inmates serving life sentences for minor crimes.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i1000_11-0057_(three_strikes).pdf	Dan Newman	-	NAACP, Education Fund	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0056	-	Concealed Firearms Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/14/2012.	-	-	Authorizes individuals to apply for a license to carry concealed firearms.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0056_(concealed_firearms).pdf	David John Clark	-	-	-
11-0054	-	Regulation of Corporations. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 5/18/2012.	-	-	Authorizes the Legislature to determine which corporations may be established or formed in the State of California.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0054_(corporations).pdf	Thomas Montague Hall	-	-	-
11-0053	-	California Taxpayer Protection Act of 2012 (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	Support: Taxpayer Revolution Sponsoring the California Taxpayer Protection Act	\$ 68,350	Prohibits illegal immigrants from obtaining access to state-funded grants, scholarships, fee-waivers, reimbursements, or student aid programs for educational expenses.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0053_(taxpayer_protection).pdf	Tirso Del Junco	-	-	-
11-0052	-	Repeal Dills Act (No Official Title at This Time)	Awaiting Title and Summary from the Attorney General's Office	-	-	Prohibits state employees from participating in a strike.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0052_(dills_act).pdf	Peace Officers of California	-	-	-
11-0051	-	State Bank. Tax on California Oil and Gas. Initiative Constitutional Amendment	In circulation. Not yet gathering signatures. Signatures must be submitted by 05/07/2012.	-	-	Imposes a tax on oil extraction, at a rate of "not less than 15 percent of the gross value of the oil or gas extracted," and also states that the Legislature shall do so with "a majority of the membership of each house concurring." Revenue would be used to fund the Sustainable California State Bank, which would be created by the measure.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0051_(state_bank).pdf	Jeffrey L Heaton	-	-	-
11-0049	-	Prohibits Abortions for Females Under 18 Without Parental Notification and Waiting Period. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 04/30/2012.	-	-	Requires a physician to notify a minor's parents or legal guardians prior to performing an abortion.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0049_(parental_notification).pdf	John Smith	-	-	-
11-0048	-	Prohibits Abortions for Females Under 18 Without Parental Notification. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 04/30/2012.	-	-	Requires a physician to notify a minor's parents or legal guardians prior to performing an abortion.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/11-0048_(parental_notification).pdf	John Smith	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0046	-	Marijuana Legislation. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 04/19/2012.	-	-	Repeals state laws prohibiting the use of recreational marijuana.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/989_11-0046_(repeal_cannabis).pdf	Joe Rogoway, Frank Lucido, Pebbles Trippet, William Panzer, Omar Figueroa	-	-	-
11-0043	-	Elimination of Environmental Protection Laws and Agencies. Initiative Constitutional Amendment and Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 4/19/2012.	-	-	Prohibits the State of California from taxing or imposing fees or assessments on life, liberty, production, distribution, use and consumption of air, carbon dioxide, water, food, shelter, energy, and/or universal "heal thy self-care."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/985_11-0043_(bill_of_rights).pdf	Oscar Alejandro Braun	-	-	-
11-0042	-	Nuclear Power. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 4/16/2012.	-	-	Establishes stricter regulations on nuclear power. Authorizes the Public Utilities Commission to evaluate and report on risks associated with nuclear power at existing and future locations.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/987_11-0042_(nuclear_power).pdf	Ben Davis, Jr.	-	-	-
11-0041	-	Constitutional Definition of a Person. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 4/16/2012.	-	-	Changes the California Constitution to define a person as all living human organisms, regardless of biological development.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/984_11-0041_(human_rights).pdf	The California Civil Rights Foundation	-	-	-
11-0040	-	Reduced Marijuana Penalties. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 4/5/2012.	-	-	Lowers criminal penalties for low-level possession of marijuana from an infraction to a lesser offence. Prohibits use of criminal facilities and prisons for marijuana users.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/983_11-0040_(marijuana_penalties).pdf	Bill Zimmerman (Also filed split roll measure in the early-1990s)	-	-	-
11-0039	-	Marijuana Legislation. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 3/26/2012.	-	-	Legalizes marijuana consumption for individuals age 21 and over. Authorizes the state to develop taxes, fees and regulations for marijuana similar to those applied to the wine industry.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/982_11-0039_(recreational_use_of_marijuana_v2).pdf	Retired Orange County Superior Court Justice James P. Gray	-	-	-
11-0038	-	Prohibits Abortions for Females Under 18 Without Parental Notification and Waiting Period. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 3/23/2012	-	-	Requires a physician to notify a minor's parents or legal guardians prior to performing an abortion.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/981_11-0038_(parental_notification_2a).pdf	John Smith	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0037	-	Prohibits Abortions for Females Under 18 Without Parental Notification and Waiting Period. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 3/23/2012	-	-	Requires a physician to notify a minor's parents or legal guardians prior to performing an abortion.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1980_11-0037_(parental_notification_1a).pdf	John Smith	-	-	-
11-0035	-	Death Penalty Repeal Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 03/19/2012.	-	-	Prohibits the use of the death penalty for criminals. Allocates \$40 million from the state's general fund for public safety.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1978_11-0035_(repeal_the_death_penalty).pdf	Remco, Johansen & Purcell	-	-	-
11-0034	-	The Repeal Cannabis Prohibition Act of 2012 (No Official Ballot Title Assigned at This Time)	Awaiting Title and Summary from the Attorney General's Office	The Committee to Repeal Cannabis Prohibition	-	Repeals state laws prohibiting the use of recreational marijuana use and consumption. Authorizes the Department of Public Health to regulate marijuana use.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1977_11-0034_(repeal_cannibus_prohibition).pdf	Joe Rogoway, Frank Lucido, Pebbles Trippet, William Panzer, Omar Figueroa	-	-	-
11-0032	-	State and Local Government Officials. Retirement Benefits. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 03/08/2012.	-	-	Provides that "The same retirement rules shall apply to politicians as the most restrictive rules which apply to any subordinate employee in the same organization in which the politician serves or served."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1975_11-0032_(fair_and_proportional_retirement_for_public_officials).pdf	Larry Click	-	-	-
11-0031	-	State and Local Government Officials. Personal Liability. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 03/08/2012.	-	-	States that "Politicians shall be held personally liable for unscrupulous behavior, and shall personally pay their own costs for litigation which their actions caused."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1974_11-0031_(political_personal_responsibility_act).pdf	Larry Click	-	-	-
11-0030	-	Gifts to State and Local Government Officials. Disqualification. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 03/08/2012.	-	-	Provides that "Any politician who receives an excessive contribution may NOT vote on, and may NOT influence, any matter of government business which disproportionately benefits the specific excessive contributor or any special interest."	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1973_11-0030_(fair_representation_and_political_financing).pdf	Larry Click	-	-	-

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All Other Ballot Measures Filed with the Attorney General: November 6, 2012											
11-0027	-	State and Local Government Purchasing. Made in United States. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 2/27/2012.	-	-	Prohibits all mining and manufacturing businesses from purchasing any tangible personal property, and incorporating that property into real property, in the state of California unless the manufacturer or miner is doing the manufacturing on real property located in the United States.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1960_11-0027_(manufacturing_jobs_back_to_california).pdf	Bill Zimmerman (Also filed split roll measure in the early-1990s)	-	-	-
11-0026	-	Reduces Pension Benefits for Public Employees. Creates a New State Retirement System for Private Sector Employees. Initiative Statute.	In circulation. Not yet gathering signatures. Signatures must be submitted by 2/10/2012.	-	-	Makes a number of changes to the existing public employee retirement system by prohibiting pension spiking, adjusting final compensation figures to an average, and limiting cost-of-living adjustments.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1959_11-0026_(pension_reform).pdf	Ted Costa, President of the People's Advocate	-	-	-
11-0022	-	Increases Retirement Age for Teachers, Peace Officers, and Other Public Employees. Initiative Constitutional Amendment	In circulation. Not yet gathering signatures. Signatures must be submitted by 2/3/2012.	-	-	Increases the age at which public employees become eligible for retirement. For employees whose pensions are under the CalPERS and CalSTRS system, the minimum age would increase to 65, while sworn public safety officers would become eligible at 58 years of age.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1956_11-0022_(raise_public_retirement_age).pdf	Lanny Ebenstein, President of the California Center for Public Policy	-	-	-
11-0021	-	Increases Income Taxes on Teachers, Nurses, Police Officers, Firefighters, and Other Public Employees for Pension Income. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 2/3/2012.	-	-	Imposes a state income tax of 15 percent in addition to existing state income taxes on all public employees earning more than \$100,000 per year.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1954_11-0021_(tax_public_pensions).pdf	Lanny Ebenstein, President of the California Center for Public Policy	-	-	-
11-0020	-	Eliminates Collective Bargaining Rights for Teachers, Nurses, Police Officers, Firefighters, and Other Public Employees. Initiative Constitutional Amendment.	In circulation. Not yet gathering signatures. Signatures must be submitted by 2/3/2012.	-	-	Prohibits all state and local governmental entities from negotiations with labor unions that bargain collectively.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/1953_11-0020_(end_public_sector_bargaining_act).pdf	Lanny Ebenstein, President of the California Center for Public Policy	-	-	-

Number	Link to CalTax Analysis	Official Ballot Measure Title	Status	Primary Committees, with Committee Website Links	Approximate Funding to Date*	Summary	Link to Full Text	Proponent	Editorial Boards	Other Positions	CalTax Position
Qualified Ballot Measures: June 5, 2012											
Prop. 28	Term Limits	Limits on Legislators' Terms in Office	Qualified for next statewide election.	Support: Californians for a Fresh Start (AFL-CIO and Businesses) Oppose: No opposition committee formed at this time.	\$2.1 million -	Reduces the length of a term a Legislator can serve in office from 14 years to 12 years, but allows a Legislator to serve their 12 years in any house they choose.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i845_initiative_09-0048_(a1s).pdf	Los Angeles Area Chamber of Commerce; Los Angeles County Federation of Labor (AFL-CIO)	None at this time.	Support: None at this time. Oppose: None at this time.	Did not take a position.
Prop. 29	Tobacco Tax Increase, Version Three	Imposes Additional Tax on Cigarettes for Cancer Research	Qualified for next statewide election.	Oppose: Taxpayers Against Out-of-Control Spending Support: Californians for a Cure (Don Perata, American Lung Association)	\$5.3 million \$1.4 million	Imposes an additional excise tax on tobacco products to fund cancer related research.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i895_initiative_09-0097.pdf	Former State Senator Don Perata and Lance Armstrong	None at this time.	Oppose: Howard Jarvis Taxpayers Association Support: American Cancer Society, American Lung Assn., & American Heart Assn.	Oppose
Qualified Ballot Measure: November 6, 2012											
11-0010	-	Prohibits Political Contributions by Payroll Deduction. Initiative Statute.	Qualified for the November 2012 ballot.	Support: Californians Against Special Interests Oppose: Alliance for a Better California 2012 (A Coalition of Educators, Firefighters, School Employees, Health Care Givers, and Labor Organizations)	\$3.58 million \$1.97 million	Prohibits any corporation, public employee union, or any government contractor from donating campaign funds to a candidate, candidate's committee, or political committee. Prohibits corporations, public employee labor unions, government contractors and government employers from deducting an employee's wages or earnings for political purposes.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i941_initiative_11-0010.pdf	Lew Uhler, President of the National Tax Limitation Committee	-	Support: Former LA Mayor Richard Riordan, the Lincoln Club, HJTA, and ACEC. Oppose: CTA, AFL-CIO, CA Federation of Teachers, CA Professional Firefighters, Peace Officers Research Association, UFCW.	-
11-0013 (UPDATED)	-	Changes Law to Allow Auto Insurance Companies to Set Prices Based on a Drivers History of Insurance Coverage. Initiative Statute.	Qualified for the November 2012 ballot.	Support: 2012 Auto Insurance Discount Act (Sponsored by the American Agents Alliance with Support from California Insurance Providers for Competitive Prices and Consumer Discounts)	\$8.3 million	Allows insurance companies to offer discounted rates to consumers that have maintained continuous coverage.	http://aq.ca.gov/cms_attachments/initiatives/pdfs/i944_initiative_11-0013.pdf	American Agents Alliance	-	-	-
Prop. 18	-	Safe, Clean, and Reliable Drinking Water Supply Act of 2012	Qualified for the November 2012 ballot.	Support: Conservation Action Fund (Environmental Groups) Support: Alliance For Clean Water and New Jobs (Governor Schwarzenegger, Environmentalists and Employers) Oppose: Consumer Advocates Against the Water Bond Oppose: Committee to Oppose Statewide Water Bonds (United Farm Workers, and others)	- \$1.1 million - -	Authorizes the sale of \$11 billion in state bonds to fund various water related projects in California. Note: This proposition originally was expected to appear on the November 2010 ballot, but the state Legislature agreed to move it to the 2012 ballot.	http://www.sos.ca.gov/elections/ballot-measures/pdf/sbx7-2-ch-3-stats-09.pdf	Senator Dave Cogdill and Governor Arnold Schwarzenegger	None at this time.	Support: CalChamber, Bay Area Council, CBPA, CBIA, CA Business Roundtable, Western Growers Association, Nature Conservancy Oppose: CA Teachers Assn, United Farm Workers	-

Number	Link to CalTax Analysis	Official Ballot Measure Title	Status	Primary Committees, with Committee Website Links	Approximate Funding to Date*	Summary	Link to Full Text	Proponent	Editorial Boards	Other Positions	CalTax Position
Qualified Ballot Measure: November 4, 2014											
ACA 4	Rainy Day Fund	State Budget. Changes California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.	Qualified for the November 2014 Ballot.	Support: No supporting committee formed at this time. Oppose: No opposition committee formed at this time.	- -	Modifies the state's Rainy Day Fund. AB 1619 places the measure on the presidential primary election, which is scheduled for June 2012. SB 202 (Hancock) of 2011 placed this measure on the November 2014 ballot.	http://info.sen.ca.gov/pub/09-10/bill_asm/ab_0001-0050/aca_4_bill_20101007_amended_asm_v95.pdf	Assemblymen Mike Gatto and Roger Niello	None at this time.	Support: None at this time. Oppose: None at this time.	Support

*Funding includes "Contributions Received" and "Late \$5,000+ Contributions Received," as reported to the Secretary of State. All contribution numbers have been rounded.



INITIATIVE TO LIMIT EXCESSIVE GOVERNMENT SPENDING FACT SHEET

The Government Spending Limit Act of 2012 was filed by the California Taxpayers Association, Howard Jarvis Taxpayers Association and Small Business Action Committee to force state government to live within its means.

The initiative will keep the Legislature from approving excessive spending, will prioritize use of revenue in excess of the limit, and will allow government to grow no faster than the economy.

This limit on excessive government spending will ensure that as California's economy recovers and state tax revenue grows, the money no longer will be spent faster than it comes in. The limit is a common-sense way to bring discipline to the state government's use of the tax dollars sent to Sacramento by hard-working Californians.

Why is this needed? Because history shows us that without a spending limit in place, the next state revenue surge will be committed to ongoing, unsustainable spending, and the state's structural budget imbalance will continue despite the growth in tax revenue. As the *Orange County Register* wrote in an editorial supporting this initiative: "State spending increased by \$39 billion since 2000. The state's debt hovers at nearly \$200 billion. Unfunded government employee pension liability is estimated as high as \$500 billion. The current budget, balanced last June with gimmicks and wishful thinking, is estimated to run as much as \$13 billion in the red by July."

Since 1979, California has operated under a spending limit known as the "Gann Limit" (Article XIII B of the California Constitution). Unfortunately, new laws and the passage of time have made the Gann Limit virtually inoperative, as the maximum spending allowed under the limit is well in excess of any proposed spending.

This new initiative simply updates the Gann Limit in two ways, to make it work again:

- **Updates the Base Year.** This proposal changes the base year from 1986-87 to 2010-11, the most recent fiscal year in which spending data is complete. This brings the Gann Limit back in sync with today's budget numbers.

- **Changes How Proceeds Above the Limit Are Treated.** When the state collects more tax money than it needs to keep programs in step with economic growth, the excess money will be used to pay off debt, to support schools and a “rainy day” fund, or will be returned to taxpayers.

Under current law, amounts in excess of the limit are to be refunded 50 percent to schools and 50 percent to taxpayers. Under the Spending Limit Act of 2012: If debt service exceeds 5 percent of the limit, all funds in excess of the limit are to be used to pay down debt service; If debt service is less than 5 percent of the limit, 50 percent of the excess between \$0 and \$2 billion will go to schools (but will not be added to the Proposition 98 base) and 50 percent will go to a prudent reserve; If the excess is more than \$2 billion, it all will be returned to taxpayers by a reduction of tax rates or fees.

The description of this provision is long, but the issue is not complicated. In 1987, the Gann Limit resulted in the state refunding money to taxpayers. While the tax rebate was a rare and welcome action, the rebate process itself was flawed, and this initiative uses that experience to address problems that were experienced by taxpayers.

The proposal also gives taxpayers additional protection by clarifying the legislative vote requirement for taxes. Proposition 26, approved by voters in 2010 to stop hidden taxes, states that legislation that results in a tax increase requires a two-thirds vote of the Legislature. The word “results” means a two-thirds vote should be required for bills that *directly* increase taxes, and for those that result in a tax increase by *authorizing* such impositions. This initiative makes this crystal clear.

Additional Resources

The full text of the initiative is available at [http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1037_11-0092_a1s_\(spending_cap\).pdf](http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1037_11-0092_a1s_(spending_cap).pdf).



Tax Policy Conference

Tax Reform: Status, Needs and Realities

Chairman Camp's Proposal – Territorial, 25%
and More



Introductions

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Agenda

1. International Tax Framework
2. Camp Proposal – Generally
3. Camp Proposal – Base Erosion Alternatives



International Tax Framework

International Tax Framework

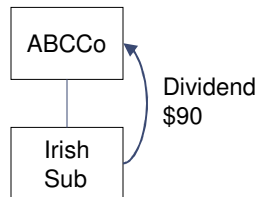
- U.S. corporations taxed on worldwide income
 - Most OECD countries have a territorial tax system
- Double taxation mitigated via foreign tax credit (“FTC”)
- Income of a foreign corporation owned by a U.S. person can be deferred until earnings repatriated

February 3, 2012

5

International Tax Framework - Example

Facts: ABCCo owns Irish Sub which earns \$100.
Irish sub pays a dividend of \$90 to ABCCo



If ABCCo in the US (Worldwide Tax System)	
PBT - IrishCo	\$ 100
Irish tax rate	10%
Irish taxes paid	\$ 10
Dividend - ABCCo	\$ 90
US gross-up for foreign taxes paid	\$ 10
Taxable income	\$ 100
US tax rate	35%
Preliminary US tax due	\$ 35
Less: foreign tax credit	\$ (10)
Net US income tax	\$ 25
Total taxes paid	\$ 35
Effective tax rate	35%

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6



Controlled Foreign Corporations (“CFCs”)

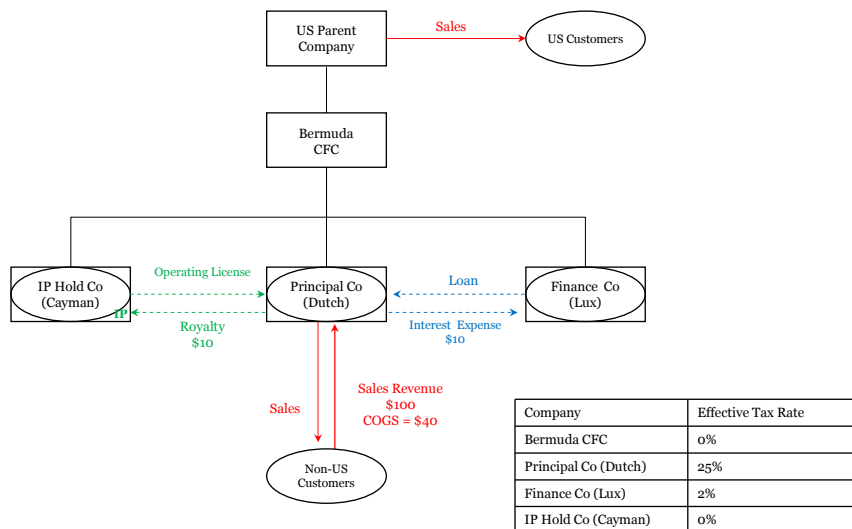
- A foreign corporation is a CFC if **U.S. shareholders** own, either directly, indirectly, or constructively, **more than 50 percent** of the foreign corporation's total voting power or value
 - A U.S. shareholder is any **U.S. person** that owns **10% or more** of the voting power of a foreign corporation
- Earnings of a CFC subject to anti-deferral regime under Subpart F



Subpart F - Generally

- Subpart F taxes certain unrepatriated earnings of CFC currently
- Categories of Subpart F Income
 - Foreign Personal Holding Company Income (“FPHCI”)
 - Generally passive type income (interest, rents, royalties, etc)
 - Foreign Base Company Sales Income (“FBCSI”)
 - Generally requires the CFC to purchase from, or sell to, a related party
 - Foreign Base Company Services Income (“FBCSvI”)
 - Generally requires the performance of services on behalf of a related party where such services are performed outside the CFC's country of incorporation

US International Structure – Example



February 3, 2012

9

US Multinational International Structure

	Bermuda CFC	IP Hold Co (Cayman)	Finance Co (Lux)	Principal Co (Dutch)
Sales	100	0	0	100
COGS	(40)			(40)
Gross Revenue	60	0	0	60
SG&A	(30)	0	0	(30)
Royalty	0	10	0	(10)
Interest	0	0	10	(10)
Net Income	30	10	10	10
Tax Rate	9%	0%	2%	25%
Tax	\$2.7	\$0	\$2	\$2.5

- As a result of the “check-the-box” elections, IP Hold Co (Cayman), Principal Co (Dutch), and Finance Co (Lux) are treated as branches of Bermuda CFC. Generally, transactions between branches of the same CFC are disregarded for U.S. federal income tax purposes.
- The transactions occurring between the branches of the Bermuda CFC (e.g., Principal Co (Dutch) paying interest and royalties to Finance Co and IP Hold Co) are disregarded and generally do not give rise to subpart F income (note that the branch rule of section 954(d)(2) may cause the Bermuda CFC to have subpart F income. A discussion of the branch rule is beyond the scope of this presentation).

February 3, 2012

10



Camp Proposal



Background – Issues with Current Framework

- High Statutory Corporate Tax Rate (35%)
- Worldwide System - Competitiveness
- Deferral – Incentive to Keep Cash Offshore
- Deferral – Differences between Industries, Taxpayers
- FTC Issues – OFL's, Double Taxation

Background – Camp Proposal

- 1 of 3 tax reform components
- Competitiveness (25% tax rate)
- Revenue neutral (assuming 25% rate) – domestic “pay fors”?
- The provisions would be effective for tax years beginning after 2012

Dividend Received Deduction

- 95% DRD for dividends from FS income of a CFC to a U.S. corporate shareholder that owns 10% or more of CFC stock (holding period rules apply)
- No FTCs are allowed for dividends that qualify for the DRD.
- Capital gain on CFC shares is 95% exempt if no more than 30% of CFC assets generate FPHCI over 3-year period (otherwise, 1248 applies)
 - Losses are disallowed on shares that would qualify for the 95% DRD if sold at a gain; other losses remain as under current law.



Portfolio Investment Regime

- Dividends that do not qualify for the 95% DRD taxed as portfolio dividends (sec. 901 but no sec. 902 FTC)
- Examples of dividends taxed under the portfolio dividend regime are dividends received by:
 - Less than 10% shareholders.
 - 10% or more shareholders in:
 - 10/50 companies that are not treated as CFCs.
 - CFCs and 10/50 companies that do not meet the one-year holding period.



Controlled Foreign Corporation Treatment

- Elect to treat 10% owned non-CFCs (“10-50 companies”) as CFCs on the first tax return in which the 10/50 company is subject to the new law.
 - Election effective for all of taxpayer's 10-50 companies
 - Absent election, 10/50 companies are treated as portfolio investment (i.e., no sec. 902 credit).
- First-tier foreign branches (including check-the-box branches) are treated as CFCs for all purposes.

Subpart F Income

- No change to subpart F income categories (other than anti-base erosion options).
 - active finance exception and look thru?
- Subpart F taxed under present rules (960/901)
- Inter-CFC dividends not subpart F if eligible for 95% DRD if paid up chain to U.S. shareholder.
- Repeal of section 956 and section 959 (PTI).
 - PTI dividends eligible for 95% DRD, would be taxed at a 1.25% rate (5% of 25%).

February 3, 2012

17

Transition Rules

- All non-PTI E&P of 10% owned foreign corps of the last tax year of such corps ending before 1/1/2013 would be included as subpart F income (including 10% individual shareholders).
 - Allows for an 85% DRD taxed at 35%. (ETR 5.25%).
 - Disallows 85% of FTCs related to this subpart F inclusion.
 - Applies present law FTC rules.
 - Excess FTC carryovers, if available, would offset the subpart F inclusion.

February 3, 2012

18



Transition Rules

- Tax may be paid over eight years with an interest charge.
 - All transition tax is due by 2021 (end of 10-year budget period).
- Future repatriation of pre-enactment E&P would be taxable but generally eligible for the 95% DRD.
 - Tax is imposed regardless of whether the E&P is held in cash.
- Pre-enactment FTC carryforwards would be preserved and usable as under present law.

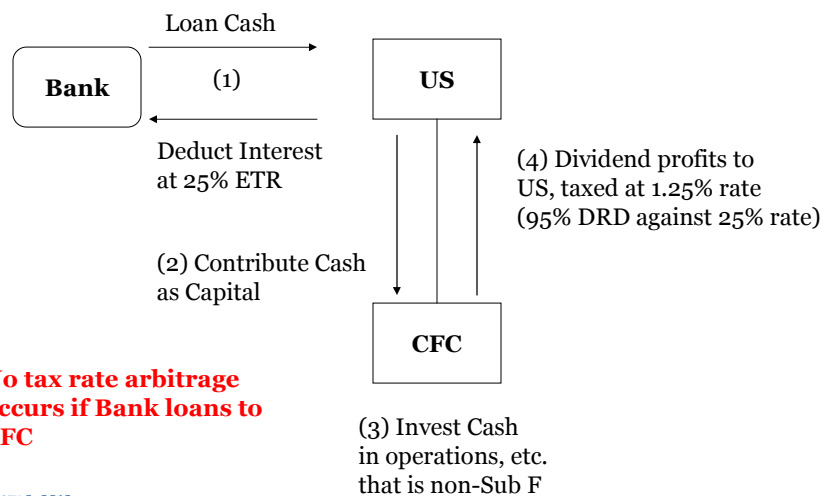


Camp Proposal Base Erosion Alternatives

Need for Thin Capitalization Rules

- Thin cap rules are needed in a participation exemption system, otherwise would leverage US company to:
 - (i) Create US deductions, and
 - (ii) Use cash to finance tax-exempt foreign earnings.

Possible Abuse: 25% Deduction and 1.25% Inclusion



Proposed Thin Capitalization Rules

- Apply where have a US – CFC relationship (i.e., an arrangement where the US company would otherwise be able to earn exempt foreign income).
- Interest is disallowed if US group fails to meet both the (i) relative leverage test and (ii) percentage of adjusted taxable income test. The lesser of these amounts is the amount by which US deductible interest is reduced.
- **Relative Leverage Test:** Fail test if have a greater debt percentage in the US members than the average debt percentage for the WW group.
- **Percentage of Adjusted Taxable Income Test:** Fail test if (per §163(j)) debt:equity ratio is greater than 1.5 to 1.

Need for Base Erosion Rules in Exemption System

- Because US income will be taxed at 25% and foreign income is effectively exempt, US MNCs have an incentive to shift income to foreign jurisdictions
- Primary concern is with respect to low-tax IP income.
- Goes back to 1962 legislative history of Subpart F that Subpart F should generally encompass all types of ‘readily moveable income’.
- 50 years ago, companies did not have the same value of IP, nor did tax planners engage in the same sophisticated IP planning that exists now, so use of low-tax IP income was not identified as a category of Subpart F.
- The base erosion alternatives create new categories of subpart F income
 - So, existing structures may ‘work’ under current law, but might create Subpart F income under new proposals.

Three Alternative Base Erosion Options Proposed

- 1) Obama's excess returns proposal (but no need for a separate FTC basket).
- 2) Subpart F treatment of CFC income taxed at an ETR of less than 10% (determined country-by-country); same-country exception for active income.
- 3) "Carrot and stick" option.

Base Erosion Option I - Obama Excess Returns

- Creates a new category of subpart F income called "foreign base company excess intangible income" (FBCEII).
- FBCEII to the extent of the "**excess return**" of a CFC's gross income from:
 - The sale, lease, license, or other disposition of property in which a "**covered intangible**" is used (directly or indirectly), and
 - Services related to the covered intangible or in connection in which the covered intangible is used (directly or indirectly).
- Two basic requirements: high profit margin + intangible originated from related US person
- The "**excess return**" threshold is a **50 percent markup** over the CFC's directly allocable costs. Interest and taxes are specifically excluded from such costs.
- "**Covered intangible**" includes any Section **936(h)(3)(B) intangible** if such intangible is sold, leased, licensed, or otherwise **transferred to a CFC by a related U.S. person**. Additionally, an intangible subject to any shared risk or development agreement (including a **cost-sharing agreement**) between the CFC and any related person would be covered.

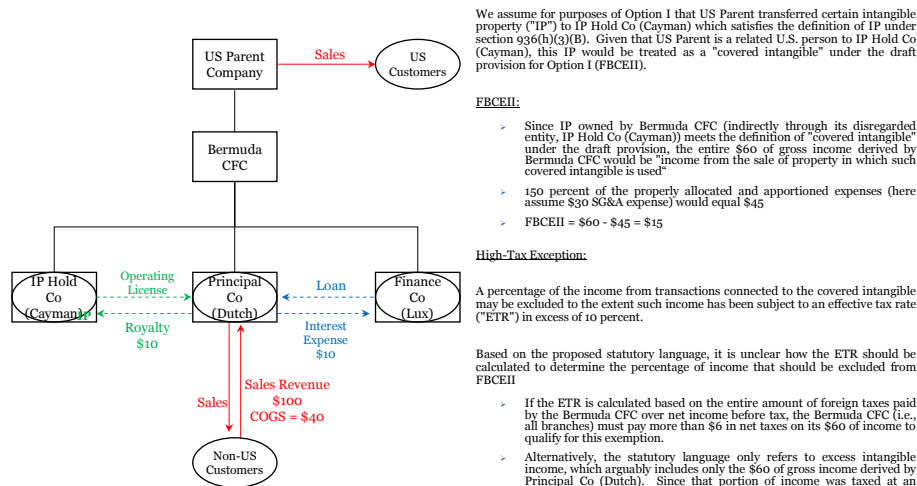
Base Erosion Option I - Obama Excess Returns

- Sliding Scale High-Tax Exception
 - **All** of the CFC's excess intangible income would be FBCEII if subject to an effective tax rate of **10 percent** or lower;
 - **None** of the CFC's excess intangible income would be FBCEII if subject to an effective tax rate of **15 percent** or higher; and
 - An applicable percentage of the CFC's excess intangible income would be FBCEII if subject to an **effective tax rate between 10 and 15 percent** (e.g., a 12 percent effective rate would result in a 60 percent FBCEII inclusion).
- Same-Country Exception
 - FBCEII excludes income from the sale, lease, license, or other disposition of property in which a covered intangible is used, if the property is sold, leased, licensed, or otherwise disposed for use or consumption in the CFC's country of incorporation
 - FBCEII excludes services income if the services are performed in the CFC's country of incorporation.

February 3, 2012

27

Base Erosion Option I – Example



February 3, 2012

28

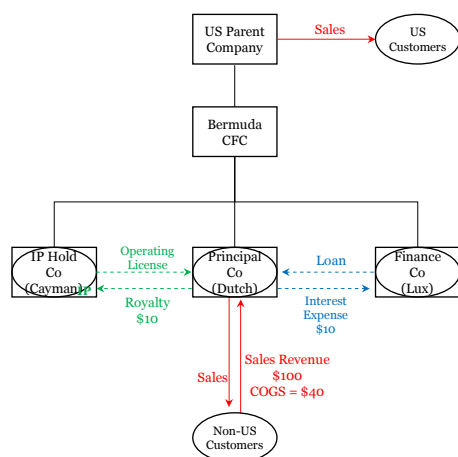
Base Erosion Option II – Low Taxed CFC Income

- Treats the gross income (including active) of a CFC is Subpart F if taxed at an effective rate of 10% or less
 - Test each country in which a CFC operates separately
- **Same Country Exception – Income not Subpart F if:**
 1. Income derived in the conduct of a trade or business of the CFC in the country in which the CFC is created or organized;
 2. The CFC has an office, etc. in country of incorporation; and
 3. Income is from (a) property sold for use or consumption in that country, or (b) services provided with respect to persons or property located in such country.

February 3, 2012

29

Base Erosion Option II – Example



We assume for purposes of Option II that IP Hold Co (Cayman), Finance Co (Lux), and Principal Co (Dutch) each conduct a trade or business within the country in which each entity is created or organized.

Since IP Hold Co (Cayman), Finance Co (Lux) and Principal Co (Dutch) are all treated as disregarded entities of Bermuda CFC, Bermuda CFC is considered as conducting a trade or businesses in the Cayman Islands, Luxembourg, and the Netherlands.

Low-Taxed Income:

Income earned by Bermuda CFC is includible in subpart F income if the income is:

- Derived from the conduct of an active trade or business outside the home country of the CFC ("home country exception"); or
- Is subject to an effective tax rate (ETR) of less than 10 percent (Bermuda CFC must aggregate its income in each jurisdiction and determine the ETR for each jurisdiction: Cayman, Luxembourg, and the Netherlands).

Both Cayman Islands and Luxembourg impose an ETR that is less than 10 percent.

- As a result, \$20 of income derived by Bermuda CFC (\$10 from the Cayman Islands and \$10 from Luxembourg) shall be included as subpart F income.
- Because the Netherlands imposes an ETR of 25 percent, none of the income allocated to the Dutch Principal Co should generate subpart F under Option II.

February 3, 2012

30

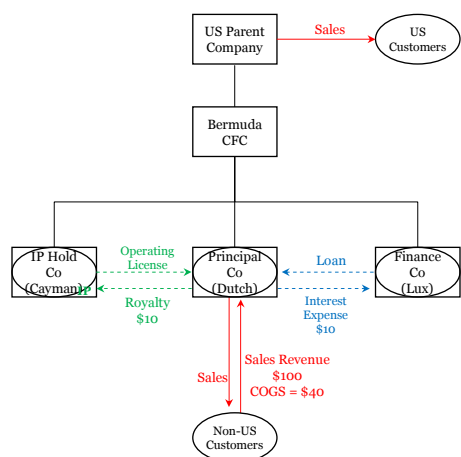
Base Erosion Option III – Carrot & Stick

- **Stick:** New category of Sub F income, “foreign base company intangible income” (FBCII)
 - Includes “intangible income” of a CFC, unless subject to a tax rate of 13.5% (90% of 60% of 25%)
 - Intangible income is gross income from goods and services attributable to §936(h)(3)(B) intangibles
- **Carrot:** US Corporation may deduct [40%] of the “foreign intangible income” earned (i) directly (e.g., exports, or foreign-source royalties), or (ii) indirectly through a CFC to the extent attributable to foreign intangible income
 - Foreign intangible income is intangible income derived from (i) property sold for use, consumption or disposition outside the US, and (ii) services on such property outside the US.

February 3, 2012

31

Base Erosion Option III – Example



FBCII:

Income earned by Bermuda CFC is includable in subpart F income as FBCII if the Bermuda CFC derived intangible income, which is defined as gross income from the sale of property in which intangible property is used directly or indirectly, to the extent that such gross income is properly attributable to such intangible property.

- We assume for purposes of Option III that \$25 is the amount of gross income of the Bermuda CFC that is properly attributable to intangible property.
- Option III provides a corresponding deduction equal to 40% of the lesser of FBCII or foreign intangible income (which in this scenario is the same amount, \$25). The 40% deduction will result in a \$10 deduction.
- $FBCII = \$25 - \$10 = \$15$

High-Tax Exception:

Intangible income of the CFC is exempt from Subpart F if it has been taxed in a foreign jurisdiction at a rate greater than 13.5 percent ($60\% * 25\% * 90\%$).

February 3, 2012

32



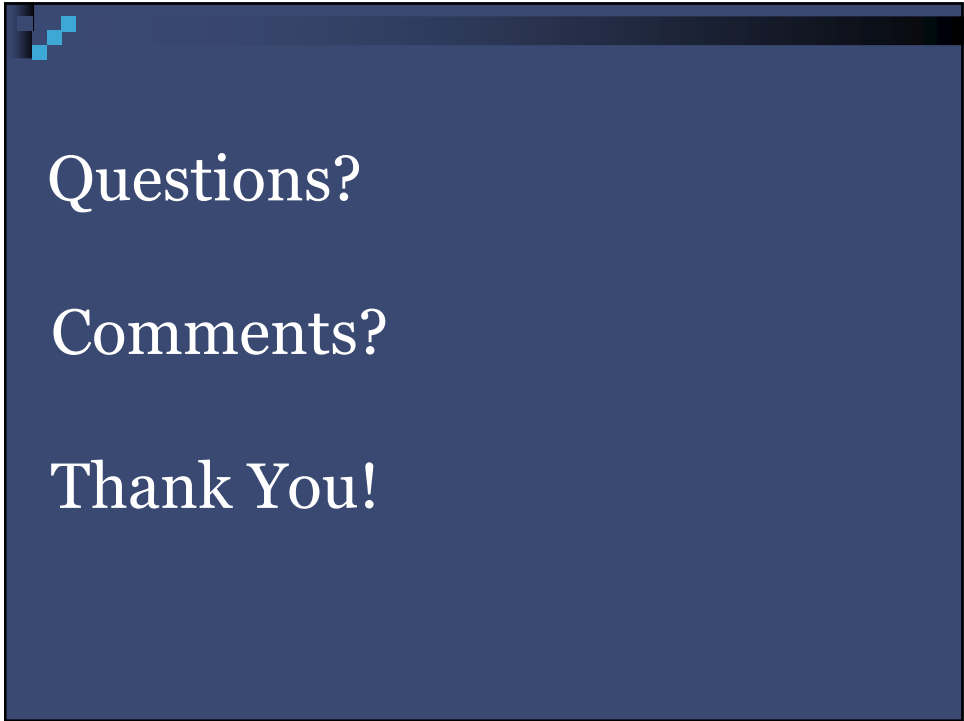
Repeal of the Following Superfluous Provisions

- Deemed-paid foreign tax credits
- Multiple foreign tax credit baskets
- §909 – Suspension of foreign tax credits until related income is taken into account
- §956 - Investments in U.S. property
- §959 – Previously taxed income



Items Not Addressed in Discussion Draft

- ODLs , OFLs or DCLs.
- Tax treaty implications.
- Cross-border reorganizations.



Questions?

Comments?

Thank You!



Summary of Ways and Means Discussion Draft: Participation Exemption (Territorial) System

Background. As part of its pursuit of comprehensive tax reform, the House Ways and Means Committee (“the Committee”) has released a discussion draft of one discrete component of broader tax reform legislation: a participation exemption for certain foreign-source income (sometimes referred to as a “territorial” system). The Committee is releasing this draft because it views the participation exemption as a fundamental change in the way the United States taxes cross-border activity, and in the interests of transparency seeks feedback from a broad range of stakeholders, taxpayers, practitioners, economists, and members of the general public on how to improve this proposed set of rules. The Committee anticipates releasing future discussion drafts on other components of tax reform legislation, but has started with the participation exemption because it reforms one of the most complex and challenging areas of Federal tax law.

Summary of Discussion Draft. The discussion draft is intended to be revenue neutral in and of itself when considered as part of comprehensive tax reform legislation. The Committee does not believe that domestic base broadening should be used to finance international tax relief, and vice versa. Specifically, the discussion draft would:

- Reduce the corporate tax rate by ten percentage points, to 25%. This rate reduction would be accomplished without increasing the deficit by broadening the tax base. The broader legislation also would reform the individual income tax by broadening the base and lowering the rates for individuals, families and small businesses while also simplifying tax compliance. Those reforms – including the necessary base-broadening provisions – which are crucial to the Committee’s tax reform agenda, are not included in the discussion draft, but placeholders exist to make clear that the Committee continues to place a high priority on a comprehensive approach to tax reform.
- Provide a deduction equal to 95% of foreign-source dividends received by a 10% U.S. corporate shareholder from a controlled foreign corporation (CFC). In addition, 95% of capital gains from the sale of shares in a CFC by a 10% corporate shareholder would be excluded from income, as long as a one-year holding period requirement is met and at least 70% of the assets in the CFC are used in the active conduct of a trade or business. (Capital losses on shares of active CFCs would be disallowed.)
- Treat foreign branches of U.S. parent companies as CFCs.

- Treat foreign corporations that are not CFCs but have 10% U.S. corporate shareholders (so-called “10/50 companies”) as CFCs if such shareholders elect to treat all of their 10/50 companies as CFCs to avail themselves of the 95% exemption. Similar rules would apply to partnerships.
- Use the subpart F rules to treat certain types of passive and highly mobile income as currently included in taxable income by the U.S. parent, whether or not repatriated, and allow foreign tax credits for this type of income. Royalties paid by a CFC to the U.S. parent would continue to be subject to U.S. tax, but under one of the options for anti-base erosion rules described below, such royalties would be subject to a maximum rate of tax of 15%.
- Adopt a transition rule that would apply a 5.25% tax to all existing foreign earnings currently held offshore, whether or not such earnings are repatriated. Taxpayers could use a ratable portion of their foreign tax credit carryovers to further reduce the 5.25% tax. In addition, they could elect to pay this tax in up to eight annual installments. Once paid, such earnings would benefit from the 95% exemption if brought back to the United States as a dividend.
- Address concerns expressed by commentators that under a participation exemption system, U.S. companies would have an incentive to locate debt in the United States to generate deductible interest expense that could be used to finance exempt foreign income, thus eroding the U.S. tax base. The Committee believes that reducing the corporate rate to 25% substantially mitigates this concern. In addition, the Committee has developed a “thin capitalization rule” that would disallow a portion of net interest expense (i.e., the excess of interest expense over interest income) if a U.S. company that is a member of a worldwide group fails two tests: (1) the U.S. group is overleveraged relative to the worldwide group; and (2) the U.S. company’s net interest expense exceeds a certain percentage of adjusted taxable income.
- Address concerns expressed by commentators that under a participation exemption system, U.S. companies would have an increased incentive to shift income to foreign jurisdictions, especially through the migration of intangible property overseas. To this end, the Committee has included three possible anti-abuse rules for consideration: (1) President Obama’s “excess returns” proposal; (2) a variation on the low effective tax rate test used in other countries such as Japan; and (3) an option that would lower the corporate tax rate for all foreign intangible income (whether earned by a U.S. parent or its CFCs) to only 15%, but would treat a CFC’s foreign intangible income as subpart F income if it is taxed at a rate less than 13.5% (90% of the U.S. rate). This last option combines the carrot of an “innovation box” and royalty relief with the “stick” of a current (subpart F) inclusion for intangibles-related income of CFCs in low-tax jurisdictions.

- Finally, the discussion draft would simplify the international tax rules by repealing a number of provisions that would become superfluous under the participation exemption regime, including rules relating to deemed-paid foreign tax credits, multiple foreign tax credit baskets, suspension of foreign tax credits until related income is taken into account, investments in U.S. property, and previously taxed income.

Unaddressed Issues. The Committee recognizes that the discussion draft omits numerous technical and policy issues that might need to be resolved in a final product and invites comment on how to address certain provisions, such as those related to:

- Overall domestic and foreign loss accounts
- Tax redeterminations – refunds and or additional taxes paid
- Subpart F changes, including with respect to recapture accounts
- Dual consolidated losses
- Tax Treaty implications
- Cross-border reorganizations

Questions. While the Committee invites input on all aspects of the discussion draft, there are a few areas that the Committee wishes to highlight as topics on which the Committee is especially interested in receiving constructive feedback.

- Which of the three base erosion options would best protect the U.S. tax base with minimum impact on the competitiveness of American businesses? What modifications could be made to make one or more of the options more workable? If these three options are undesirable, what other effective options exist to deal with base erosion, especially with respect to intangibles?
- How can thin capitalization rules be designed to effectively protect the U.S. tax base with minimum impact on the competitiveness of American businesses?
- What are the pros and cons of treating foreign branches as CFCs? Should foreign branches continue to be treated as disregarded entities instead?
- How should foreign partnerships with U.S. corporate partners owning interests of at least 10% be treated? What special rules might be necessary to incorporate them into the new regime?
- Is the 95% exemption for certain capital gains appropriate? Are any additional anti-abuse rules needed in this area?

Tax Policy Conference
Friday, February 3, 2012

CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM AND THEIR POTENTIAL IMPACT ON CALIFORNIA

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HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

◉ State Corporate Tax Systems

- State governments traditionally rely on the federal income tax system (definitions, forms, reporting requirements, federal regulations and other administrative pronouncements) in administering their own corporate tax laws.
- In California, corporations doing business in the state or with California income are generally subject to either the Corporation Franchise Tax (if incorporated or organized in the state, qualified or registered to do business in the state, or doing business in the state) or the Corporation Income Tax (if entity does not meet the standard for the franchise tax but derives income from the state).
- For the 2011-12 FY, California's Corporation Tax is projected to bring in approximately \$9.4 billion (11% of total state revenues). Some believe that a state corporate tax system is not cost-effective.

◉ Federal Corporate Tax Reform and California (overview)

- Direct impact on federal tax liabilities of California's residents.
- Indirect impact on state tax liabilities for corporations, either due to state corporate tax linkages to the federal tax system (via conformity) or to changes in taxpayer behavior induced by federal tax reform.
- Direct and indirect impact on the State and local governments. California may have to augment the FTB's budget if the federal CT system is fundamentally reformed and the state does not conform.

HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

- Federal Corporate Tax Reform Proposals
 - In 2011, Congress evaluated various options for corporate tax reform. The House Ways and Means Committee had a series of hearings on corporate tax reform, and much discussion was centered on broadening the base (by eliminating various tax incentives) and reducing statutory rates. Discussions also included international tax reforms.
 - *Repeal of the Federal CT* will most likely lead to a repeal, or a substantial revision, of California's corporate tax system. The state will lose all the benefits of federal enforcement efforts, which may lead to increased tax penalties or augmentation of FTB's enforcement budget.
 - *If a Flat Tax or Some Type of a Federal Business Tax* is imposed, California may repeal its CT system and conform to a new federal tax regime (provided the new tax is broad-based, imposed at a low rate and easily implementable).
 - *A Simple Reduction of the Federal CT Rate* will not have much impact on California (other than a potential push to lower the state tax rate). However, a lower tax rate reduces the incentive for taxpayers to engage in tax avoidance. California may benefit because fewer taxpayers will find it cost-effective to engage in creative tax planning.
 - ✓ Most likely, the federal rate reduction will be implemented in conjunction with the corporate tax base broadening, which will impact CA.

3

HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

- *Broadening or Narrowing the Federal Tax Base* (repeal or extension of tax expenditures)
 - The Feds may choose to eliminate, revise or extend certain tax incentives that would *directly* impact the state of California.
 - Exclusion of Interest on State and Local Bonds (federally-subsidized debt, removal of which will significantly raise the borrowing costs for state and local governments).
 - Deduction for State and Local Taxes.
 - Special tax incentives, such as targeted jobs tax credit, new markets tax credit, empowerment zone employment credit, that indirectly benefit state and local governments.
 - The Feds may choose to eliminate, revise or extend certain tax incentives that would *indirectly* impact California through its corporate taxpayers.
 - The research and development credit, accelerated depreciation, etc.
 - CA may not follow the federal lead if the change will have a negative financial impact. Conversely, CA may not be able to broaden its CT base due to a potential increase in the tax burden for some taxpayers (Proposition 26).

4

HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

- Territorial System of Taxation
 - The most detailed proposal to date for a U.S. territorial system was developed by Ways and Means Committee Chairman Camp. It is intended to be revenue neutral over the 10-year budget period. Some of the provisions include:
 - A 95% DRD for qualified foreign-source dividends received by a corporate 10% US shareholder from a CFC, provided the CFC stock has been held for at least one year. No foreign tax credits would be available to offset the remaining tax of 1.25% (based on a 25% corporate tax rate). An 85% DRD would be allowed for dividends distributed from previously untaxed E&Ps, thus, the maximum tax rate on pre-enactment income would be 5.25%.
 - Three alternative options to expand Subpart F income (new subcategory of Subpart F of foreign base company “excess intangible” income, CFC income subject to a low foreign effective tax rate, and a new category for low-taxed worldwide income derived from intangibles, with a corresponding 40% deduction to the domestic corporation for income attributable solely to the foreign exploitation of intangibles).
 - Limitation on deductions for net interest expense of a US corporation that is a US shareholder with respect to a CFC, if both the US corporation and the CFC are members of a worldwide affiliated group.

5

HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

- Territorial System of Taxation
 - Other International Tax Proposals:
 - The Administration FY2012 budget proposes to defer deduction for the portion of domestic interest expense allocable or apportionable to untaxed foreign earnings. It would also limit the foreign tax credit by adopting a blending approach that reflects the rate of foreign tax on unremitted foreign earnings. Proposes the “excess returns” modification to Subpart F income.
 - Senator Wyden’s proposal would repeal deferral and apply a per-country limitation to foreign tax credit.
- Potential Impact on California
 - US federal tax system is a blend of residence-based and territorial concepts. It taxes U.S. residents on their worldwide income and it taxes non-residents on certain U.S.-source income (ECI, FDAP income or gains). Deferral of active income of U.S. subsidiaries operating abroad is the third largest corporate tax expenditure.
 - California’s corporate tax system is a source-based system, which generally taxes worldwide income, as apportioned to the state. However, California allows corporations to elect to file on a water’s-edge basis.

6

HOW WOULD PROPOSED CHANGES TO THE FEDERAL CORPORATE TAX SYSTEM IMPACT CALIFORNIA?

- *The 95% DRD Exclusion* will not affect California's law, but California may see an increase in revenues because of the potential increase in the amount of repatriated earnings brought back to the US and a lower 75% DRD in the case of a water's-edge election (Section 24111 of the R&T Code) than the proposed federal one of 95%. It may even act as an incentive for companies to move back to worldwide combined reporting, instead of a water's-edge election, because intercompany dividends are generally eliminated under the worldwide method.
- A *pure territorial approach* - an exclusion of foreign source income - would be detrimental to California's administration of its CT laws. Federal Form 1120 is a starting point for the CA corporate tax return. If foreign-source income is excluded from that return, CA will have no information readily available to it to identify if the taxpayer should have included that income in its CA return. Thus, it would present certain compliance and enforcement issues for the Franchise Tax Board.
- Expansion of the definition of Subpart F income by creating *additional categories of Subpart F income* will directly impact California because of the state's automatic conformity to the definition of Subpart F income (Sec. 25116, Cal. Revenue and Taxation Code).
- Limitations on Interest Expense Deductions. Existing CA law has its own rules governing interest expense deductions, so the proposed limitations will not have much of an impact on California CT system. (Reg. 24344(c)).

7

CAN CALIFORNIA CONFORM?

◎ Tax Conformity

- Several approaches to conformity:
 - "Rolling" conformity (automatic conformity to the latest version of the Internal Revenue Code (IRC)).
 - "Fixed" or "static" conformity (where the IRC is followed as of a certain, fixed date).
 - "Selective" conformity (adoption of only certain provisions or certain provisions as of certain dates). California is a "selective" conformity state.

◎ Advantages of State Tax Conformity

- Uniformity and simplicity promotes ease of compliance and the efficient administration of taxes.
- Reduced compliance costs for both tax agencies and taxpayers.
- Increased predictability when taxpayers and state administrative personnel can rely on federal administrative guidance.
- Minimization of Tax Avoidance.

8

CAN CALIFORNIA CONFORM?

◉ Challenges of State Tax Conformity

- Loss of legislative decision-making authority over state tax policy.
- Delays in legislative action when a state needs to conform to new legislation affirmatively (political gridlock).
- Loss of control over state revenues.
- The acceptance of federal administrative guidance as persuasive authority in interpreting California statutes may lead to unanticipated results.

Federal Tax Reform: Relevance for High Tech Industries

Tax Policy Conference

February 3, 2012

Baker & McKenzie International is a Swiss Verein with member law firms around the world. In accordance with the common terminology used in professional service organizations, reference to a "partner" means a person who is a partner, or equivalent, in such a law firm. Similarly, reference to an "office" means an office of any such law firm.

Presenters

Michael Hauswirth, House Committee on Ways and Means

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What's driving the push for corporate tax reform now?

- High statutory rate
- High effective rate
- Lockout effect of current "worldwide" system
- Complexity and uncertainty of current system
- Sense that U.S. system is an outlier

3

Other Factors Affecting Tax Reform

- Unemployment
- Income inequality
- Long-term budget deficits
- Complexity of the tax system

4

Recent major changes to the corporate tax

- Economic Recovery Tax Act of 1981
 - Large corporate tax reduction
 - Primarily effected though accelerated depreciation provisions
- 1986 Act
 - Base broadening changes raised corporate taxes (but not rates) in part to pay for individual tax cuts

5

Top corporate statutory rate has decreased since 1975

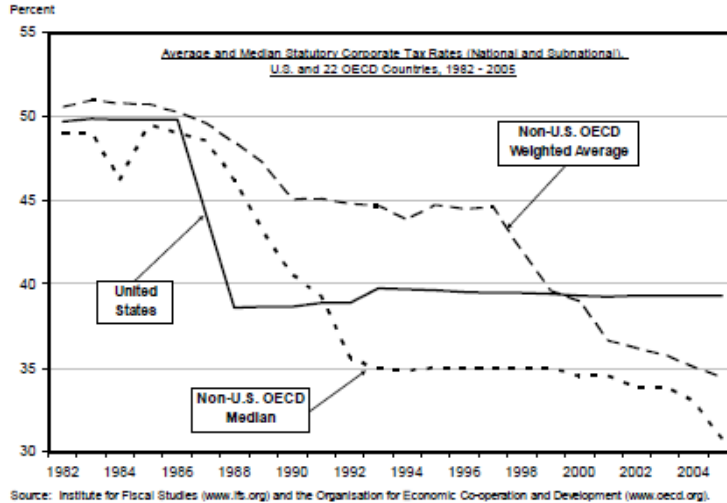
1975-1978	48%	(for income over \$50,000)
1979-1983	46%	(for income over \$100,000)
1984-1987	46%	(for income over \$1,405,000)
1988-1992	34%	(for income over \$335,000)
1993-2011	35%	(for income over \$18,333,333)

Note: chart excludes rates higher than the top bracket rate that reflect phaseouts from the lower bracket rates.

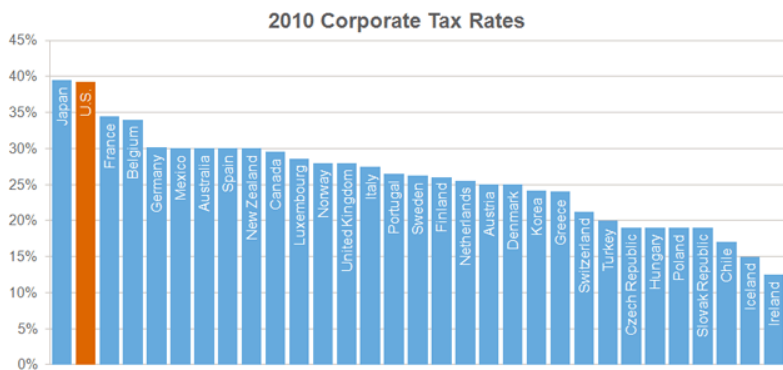
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On average, rate reductions have been greater in other developed countries

Chart 1.1: The U.S. Corporate Tax Rate Currently Exceeds the Average OECD Corporate Tax Rate



OECD countries



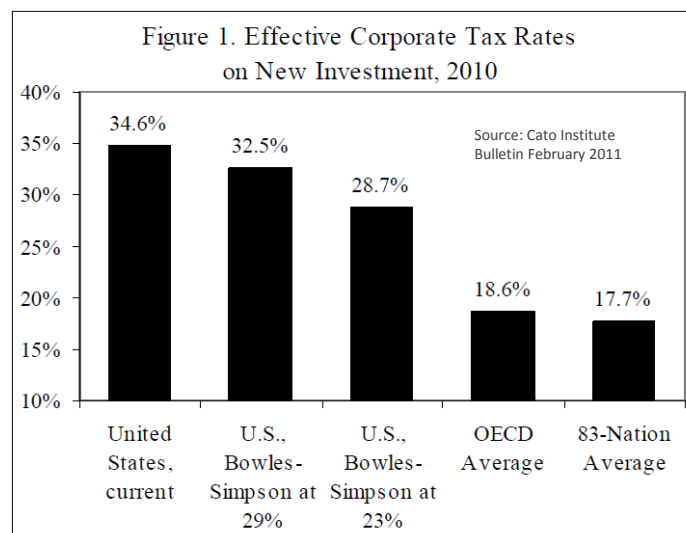
OECD member countries shown. Source: Organization for Economic Cooperation and Development (OECD).

Statutory tax rates are only part of the story

- U.S. effective marginal and average tax rates are at or below average
 - No commonly agreed to metric
 - Effective marginal tax rate (EMTR) differs by type of investment
 - U.S. EMTR for equity is above the OECD average but right in line with the G7 average
 - EMTR for debt is well below G7 average and OECD average (2007 Treasury study)
 - U.S. average tax rates (ratio of corporate taxes to corporate capital income) are below average
 - U.S. average rate (13.4%) is below OECD average (16.1%) (2007 Treasury Study)

9

No agreement on effective tax rates



10



BUSINESS INCOME: THE BIGGER PICTURE

11

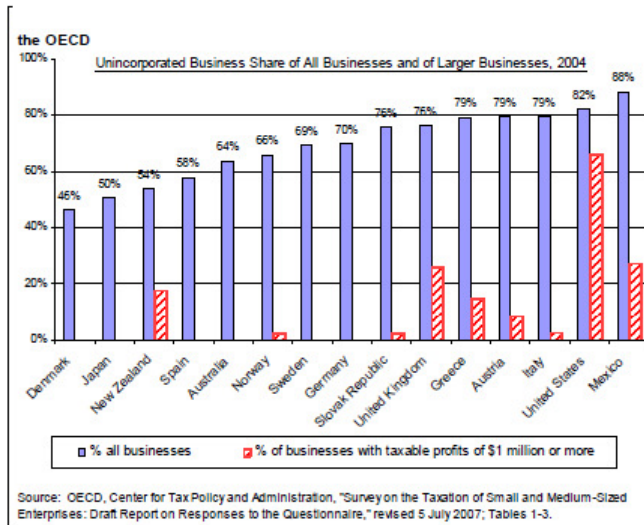


Business income has moved out of corporations

- Pass-through entities such as LLCs and LLPs provide limited liability and a better tax result
- Tax rules treat most publicly traded partnerships as C corporations
- Double tax can be thought of as price paid for access to public equity markets

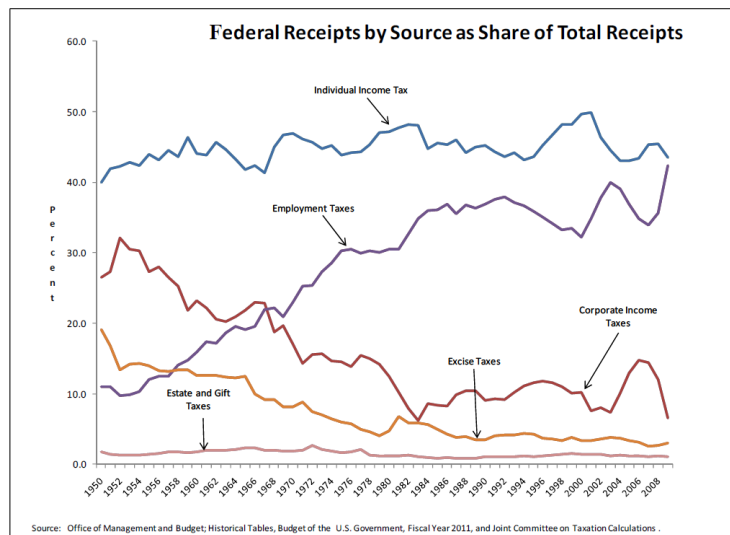
12

U.S. has among the largest unincorporated business sectors within the OECD



13

Corporate receipts are a declining percentage of total receipts



14

CORPORATE TAX EXPENDITURE REFORM: WHAT DOES IT BUY?

15

Tax Expenditures That Substantially Narrow the Corporate Tax Base

Tax Provision	FY 2011-2021 Revenue from Repeal of Provisions for Corporations and Pass-through Entities (in billions)
MACRS	\$724
Deduction for U.S. production activities (section 199)	\$164
Expensing of R&E	\$160
LIFO	\$ 70
Low-income housing tax credit	\$ 39
Section 1031 (deferral of gain on like-kind exchanges)	\$ 18
Completed contract rules method	\$ 14
Cash accounting	\$ 14
Percentage depletion for oil, gas, coal and hard mineral fossil fuels	\$ 12
Exclusion of interest on private activity bonds	\$ 9

Source: Joint Committee on Taxation, Revenue Estimates Memorandum, October 27, 2011.

16

What does base-broadening buy?

- Eliminating everything on the JCT table including accelerated depreciation would allow rates to go to 28%
- Eliminating everything but accelerated depreciation would allow rates to go to 31%
- Substantially less money would be raised if the research credit, LIHTC, the charitable deduction, and certain green energy benefits were retained
- These expenditures represent 23% of the total

17

Questions about corporate tax reform

- Should corporate reform be revenue neutral?
 - CBPP, CTJ, others argue that corporate reform should contribute to deficit reduction
 - Business is looking for a tax cut
- Should corporate reform be separated from individual tax reform?
 - Certain business tax expenditures, if repealed for corporations, should be repealed for all businesses
 - Where does the revenue savings go?
- Other goals that should be set?
 - Simplification
 - Changing tax treatment of debt-financed investment
 - Improving efficiency
 - Change incentives for investing overseas
- Who wins and who loses?

18

Tax reform winners and losers

Table 2A. Percentage Change in Tax Liability From a Revenue-Neutral Corporate Tax Reform

Industry	Slower Depreciation	Repeal Domestic Production Credit	Repeal Research Credit	Rate Reduction to 30%	Net Overall Tax Effect
1. Securities	1.8%	0.1%	0.1%	-14.3%	-12.3%
2. Insurance	1.9%	0.1%	0.4%	-14.3%	-11.9%
3. Credit intermediation	3.6%	0.2%	0.4%	-14.3%	-10.2%
4. Retail trade	3.5%	0.4%	0.2%	-14.3%	-10.1%
5. Bank holding companies	3.7%	0.2%	0.3%	-14.3%	-10.1%
6. Real estate	5.9%	0.3%	0.2%	-14.3%	-7.9%
7. Accommodations	5.8%	0.9%	0.8%	-14.3%	-6.9%
8. Other services	7.5%	0.5%	0.4%	-14.3%	-5.8%
9. Wholesale	6.1%	2.6%	1.5%	-14.3%	-4.1%
10. Mining	4.1%	9.1%	0.2%	-14.3%	-0.9%
11. Construction	7.6%	6.8%	0.2%	-14.3%	0.3%
12. Oil and coal products	4.1%	11.1%	0.3%	-14.3%	1.2%
13. Food manufacturing	6.1%	9.1%	1.5%	-14.3%	2.5%
14. Utilities	12.9%	6.4%	0.5%	-14.3%	5.5%
15. Other manufacturing	8.7%	8.9%	3.5%	-14.3%	6.8%
16. Publishing	3.4%	10.7%	7.0%	-14.3%	6.8%
17. Chemicals	5.4%	7.4%	8.8%	-14.3%	7.3%
18. Metal, minerals, and machinery manufacturing	7.9%	9.3%	4.5%	-14.3%	7.3%
19. Transportation	23.3%	0.1%	0.2%	-14.3%	9.3%
20. Internet	17.6%	4.1%	2.7%	-14.3%	10.2%
21. Agriculture	24.4%	6.0%	0.7%	-14.3%	16.8%
22. Technical services	9.9%	2.9%	19.0%	-14.3%	17.5%
23. Computers and electronics	11.4%	10.0%	25.9%	-14.3%	33.0%
24. Transport equipment	34.4%	10.5%	17.4%	-14.3%	48.1%
25. Electrical products	48.3%	18.3%	17.3%	-14.3%	69.7%

↑ WINNERS
↓ LOSERS

19

**KEEPING SCORE –
DETERMINING WHETHER
REFORM IS REVENUE
NEUTRAL**

20

Revenue estimates: key concepts

- Estimates relative to a current law baseline
- The budget window
- Time value of money
- Taxpayer behavior
- Static vs. dynamic estimates:
 - The fixed GNP constraint
 - Tax expenditure estimates
 - Macro-dynamic scoring

21

Chairman's Mark for the American Recovery Act, Section 108(i)

Description of Proposal

The proposal permits a taxpayer to elect to defer income from cancellation of indebtedness recognized by the taxpayer as a result of a repurchase by (1) the taxpayer or (2) a person who bears a relationship to the taxpayer described in section 267(b) or section 707(b), of a "debt instrument" that was issued by the taxpayer. The proposal applies only to repurchases of debt that (1) occur after December 31, 2008, and prior to January 1, 2011, and (2) are repurchases for cash. Thus, for example, the proposal does not apply to a debt-for-debt exchange or to any exchange of the taxpayer's equity for a debt instrument of the taxpayer. For purposes of the proposal, a "debt instrument" is broadly defined to include any bond, debenture, note, certificate or any other instrument or contractual arrangement constituting indebtedness.

A taxpayer electing to defer cancellation of debt from income under the proposal is required to include in income an amount equal to 25 percent of the deferred amount in each of the four taxable years beginning in the year following the year of the repurchase.

Effective Date

The proposal is effective for repurchases after December 31, 2008.

22

Chairman's Modified Mark

6. Modification to proposal deferring certain income from discharge of indebtedness

The Chairman's modification provides that certain income from the cancellation of indebtedness recognized by the taxpayer as a result of a repurchase in 2009 or 2010 by (1) the taxpayer or (2) a related person of a "debt instrument" that was issued by the taxpayer is deferred and recognized in later years. Such cancellation of indebtedness income realized in 2009 is deferred and included ratably in income in each of the eight taxable years beginning two years after the year of realization, and such cancellation of indebtedness income realized in 2010 is deferred and included ratably in income in each of the eight taxable years beginning one year after the year of realization.

The Revenue Table

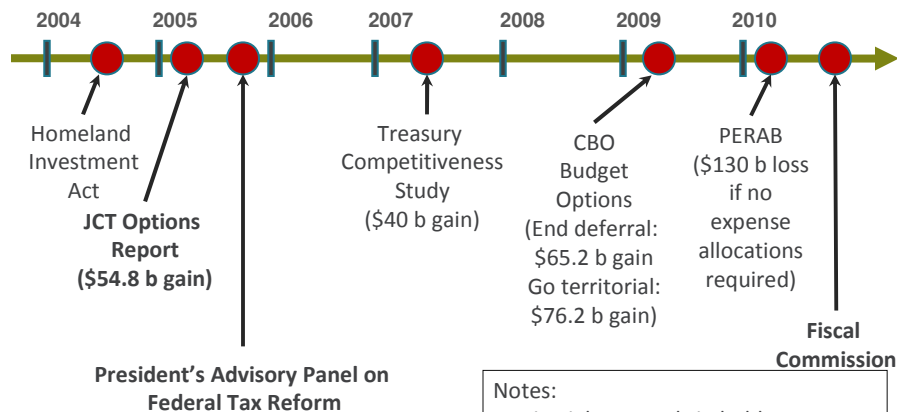
Page 3

Provision	Effective	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-13	2009-14	2009-18	2009-19
10. 7-year carryback of general business credits and allow general business credits to offset 100% of Federal tax liability.....	[6]	-9,137	-292	-257	-231	-208	-187	-168	-152	-136	-123	-111	-10,115	-10,302	-10,882	-10,992
11. Modify carbon sequestration credit to require permanent geologic storage for CO2 used in a tertiary injectant.....	DOE	- Negligible Revenue Effect -														
12. Modification of credit for qualified plug-in electric drive motor vehicles.....	vps 12/31/2009	---	-19	-62	-31	6	4	3	2	1	---	---	-103	-100	-94	-94
Total of Renewable Energy Incentives.....		-9,446	-2,634	-2,891	-1,366	-1,784	-2,650	-2,119	-2,182	-2,164	-2,335	-2,136	-18,320	-18,372	-18,978	-19,114
III. Tax Incentives for Business:																
1. Special allowance for certain property acquired during 2009 [7].....	vps 12/31/08	-23,916	-14,893	8,347	6,445	5,646	4,614	3,098	1,985	1,275	961	938	-18,171	-13,557	-6,258	-5,320
2. Temporary increase in limitation on expensing of certain depreciable business assets.....	vps 2009	-642	-425	352	222	162	125	79	45	22	10	10	-331	-206	-50	-41
3. 7-year carryback of 2008 and 2009 30% work expense for R&D recipients.....	[8]	-32,494	-35,027	11,489	10,824	8,364	5,935	4,155	2,872	2,003	1,377	981	-36,844	-30,908	-20,502	-19,321
4. Modification of the work opportunity tax credit - incentives to hire unemployed veterans and disconnected youth.....	vps 12/31/08	-28	-73	-64	-23	-10	-5	-1	[4]	---	---	---	-200	-206	-207	-208
5. Extension of election to accelerate AMT and SALT credits in case of bonus depreciation [9].....	vps 12/31/08	-20	-984	49	47	33	21	15	10	8	8	8	475	454	413	405
6. Deferral of certain income from discharge of indebtedness (5-year spread).....	below 1/1/11	-6,076	-13,269	-2,701	3,462	3,454	3,443	3,436	3,427	3,418	3,409	1,862	-19,310	-13,863	-12,773	-813
7. Increase section 1205 exclusions to 75% (instead of 50%).....	via DOE	2	6	2	---	---	-207	-160	-163	-50	-36	-22	9	-198	-607	-629
8. Equalize the one-third and parking benefits, set both at 25% for 2009 and then index equally in 2010.....	DOE	-57	-106	-29	---	---	---	---	---	---	---	---	-192	-192	-192	-192
9. Temporarily reduce the 5 corporation health plan holding period from 10 to 7 years.....	vps 12/31/08 and below 1/1/11	-31	-154	-73	-32	-28	-19	-20	-16	-14	-13	-15	-318	-337	-400	-415
10. Clarification of regulations related to limitations on certain health losses following an ownership change.....	vps 1/16/09	1,437	1,775	646	261	225	304	419	457	470	484	499	4,344	4,647	6,478	6,977
Total of Tax Incentives for Business.....		-43,825	-45,259	17,938	11,084	17,846	14,213	18,820	8,617	7,112	6,200	3,763	-71,888	-57,676	-34,926	-21,167

TERRITORIAL TAX PROPOSALS AND CHAIRMAN CAMP'S DISCUSSION DRAFT

25

Timeline on Territorial Proposals and Revenue Estimates

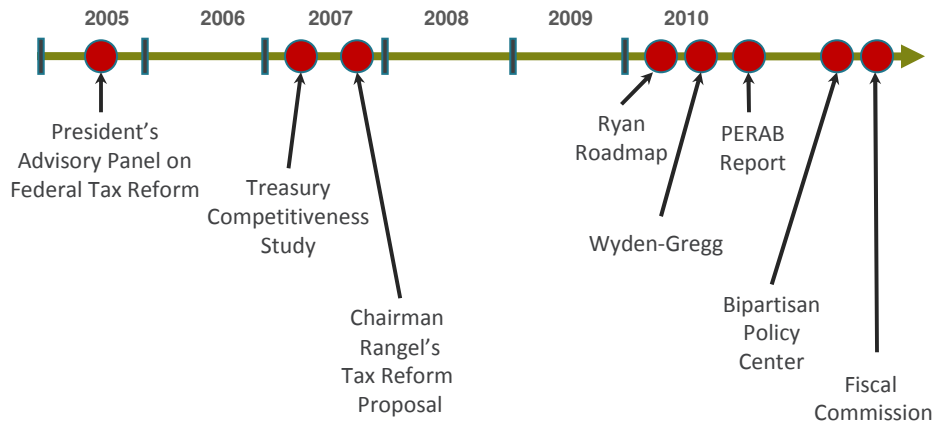


Source: Dr. Rosanne Altshuler

Notes:
Territorial proposals in bold
Revenue costs in billions over ten years

26

Timeline on Reform Proposals



Source: Dr. Rosanne Altshuler

27

Chairman Camp's Discussion Draft

- Corporate rate reduced to 25 percent (offsets to be provided at a later date)
 - Congressman Levin's JCT request: elimination of tax expenditures for corporations reduces the corporate rate to 28 percent
 - Can reduce corporate rate to 25 percent if use revenue from repeal of tax expenditures for pass-throughs

28

Chairman Camp's Discussion Draft

- Camp's Dividend Exemption Plan:
 - Exempts 95 percent of foreign-source income, including dividends and capital gains
 - Retains Subpart F: subject to possible refinement?
 - Foreign tax credits available for passive income, not exempted income
 - Previously untaxed earnings are taxed twice --
 - Once as a deemed repatriation (85% DRD)
 - Again when actually repatriated (95% DRD)
 - Three options to address base erosion, including the excess returns proposal from the FY2012 Budget
 - Debt limitation (anti-stuffing) rule

29

Options for Preventing Base Erosion

- Tax excess IP returns as subpart F income --
Obama Administration proposal
- Tax low tax cross-border income as subpart F income
- U.S. patent box coupled with subpart F treatment of intangibles income

30

Taxing Excess IP Returns

- If ...
 - US person transfers a covered intangible to a related CFC
 - The CFC is subject to a low foreign effective tax rate
 - The CFC earns excessive intangibles income
- Then ...
 - The excessive return is treated as subpart F income
 - In a separate FTC limitation basket

31

Excess Return/Low Tax

- Excess return -- excess over allocable "costs" + % mark-up -- 50%
- Low tax -- to be based on sliding scale of foreign tax rates -- 10-15%
 - Effective tax rate calculated under U.S. E&P principles?

32

Taxing Low Tax Cross-Border Income

- New category of subpart F income for CFC income subject to effective foreign tax rate of less than 10%
- Same country exception if meet all of:
 - Active trade or business in same country
 - Office or fixed place of business in same country
 - Income derived from services performed or products used or consumed in same country
 - Would essentially undo existing deferral structures

33

U.S. Patent Box

- 15% rate on foreign intangibles income of U.S. corporation
- New category of subpart F income for intangibles income of CFC
- Proposal would essentially eliminate benefit of earning income from exploitation of intangibles offshore
 - Provision would apply to current structures
- Proposal may violate WTO rules as export subsidy

34

Anti-Stuffing/Thin Capitalization Rule

- The proposal limits the deductibility of interest of a U.S. corporation with foreign subs unless two tests are met:
 - Relative leverage test: DER of U.S. corporations in the group cannot exceed DER of affiliated foreign corporations
 - Adjusted taxable income test: interest expense may not exceed a prescribed percentage of adjusted taxable income
- Limits the ability of U.S. corporations to reduce their U.S. tax liability with interest deductions where the interest is incurred for the purpose of funding the activities of subsidiaries

35

Chairman Camp's Discussion Draft: Unaddressed Issues

- The Committee recognizes that the discussion draft omits numerous technical and policy issues that might need to be resolved in a final product and invites comment on how to address certain provisions, such as those related to:
 - Overall domestic and foreign loss accounts;
 - Tax redeterminations – refunds and or additional taxes paid;
 - Subpart F changes, including with respect to recapture accounts;
 - Dual consolidated losses;
 - Tax treaty implications; and
 - Cross-border reorganizations

36

Chairman Camp's Discussion Draft: Request for Comments

- Chairman Camp requested input on all aspects of the discussion draft and specifically requested constructive feedback on the following issues:
 - Which of the three base erosion options would best protect the U.S. tax base with minimum impact on the competitiveness of American businesses? What modifications could be made to make one or more of the options more workable? If these three options are undesirable, what other effective options exist to deal with base erosion, especially with respect to intangibles?
 - How can thin capitalization rules be designed to effectively protect the U.S. tax base with minimum impact on the competitiveness of American businesses?
 - What are the pros and cons of treating foreign branches as CFCs? Should foreign branches continue to be treated as disregarded entities instead?
 - How should foreign partnerships with U.S. corporate partners owning interests of at least 10% be treated? What special rules might be necessary to incorporate them into the new regime?
 - Is the 95% exemption for certain capital gains appropriate? Are any additional anti-abuse rules needed in this area?

37

Additional Sources of Revenue

- Tax "large" partnerships as corporations (see WSJ, page A1, 1/10/2012)
- Reduce the deduction for interest
- Tighten the territorial tax system to raise revenue (e.g., expense allocation for overhead, R&D)

38

Tax Reform in 2012?

- Tax reform hearings in Senate Finance and Ways and Means Committees
- Increased focus on transfer pricing and base erosion
- The Department of the Treasury's Tax Reform Proposal?



39

FY 2013 Green Book (Coming Soon)

- Likely to see unused revenue provisions when the FY 2013 Green Book is released on 2/13/2012
- Old chestnuts include:
 - Excess returns associated with transfers of intangibles offshore
 - Limit shifting of income through intangible property transfers
 - Carried interest
- Buffet Rule?

40

President's Insourcing Proposals

- President's "insourcing" proposals to reward companies that choose to invest or bring back jobs to the United States, and to eliminate tax advantages for companies moving jobs overseas
 - No deduction for outsourcing jobs
 - Multinational corporations should pay a minimum level of tax (as part of corporate tax reform)
 - Increase section 199 from 9 percent to 18 percent for certain domestic manufacturing

41

Repatriation

- Section 965, version 2, would cost \$78.7 billion over ten years
- Cost is due to:
 - Acceleration of baseline repatriations in the budget window into the holiday period; and
 - Further base erosion in anticipation of another holiday
- Politics in the House: Boehner/Camp v. Cantor/McCarthy
- Politics in the Senate: PSI's addendum to the October 11, 2011 report



42

February 2012: Unfinished Business

- Payroll tax holiday conference
- Extension of 59 tax provisions that expired at the end of 2011 (extenders)



43

Extenders

- R&E Credit: \$7.65 billion for 1 year
- Section 954(c)(6): \$776 million for 1 year
- Active financing exception to subpart F: \$5.2 billion for 1 year
- Cost to extend all provisions that expired in 2011 (excluding AMT patch, 100% bonus depreciation, and payroll tax holiday): \$38.06 billion for 1 year

44



Other Legislation You Should Care About

- S.45, Offshoring Prevention Act
- H.R. 64, Anti-treaty shopping proposal
- S. 727, Bipartisan Tax Fairness and Simplification Act of 2011
- S. 1346; H.R. 2669, Stop Tax Haven Abuse Act (managed and controlled)

45



Thank you

Pursuant to requirements relating to practice before the Internal Revenue Service, any tax advice in this communication (including any attachments) is not intended to be used, and cannot be used, for the purpose of (i) avoiding penalties imposed under the United States Internal Revenue Code, or (ii) promoting, marketing, or recommending to another person any tax-related matter.

46

Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

OCT 27 2011

MEMORANDUM

TO: [REDACTED]

FROM: Thomas A. Barthold

TAB

SUBJECT: Revenue Estimates

The attached tables are in response to your request for estimates of repealing or modifying corporate tax expenditures and an estimate of the lowest possible corporate income tax rate that could be enacted through legislation that is revenue neutral for C corporations in conjunction with the repeal or modification of these provisions.

The attached tables generally follow the order of Table 1 published in Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014* (JCS-3-10), December 15, 2010. Tax expenditures listed in that publication that primarily affect individuals or pass-through entities are excluded from the attached tables. A number of the tax expenditure items on the attached tables affect both C corporations and pass-through entities.

Table #11-1 133 provides the revenue effects of the repeal or modification of certain corporate tax expenditure provisions, including the portion that is claimed by partnerships, S corporations, and other pass-through entities. Table #11-1 134 includes only the revenues attributable to C corporations and excludes the portion attributable to pass-through entities. Table #11-1 134, which excludes revenues attributable to activities conducted in pass-through entities, shows the lowest possible corporate income tax rate that is revenue neutral for C corporations. In both tables, not all provisions are estimated at this time although the estimates do include almost all of the major corporate tax expenditure provisions.

As we have previously reported to you, it is not always obvious what tax rules would be applicable when certain tax expenditures are eliminated. In the attached tables we have made some judgments. As another example, we have assumed that elimination of the tax expenditure related to the geological and geophysical costs of oil and gas companies would result in those costs being amortized and recovered over a seven-year period (Table #11-1 133, item II.20.).

Please note that these estimates are very preliminary as we continue to upgrade our models relating to corporate tax reform. Also, note that the estimated revenue effects for some of the reform provisions do not include effects of anticipatory actions that we expect taxpayers would take with sufficient advance notice of the reforms. Further, while some major interaction

Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

TO:

Page 2

SUBJECT: Revenue Estimates

effects are included in these estimates, such as interactions with rates, we have not yet estimated all possible interactions that may exist between provisions.

Also please note that the estimated revenues attributable to C corporations are based on the current division of business entities among sole proprietorships, pass-through entities, and C corporations. Should a corporate tax reform proposal target only C corporations and leave the treatment of tax expenditures unchanged for other business entities, the revenue gains from C corporations will potentially be significantly reduced as business entities change their form or structure to minimize their tax liabilities. In addition, there are potentially significant administrative and compliance implications of partial repeal of tax expenditures that likely affect the revenue effect.

Should all of the provisions which we have estimated in the attached table be repealed, the lowest top corporate income tax rate which achieves revenue neutrality for C corporations is estimated to be 28 percent. In estimating the revenue from the repeal or modification of each tax expenditure, and determining this revenue neutral rate, we have assumed that no transition relief is provided for any revenue raising provision. We have assumed that almost all of the provisions would be effective for taxable years beginning after 2011. The estimated 28 percent tax rate could change as estimates are refined, if provisions are added or removed from the list, and as any transition relief is developed for revenue raising provisions.

Finally, there are several provisions that do not change the total value of nominal deductions permitted to the taxpayer, but rather change the years in which such deductions may be claimed. For example, limiting depreciation deductions to the alternative depreciation system rather than the MACRS depreciation system changes the timing of deductions rather than the total nominal value of the deductions. The 10-year budget estimates for such provisions are significantly larger than the long-run effects where all vintages of investment are depreciated under the new regime. Similarly, the estimate in Table #11-1 134 (item V.18.b) regarding the repeal of the inventory valuation method of the lower of cost or market value, shows that all the revenue raised from repeal accrues prior to fiscal year 2019, with little revenue estimated to be raised in fiscal year 2019 or thereafter. Therefore, we also emphasize that while we estimate that a rate of 28 percent would achieve revenue neutrality for C corporations within the 10-year budget window, this rate would not necessarily be revenue neutral under a longer budget horizon.

Attachment: Tables #11-1 133 and #11-1 134

- Committee on Ways and Means -
ESTIMATED REVENUE EFFECTS OF CORPORATE TAX REFORM REVENUE RAISING PROVISIONS THAT REPEAL OR MODIFY TAX EXPENDITURES

Fiscal Years 2012 - 2021

[Billions of Dollars]

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
I. General Science, Space, and Technology													
1. Credit for increasing research activities (section 41).....	tyba 12/31/11	----- <i>No Revenue Effect</i> -----											
2. Expensing of research and experimental expenditures...	tyba 12/31/11	30.4	41.4	32.3	22.1	11.1	7.0	6.9	5.0	2.8	1.1	137.4	160.2
II. Energy													
1. Credits for alternative technology vehicles.....	tyba 12/31/11	[1]	[1]	[1]	[1]	---	---	---	---	---	---	[1]	[1]
2. Credit for holders of clean renewable energy bonds (sections 54 and 54C).....	tyba 12/31/11	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	0.1	0.3
3. Exclusion of energy conservation subsidies provided by public utilities.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
4. Credit for holder of qualified energy conservation bonds.....	tyba 12/31/11	[1]	[1]	[1]	[1]	[1]	0.1	0.1	0.1	0.1	0.1	0.1	0.4
5. Credit for enhanced oil recovery costs.....	tyba 12/31/11	----- <i>No Revenue Effect</i> -----											
6. Repeal credits for alcohol fuels.....	saua DOE	----- <i>Presently Unavailable</i> -----											
7. Energy credit (section 48).....	tyba 12/31/11	0.4	0.5	0.6	0.7	0.8	0.5	0.5	0.4	0.4	0.4	3.0	5.3
a. Solar.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
b. Geothermal.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
c. Fuel cells.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
d. Microturbines.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
e. CHP property.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
f. Small wind systems.....	tyba 12/31/11	----- <i>Estimate Included in Item II.7.</i> -----											
8. Credits for electricity production from renewable resources (section 45).....	tyba 12/31/11	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	1.2	2.9
a. Wind.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
b. Closed-loop biomass.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
c. Geothermal.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
d. Qualified hydropower.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
e. Solar (limited to facilities placed in service before 1/1/06).....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
f. Small irrigation power.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
g. Municipal solid waste.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											
h. Open-loop biomass.....	tyba 12/31/11	----- <i>Estimate Included in Item II.8.</i> -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
9. Credits for investments in clean coal facilities.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Coal production credits:													
a. Refined coal.....	tyba 12/31/11	----- Presently Unavailable -----											
b. Indian coal.....	tyba 12/31/11	----- Presently Unavailable -----											
11. Credit for the production of energy-efficient appliances.....	tyba 12/31/11	----- No Revenue Effect -----											
12. Credit for clean-fuel vehicle refueling property.....	tyba 12/31/11	----- No Revenue Effect -----											
13. New energy efficient homes credit.....	tyba 12/31/11	----- Presently Unavailable -----											
14. Credit for investment in advanced energy property.....	tyba 12/31/11	0.4	0.3	0.1	0.1	[1]	[1]	[3]	[3]	[3]	—	0.9	0.8
15. Exclusion of interest on State and local government qualified private activity bonds for energy production facilities.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
16. Deduction for expenditures on energy-efficient commercial building property.....	tyba 12/31/11	0.2	0.2	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	0.3	0.3
17. Repeal expensing of oil and gas exploration and development costs.....	cpoia 12/31/11	1.0	1.5	1.4	1.3	1.1	0.9	0.5	0.2	0.2	0.2	6.3	8.3
18. Repeal percentage depletion for oil and natural gas wells.....	tyba 12/31/11	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.3	4.7	10.8
19. Repeal percentage depletion for coal and hard mineral fossil fuels.....	tyba 12/31/11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	1.3
20. Increase geological and small integrated geophysical amortization period for independent producers to seven years.....	apoaia 12/31/11	[1]	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.8	1.0
21. Amortization of air pollution control facilities.....	tyba 12/31/11	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.8	1.3
22. Depreciation recovery periods for energy specific items:													
a. Five-year MACRS for certain energy property (solar, wind, etc.).....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
b. 10-year MACRS for smart electric distribution property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
c. 15-year MACRS for certain electric transmission property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
d. 15-year MACRS for natural gas distribution line.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
23. Election to expense 50 percent of qualified property used to refine liquid fuels.....	tyba 12/31/11	----- Presently Unavailable -----											
III. Natural Resources and Environment													
1. Special depreciation allowance for certain reuse and recycling property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
2. Expensing of exploration and development costs, nonfuel minerals.....	tyba 12/31/11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	1.0
3. Excess of percentage over cost depletion, nonfuel minerals.....	tyba 12/31/11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.9
4. Expensing of timber-growing costs.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
5. Special rules for mining reclamation reserves.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Impose full tax rate on nuclear decommissioning reserve funds.....	tyba 12/31/11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
7. Exclusion of contributions in aid of construction for water and sewer utilities.....	tyba 12/31/11	----- Presently Unavailable -----											
8. Exclusion of earnings of certain environmental settlement funds.....	tyba 12/31/11	----- Presently Unavailable -----											
9. Amortization and expensing of reforestation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
IV. Agriculture													
1. Expensing of soil and water conservation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
2. Expensing of the costs of raising dairy and breeding cattle.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Exclusion of cost-sharing payments.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Exclusion of cancellation of indebtedness income of farmers.....	tyba 12/31/11	----- Presently Unavailable -----											
5. Five-year carryback period for net operating losses attributable to farming.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Expensing by farmers for fertilizer and soil conditioner costs.....	tyba 12/31/11	----- Presently Unavailable -----											
V. Commerce and Housing													
A. Housing:													
1. Repeal the exclusion of interest on all State and local government qualified private activity bonds.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
2. Repeal the credit for low-income housing.....	caa 12/31/12	--	0.2	0.6	1.5	2.5	3.6	4.8	6.0	7.2	8.4	4.8	34.8
3. Repeal the rehabilitation credit.....	caa 12/31/12	--	0.1	0.4	0.5	0.7	0.8	0.8	0.9	0.9	0.9	1.7	6.0
4. Depreciation of rental housing in excess of alternative depreciation system.....	tyba 12/31/11	----- Presently Unavailable -----											
B. Other Business and Commerce:													
1. Exclusion of interest on State and local government small-issue qualified private activity bonds.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
2. 15-year recovery period for retail motor fuels outlets....	tyba 12/31/11	----- Presently Unavailable -----											
3. Repeal the special rules for non-dealer installment sales.....	N/A	----- Presently Unavailable -----											
4. Repeal the deferral of gain on like-kind exchanges.....	eca 12/31/12	--	0.1	0.2	0.4	0.6	1.1	1.9	2.9	4.4	6.6	2.4	18.2
5. Expensing under section 179 of depreciable business property.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Amortization of business startup costs.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
7. Reduced rates on first \$10,000,000 of corporate taxable income.....	tyba 12/31/11	----- Presently Unavailable -----											
8. Exemptions from imputed interest rules.....	tyba 12/31/11	----- Presently Unavailable -----											
9. Expensing of magazine circulation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Special rules for magazine, paperback book, and record returns.....	tyba 12/31/11	----- Presently Unavailable -----											
11. Repeal the completed contract rules method.....	sooda 12/31/12	---	0.9	2.1	2.3	2.4	2.5	1.5	0.7	0.7	0.8	7.7	13.9
12. Cash accounting, other than agriculture.....	tyba 12/31/11	----- Presently Unavailable -----											
13. Credit for employer-paid FICA taxes on tips.....	tyba 12/31/11	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9	0.9	3.6	8.2
14. Repeal the deduction for income attributable to domestic production activities.....	tyba 12/31/11	4.3	13.9	14.7	15.6	16.5	17.6	18.6	19.7	20.9	22.1	65.0	163.9
15. Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories.....	tyba 12/31/11	----- Presently Unavailable -----											
16. Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly.....	tyba 12/31/11	----- Presently Unavailable -----											
17. Ordinary gain or loss treatment for sale or exchange of Fannie Mae and Freddie Mac preferred stock by certain financial institutions.....	tyba 12/31/11	----- Presently Unavailable -----											
18. Inventory methods and valuation:													
a. Repeal last in first out.....	tyba 12/31/12	---	3.9	6.9	7.3	7.5	7.9	8.5	8.9	9.2	9.6	25.5	69.7
b. Repeal lower of cost or market.....	tyba 12/31/12	---	0.1	0.8	0.9	0.7	0.3	0.1	[1]	[1]	[1]	2.4	2.9
c. Specific identification for homogeneous products.....	tyba 12/31/11	----- Presently Unavailable -----											
19. Exclusion of gain or loss on sale or exchange of Brownfield property.....	tyba 12/31/11	----- Presently Unavailable -----											
20. Income recognition rule for gain or loss from section 1256 contracts.....	tyba 12/31/11	----- Presently Unavailable -----											
21. Net alternative minimum tax attributable to net operating loss limitation.....	tyba 12/31/11	----- Presently Unavailable -----											
22. Exclusion of interest on State and local qualified private activity bonds for green buildings and sustainable design projects.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
23. Repeal MACRS and apply ADS in the depreciation of buildings other than rental housing.....	ppisa 12/31/11	----- Estimate Included in Item XIV.2. -----											
24. Repeal MACRS and apply ADS in the depreciation of equipment.....	ppisa 12/31/11	----- Estimate Included in Item XIV.2. -----											
25. Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument.....	tyba 12/31/11	----- Presently Unavailable -----											
26. 5-year carryback of general business credits.....	tyba 12/31/11	----- Presently Unavailable -----											
C. Financial Institutions:													
1. Exemption of credit union income.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
D. Insurance Companies:													
1. Expand pro rata interest expense disallowance for company-owned life insurance.....	[2]	0.1	0.2	0.4	0.5	0.6	0.8	0.9	1.0	1.1	1.2	1.9	6.8
2. Small life insurance company taxable income adjustment.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Special treatment of life insurance company reserves....	tyba 12/31/11	----- Presently Unavailable -----											
4. Special deduction for Blue Cross and Blue Shield companies.....	tyba 12/31/11	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	2.0	4.8
5. Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Interest rate and discounting period assumptions for reserves of property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
7. Proration for property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
VI. Transportation													
1. Deferral of tax on capital construction funds of shipping companies.....	tyba 12/31/11	----- Presently Unavailable -----											
2. Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
3. High-speed intercity rail vehicle speed requirement for exempt high-speed rail facility bonds.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
4. Exclusion of interest on State and local government private activity bonds for private airports, docks, and mass-commuting facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
VII. Community and Regional Development													
1. Empowerment zone tax incentives.....	tyba 12/31/11	----- Presently Unavailable -----											
2. New markets tax credit.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Repeal the District of Columbia tax incentives.....	N/A	----- Presently Unavailable -----											
4. Credit for Indian reservation employment.....	tyba 12/31/11	----- Presently Unavailable -----											
5. Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
6. Issuance of recovery zone economic development bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
7. Issuance of tribal economic development bonds.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
8. Build America bonds.....	tyba 12/31/11	----- Provision Expired -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
9. Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Disaster Relief:													
a. Gulf opportunity zone.....	tyba 12/31/11	----- Presently Unavailable -----											
b. Midwest disaster relief.....	tyba 12/31/11	----- Presently Unavailable -----											
c. National disaster relief.....	tyba 12/31/11	----- Presently Unavailable -----											
VIII. Education, Training, Employment, and Social Services													
A. Education and Training:													
1. Exclusion of interest on State and local government qualified private activity bonds for student loans.....	bia 12/31/11	----- Estimate Included in Item XIV.1. -----											
2. Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
3. Credit for holders of qualified zone academy bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Deduction for charitable contributions to educational institutions.....	tyba 12/31/11	----- Presently Unavailable -----											
B. Employment:													
1. Repeal deduction for dividends paid to an employee stock ownership plan (ESOP).....	dpa DOE	0.4	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	2.7	6.3
2. Deferral of taxation on spread on acquisition of stock under incentive stock option plans.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Deferral of taxation on spread on employee stock purchase plans.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation).....	tyba 12/31/11	----- Presently Unavailable -----											
5. Limits on deductible compensation.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Work opportunity tax credit.....	tyba 12/31/11	----- Provision Expires December 31, 2011 -----											
7. Credit for retention of certain newly hired workers.....	tyba 12/31/11	----- Provision Expires December 31, 2011 -----											
C. Social Services:													
1. Credit for employer-provided dependent care.....	tyba 12/31/11	[1]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	-0.1	-0.2
2. Deduction for charitable contributions, other than for education and health.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Credit for disabled access expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
IX. Health													
1. Exclusion of interest on State and local government qualified activity bonds for private nonprofit hospital facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
2. Deduction for charitable contributions to health organizations.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Credit for orphan drug research.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Premium subsidy for COBRA continuation coverage...	tyba 12/31/11	----- Presently Unavailable -----											
5. Tax credit for small businesses purchasing employer insurance.....	tyba 12/31/11	----- Presently Unavailable -----											
X. Medicare													
1. Exclusion of Medicare benefits - exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees.....	tyba 12/31/11	----- Presently Unavailable -----											
XI. Income Security													
1. Exclusion of disaster mitigation payments.....	tyba 12/31/11	----- Presently Unavailable -----											
XII. General Purpose Fiscal Assistance													
1. Exclusion of interest on public purpose State and local government bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
XIII. Veterans Benefits and Services													
1. Exclusion of interest on State and local qualified private activity bonds for veterans' housing.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
XIV. General Corporate Tax Provisions													
1. Eliminate exclusion of interest on private activity bonds.....	bia 12/31/12	---	0.1	0.2	0.4	0.7	1.0	1.3	1.6	1.9	2.1	1.4	9.2
2. Repeal MACRS and apply ADS.....	tyba 12/31/11	19.5	56.6	82.0	91.8	95.1	96.1	79.4	72.9	67.1	63.5	345.0	724.1
XV. Reduction in Corporate Rate to 28%.....	tyba 12/31/11	-40.5	-65.3	-71.0	-75.8	-77.0	-76.0	-77.0	-76.4	-78.2	-80.4	-329.6	-717.5
XVI. Interaction With Corporate Rate Change.....	---	-12.9	-24.7	-28.2	-28.4	-27.1	-26.8	-24.7	-23.7	-23.2	-23.3	-121.3	-243.0
NET TOTAL		5.6	33.4	47.3	45.2	40.3	41.5	28.3	24.6	20.0	18.0	172.5	304.1

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[Legend and Footnotes for Table #11-1 133 appear on the following page]

Legend and Footnotes for Table #11-1 133:

Legend for "Effective" column:

apoia = amounts paid or incurred after
bia = bonds issued after
caa = credits allocated after
cpoia = costs paid or incurred after

DOE = date of enactment
eca = exchanges commencing after
dpa = dividends paid after
N/A = not applicable

ppisa = property placed in service after
saua = sales and uses after
sooda = sales or other dispositions after
tyba = taxable years beginning after

[1] Gain of less than \$50 million.

[2] Effective for contracts issued after December 31, 2011, in taxable years ending after that date.

[3] Loss of less than \$50 million.

- Committee on Ways and Means -
**ESTIMATED REVENUE EFFECTS OF CORPORATE TAX REFORM REVENUE RAISING PROVISIONS THAT REPEAL OR MODIFY TAX EXPENDITURES:
 PORTION OF REVENUE THAT IS ATTRIBUTABLE TO C CORPORATIONS**

Fiscal Years 2012 - 2021

[Billions of Dollars]

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
I. General Science, Space, and Technology													
1. Credit for increasing research activities (section 41).....	tyba 12/31/11	----- <i>No Revenue Effect</i> -----											
2. Expensing of research and experimental expenditures...	tyba 12/31/11	28.9	39.3	30.7	21	10.5	6.6	6.5	4.8	2.6	1.1	130.5	152.2
II. Energy													
1. Credits for alternative technology vehicles.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
2. Credit for holders of clean renewable energy bonds (sections 54 and 54C).....	tyba 12/31/11	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	0.1	0.3
3. Exclusion of energy conservation subsidies provided by public utilities.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
4. Credit for holder of qualified energy conservation bonds.....	tyba 12/31/11	[1]	[1]	[1]	[1]	[1]	0.1	0.1	0.1	0.1	0.1	0.1	0.4
5. Credit for enhanced oil recovery costs.....	tyba 12/31/11	----- <i>No Revenue Effect</i> -----											
6. Repeal credits for alcohol fuels.....	saua DOE	----- <i>Presently Unavailable</i> -----											
7. Energy credit (section 48).....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
a. Solar.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
b. Geothermal.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
c. Fuel cells.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
d. Microturbines.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
e. CHP property.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
f. Small wind systems.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
8. Credits for electricity production from renewable resources (section 45).....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
a. Wind.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
b. Closed-loop biomass.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
c. Geothermal.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
d. Qualified hydropower.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
e. Solar (limited to facilities placed in service before 1/1/06).....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
f. Small irrigation power.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
g. Municipal solid waste.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											
h. Open-loop biomass.....	tyba 12/31/11	----- <i>Presently Unavailable</i> -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
9. Credits for investments in clean coal facilities.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Coal production credits:													
a. Refined coal.....	tyba 12/31/11	----- Presently Unavailable -----											
b. Indian coal.....	tyba 12/31/11	----- Presently Unavailable -----											
11. Credit for the production of energy-efficient appliances.....	tyba 12/31/11	----- No Revenue Effect -----											
12. Credit for clean-fuel vehicle refueling property.....	tyba 12/31/11	----- No Revenue Effect -----											
13. New energy efficient homes credit.....	tyba 12/31/11	----- Presently Unavailable -----											
14. Credit for investment in advanced energy property.....	tyba 12/31/11	----- Presently Unavailable -----											
15. Exclusion of interest on State and local government qualified private activity bonds for energy production facilities.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
16. Deduction for expenditures on energy-efficient commercial building property.....	tyba 12/31/11	----- Presently Unavailable -----											
17. Repeal expensing of oil and gas exploration and development costs.....	cpoia 12/31/11	0.5	0.7	0.7	0.6	0.6	0.5	0.3	0.1	0.1	0.1	3.1	4.2
18. Repeal percentage depletion for oil and natural gas wells.....	tyba 12/31/11	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	2.3	5.4
19. Repeal percentage depletion for coal and hard mineral fossil fuels.....	tyba 12/31/11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	1.2
20. Increase geological and small integrated geophysical amortization period for independent producers to seven years.....	apoia 12/31/11	[1]	0.1	0.2	0.2	0.1	0.1	[1]	[1]	[1]	[1]	0.6	0.8
21. Amortization of air pollution control facilities.....	tyba 12/31/11	----- Presently Unavailable -----											
22. Depreciation recovery periods for energy specific items:													
a. Five-year MACRS for certain energy property (solar, wind, etc.).....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
b. 10-year MACRS for smart electric distribution property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
c. 15-year MACRS for certain electric transmission property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
d. 15-year MACRS for natural gas distribution line.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
23. Election to expense 50 percent of qualified property used to refine liquid fuels.....	tyba 12/31/11	----- Presently Unavailable -----											
III. Natural Resources and Environment													
1. Special depreciation allowance for certain reuse and recycling property.....	tyba 12/31/11	----- Estimate Included in Item XIV.2. -----											
2. Expensing of exploration and development costs, nonfuel minerals.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Excess of percentage over cost depletion, nonfuel minerals.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Expensing of timber-growing costs.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
5. Special rules for mining reclamation reserves.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Impose full tax rate on nuclear decommissioning reserve funds.....	tyba 12/31/11	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
7. Exclusion of contributions in aid of construction for water and sewer utilities.....	tyba 12/31/11	----- Presently Unavailable -----											
8. Exclusion of earnings of certain environmental settlement funds.....	tyba 12/31/11	----- Presently Unavailable -----											
9. Amortization and expensing of reforestation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
IV. Agriculture													
1. Expensing of soil and water conservation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
2. Expensing of the costs of raising dairy and breeding cattle.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Exclusion of cost-sharing payments.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Exclusion of cancellation of indebtedness income of farmers.....	tyba 12/31/11	----- Presently Unavailable -----											
5. Five-year carryback period for net operating losses attributable to farming.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Expensing by farmers for fertilizer and soil conditioner costs.....	tyba 12/31/11	----- Presently Unavailable -----											
V. Commerce and Housing													
A. Housing:													
1. Repeal the exclusion of interest on all State and local government qualified private activity bonds.....	bia 12/31/12	----- Estimate Included in Item XIV. I. -----											
2. Repeal the credit for low-income housing.....	caa 12/31/12	---	0.2	0.6	1.4	2.4	3.4	4.5	5.7	6.8	8.0	4.5	33.0
3. Repeal the rehabilitation credit.....	caa 12/31/12	---	0.1	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.7	1.3	4.4
4. Depreciation of rental housing in excess of alternative depreciation system.....	tyba 12/31/11	----- Presently Unavailable -----											
B. Other Business and Commerce:													
1. Exclusion of interest on State and local government small-issue qualified private activity bonds.....	bia 12/31/12	----- Estimate Included in Item XIV. I. -----											
2. 15-year recovery period for retail motor fuels outlets....	tyba 12/31/11	----- Presently Unavailable -----											
3. Repeal the special rules for non-dealer installment sales.....	N/A	----- Presently Unavailable -----											
4. Repeal the deferral of gain on like-kind exchanges.....	eca 12/31/12	---	0.1	0.2	0.4	0.6	1.0	1.7	2.6	3.8	5.6	2.3	16.0
5. Expensing under section 179 of depreciable business property.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Amortization of business startup costs.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
7. Reduced rates on first \$10,000,000 of corporate taxable income.....	tyba 12/31/11	----- Presently Unavailable -----											
8. Exemptions from imputed interest rules.....	tyba 12/31/11	----- Presently Unavailable -----											
9. Expensing of magazine circulation expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Special rules for magazine, paperback book, and record returns.....	tyba 12/31/11	----- Presently Unavailable -----											
11. Repeal the completed contract rules method.....	sooda 12/31/12	---	0.9	2.1	2.3	2.4	2.5	1.5	0.7	0.7	0.8	7.7	13.9
12. Cash accounting, other than agriculture.....	tyba 12/31/11	----- Presently Unavailable -----											
13. Credit for employer-paid FICA taxes on tips.....	tyba 12/31/11	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.5	2.1	4.8
14. Repeal the deduction for income attributable to domestic production activities.....	tyba 12/31/11	3.3	10.8	11.4	12.1	12.8	13.6	14.4	15.3	16.2	17.1	50.4	127.0
15. Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories.....	tyba 12/31/11	----- Presently Unavailable -----											
16. Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly...	tyba 12/31/11	----- Presently Unavailable -----											
17. Ordinary gain or loss treatment for sale or exchange of Fannie Mae and Freddie Mac preferred stock by certain financial institutions.....	tyba 12/31/11	----- Presently Unavailable -----											
18. Inventory methods and valuation:													
a. Repeal last in first out.....	tyba 12/31/12	---	3.5	6.2	6.5	6.7	7.1	7.7	8.0	8.3	8.7	22.9	62.7
b. Repeal lower of cost or market.....	tyba 12/31/12	---	0.1	0.8	0.9	0.7	0.3	0.1	[1]	[1]	[1]	2.4	2.9
c. Specific identification for homogeneous products....	tyba 12/31/11	----- Presently Unavailable -----											
19. Exclusion of gain or loss on sale or exchange of Brownfield property.....	tyba 12/31/11	----- Presently Unavailable -----											
20. Income recognition rule for gain or loss from section 1256 contracts.....	tyba 12/31/11	----- Presently Unavailable -----											
21. Net alternative minimum tax attributable to net operating loss limitation.....	tyba 12/31/11	----- Presently Unavailable -----											
22. Exclusion of interest on State and local qualified private activity bonds for green buildings and sustainable design projects.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
23. Repeal MACRS and apply ADS in the depreciation of buildings other than rental housing.....	ppisa 12/31/11	----- Estimate Included in Item XIV.2. -----											
24. Repeal MACRS and apply ADS in the depreciation of equipment.....	ppisa 12/31/11	----- Estimate Included in Item XIV.2. -----											
25. Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument....	tyba 12/31/11	----- Presently Unavailable -----											
26. 5-year carryback of general business credits.....	tyba 12/31/11	----- Presently Unavailable -----											
C. Financial Institutions:													
1. Exemption of credit union income.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
D. Insurance Companies:													
1. Expand pro rata interest expense disallowance for company-owned life insurance.....	[2]	0.1	0.2	0.4	0.5	0.6	0.8	0.9	1.0	1.1	1.2	1.9	6.8
2. Small life insurance company taxable income adjustment.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Special treatment of life insurance company reserves.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Special deduction for Blue Cross and Blue Shield companies.....	tyba 12/31/11	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	2.0	4.8
5. Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Interest rate and discounting period assumptions for reserves of property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
7. Proration for property and casualty insurance companies.....	tyba 12/31/11	----- Presently Unavailable -----											
VI. Transportation													
1. Deferral of tax on capital construction funds of shipping companies.....	tyba 12/31/11	----- Presently Unavailable -----											
2. Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
3. High-speed intercity rail vehicle speed requirement for exempt high-speed rail facility bonds.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
4. Exclusion of interest on State and local government private activity bonds for private airports, docks, and mass-commuting facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
VII. Community and Regional Development													
1. Empowerment zone tax incentives.....	tyba 12/31/11	----- Presently Unavailable -----											
2. New markets tax credit.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Repeal the District of Columbia tax incentives.....	N/A	----- Presently Unavailable -----											
4. Credit for Indian reservation employment.....	tyba 12/31/11	----- Presently Unavailable -----											
5. Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
6. Issuance of recovery zone economic development bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
7. Issuance of tribal economic development bonds.....	tyba 12/31/11	----- Estimate Included in Item XIV.1. -----											
8. Build America bonds.....	tyba 12/31/11	----- Provision Expired -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
9. Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest.....	tyba 12/31/11	----- Presently Unavailable -----											
10. Disaster Relief:													
a. Gulf opportunity zone.....	tyba 12/31/11	----- Presently Unavailable -----											
b. Midwest disaster relief.....	tyba 12/31/11	----- Presently Unavailable -----											
c. National disaster relief.....	tyba 12/31/11	----- Presently Unavailable -----											
VIII. Education, Training, Employment, and Social Services													
A. Education and Training:													
1. Exclusion of interest on State and local government qualified private activity bonds for student loans.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
2. Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
3. Credit for holders of qualified zone academy bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Deduction for charitable contributions to educational institutions.....	tyba 12/31/11	----- Presently Unavailable -----											
B. Employment:													
1. Repeal deduction for dividends paid to an employee stock ownership plan (ESOP).....	dpa DOE	0.4	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	2.7	6.3
2. Deferral of taxation on spread on acquisition of stock under incentive stock option plans.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Deferral of taxation on spread on employee stock purchase plans.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation).....	tyba 12/31/11	----- Presently Unavailable -----											
5. Limits on deductible compensation.....	tyba 12/31/11	----- Presently Unavailable -----											
6. Work opportunity tax credit.....	tyba 12/31/11	----- Provision Expires December 31, 2011 -----											
7. Credit for retention of certain newly hired workers.....	tyba 12/31/11	----- Provision Expires December 31, 2011 -----											
C. Social Services:													
1. Credit for employer-provided dependent care.....	tyba 12/31/11	[1]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	-0.1	-0.2
2. Deduction for charitable contributions, other than for education and health.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Credit for disabled access expenditures.....	tyba 12/31/11	----- Presently Unavailable -----											

Provision	Effective	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
IX. Health													
1. Exclusion of interest on State and local government qualified activity bonds for private nonprofit hospital facilities.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
2. Deduction for charitable contributions to health organizations.....	tyba 12/31/11	----- Presently Unavailable -----											
3. Credit for orphan drug research.....	tyba 12/31/11	----- Presently Unavailable -----											
4. Premium subsidy for COBRA continuation coverage...	tyba 12/31/11	----- Presently Unavailable -----											
5. Tax credit for small businesses purchasing employer insurance.....	tyba 12/31/11	----- Presently Unavailable -----											
X. Medicare													
1. Exclusion of Medicare benefits - exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees.....	tyba 12/31/11	----- Presently Unavailable -----											
XI. Income Security													
1. Exclusion of disaster mitigation payments.....	tyba 12/31/11	----- Presently Unavailable -----											
XII. General Purpose Fiscal Assistance													
1. Exclusion of interest on public purpose State and local government bonds.....	tyba 12/31/11	----- Presently Unavailable -----											
XIII. Veterans Benefits and Services													
1. Exclusion of interest on State and local qualified private activity bonds for veterans' housing.....	bia 12/31/12	----- Estimate Included in Item XIV.1. -----											
XIV. General Corporate Tax Provisions													
1. Eliminate exclusion of interest on private activity bonds.....	bia 12/31/12	--	0.1	0.2	0.4	0.7	1.0	1.3	1.6	1.9	2.1	1.4	9.2
2. Repeal MACRS and apply ADS.....	tyba 12/31/11	13.6	39.6	57.4	64.3	66.6	67.3	55.6	51.0	47.0	44.5	241.5	506.8
XV. Reduction in Corporate Rate to 28%.....	tyba 12/31/11	-40.5	-65.3	-71.0	-75.8	-77.0	-76.0	-77.0	-76.4	-78.2	-80.4	-329.6	-717.5
XVI. Interaction With Corporate Rate Change.....	---	-12.9	-24.7	-28.2	-28.4	-27.1	-26.8	-24.7	-23.7	-23.2	-23.3	-121.3	-243.0
NET TOTAL		-5.5	7.6	14.0	9.1	3.5	4.5	-4.0	-5.9	-9.3	-11.0	30.0	3.8

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[Legend and Footnotes for Table #11-1 134 appear on the following page]

Legend and Footnotes for Table #11-1 134:

Legend for "Effective" column:

apoia = amounts paid or incurred after
bia = bonds issued after
caa = credits allocated after
cpoia = costs paid or incurred after

DOE = date of enactment
eca = exchanges commencing after
dpa = dividends paid after
N/A = not applicable

ppisa = property placed in service after
saa = sales and uses after
sooda = sales or other dispositions after
tyba = taxable years beginning after

[1] Gain of less than \$50 million.

[2] Effective for contracts issued after December 31, 2011, in taxable years ending after that date.

Tax Policy and Issues of Complexity

Professor Annette Nellen
SJSU MST Program
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1

What is tax policy?

- Considerations involved in design of a tax system and its components.
 - The appropriate type and mix of taxes.
 - Tax base.
 - Rate structures.
 - Who is the taxpayer?
 - Directly and indirectly.
 - Administrative and compliance structure.
 - Intergovernmental considerations.
- And ... there may be legal constraints (constitutional, statutory, judicial) that affect all of the above.

2

Tax policy/design should lead to ...

- A “workable” tax system that ...
 - Taxpayers understand.
 - Allows for effective and efficient funding of the desired level of government spending.
 - Allows for reasonable predictability for creating government budgets.
 - Support of the jurisdiction’s economic, societal, and environmental goals (the tax system should not work in opposition to these goals).

3

Principles of good tax policy

- Tools that help identify and shape the appropriate design or policy for a tax system

4

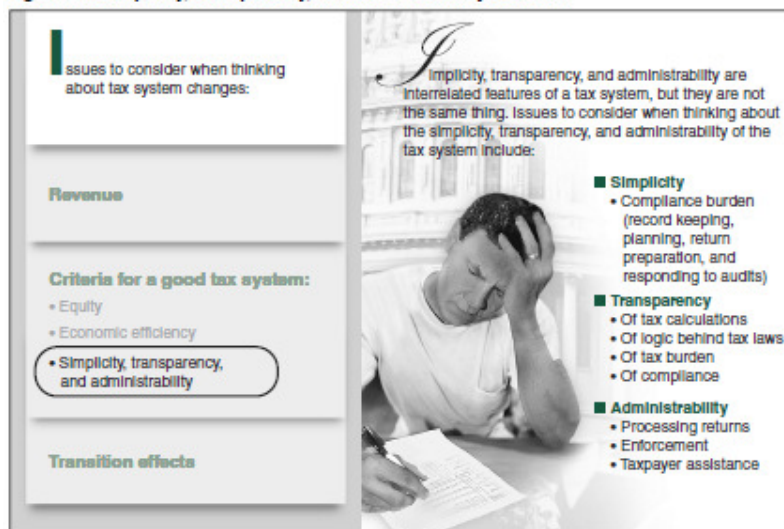
Simplicity

- “The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.” [AICPA]

<http://www.aicpa.org/INTERESTAREAS/TAX/RESOURCES/TAXLEGISLATIONPOLICY/Pages/TaxReform.aspx>

5

Figure 13: Simplicity, Transparency, and Administrability Overview



GAO, *Understanding the Tax Reform Debate*, 9/05, p. 45

6

Is the federal tax system simple?



7

Do you know?

- College student with a job.
 - Is he a dependent?
 - Is he subject to the kiddie tax if also has unearned income?
 - If entitled to any higher education credit or deduction, does he claim it or does parent?
 - Could he be eligible for the EITC?

8

Do you know?

- How much first year depreciation is available on:
 - Computer purchased by a sole proprietor?
 - Self-constructed asset of a Fortune 500 company?
 - Off-the-shelf software?
 - Passenger automobile weighing $\leq 6,000$ pounds
 - Passenger automobile weighing $> 6,000$ pounds
-

9

Do you know?

- How to source income from customer use of software in the cloud if server is in Ireland and customers are in every state and company headquartered in Nevada?
-

10

Do you know?

- Which of these is subject to sales tax collection in California?
 - Maintenance contract sold with custom software?
 - Hot coffee to go
 - Shipping and handling
 - Equipment to manufacture solar panels
 - Items sold on eBay by individual with over 50 sales during the year

11

"The most serious problem facing taxpayers is the complexity of the Internal Revenue Code."

National Taxpayer Service, 2008 Annual Report to Congress, Vol 1, page 3

12

"If tax compliance were an industry, it would be one of the largest in the United States. To consume 7.6 billion hours, the "tax industry" requires the equivalent of 3.8 million full-time workers."

National Taxpayer Service, 2008 Annual Report to Congress, Vol 1, page 3

13

Many rules too specialized

How many people know that ...

- There are special rules for married parents who live apart for last 6 months of the tax year that may enable them to be considered as "unmarried."
- The support test is different for a dependent who is your child versus a "qualifying relative."
- Age varies among rules. A child up to age 23 may need to use their parent's tax rate to calculate their tax liability, although the child care credit can only be claimed if the child is under age 13. Dependent might be up to age 23 (if FT student) or 18 (if not FT student), but child credit only allowed up to age 16.
- Form 1099-C for cancelation of debt income might not be taxable.
- While Schedule A says you can deduct state taxes if you itemize, you won't get the deduction if AMT applies.

14

Causes of complexity - 1

- Too many provisions – multiple tax relief measures with similar purposes. For example, family measures (filing status, dependency, child care credit, child credit, EITC), higher education, retirement, depreciation,
- Using the tax law to remedy all problems
- Adding new provisions without removing any old provisions

15

Causes of complexity - 2

- Trying to make the law more progressive or less regressive without changing the tax rate or tax rate structure. For example, phase-outs, partially refundable credits for some individuals (such as child credit and AOTC)
- Using the same word but with different meanings – Modified AGI, small business, others
- Ignoring existing rules. For example, odd due date rules for FBAR, creating a child credit rather than increasing the dependency deduction
- Overly complicated approaches to prevent possible abuses. Examples – kiddie tax, AMT

16

Causes of complexity - 3

- Desire for accuracy
 - Example – not excluding small amounts of CODI, kiddie tax calculation
- 2 systems – regular and AMT, rather than reducing number of tax deductions, exemptions and credits
- Budget related problems – temporary provisions that are continually renewed

17

Solutions – how to simplify

- Stop enacting complicated provisions
- Sacrifice accuracy for simplification where appropriate
 - EX – Notice 2011-72 allowing personal use of cell phones by employees to be de minimis fringe benefit
- Phase out unnecessary special rules that
 - Serve no purpose
 - EX – interest deduction on second home and home equity debt
 - Can be addressed outside of the tax law
 - EX – education incentives

18

More solutions ...

- Use complexity analysis called for by IRS Restructuring Act of 1998 and AICPA
- Always ask – is there a simpler way to accomplish what we are trying to do? Did we ask tax practitioners for their advice?

19

Also consider ...

- Broader base and lower rates more likely to meet principles of good tax policy including simplicity.
- Administrative structure – forms, filing procedures, good use of technology
 - Information on tax forms can help. EX – Sch E for rental – include note or question about not depreciating land
- How the process of changing the laws causes complexity – need to improve the budget process.
 - Ex – temporary provisions; retroactive reinstatements, etc.
 - Ex – changes tied more to revenue needs than good tax policy, such as changes in amount of estimated taxes

20

Complexity

- Nat'l Taxpayer Advocate - the "confounding complexity of the tax code" is the most serious problem facing taxpayers
- 2003 – 56% of individuals and over 70% of those claiming EITC had a paid preparer
- Only 16% of individuals know how long to live in a home to get an exclusion
- Code and regulations – over twice as long today as 20 years ago
- 1040EZ instruction – 40 pages long
- High costs of complexity
 - Per Dr. Joel Slemrod (3/05 testimony to President Bush's Tax Reform Panel):
 - Annual compliance costs = \$125 billion
 - That's 12x larger than IRS operating budget
 - Harm to individuals and small businesses

21



QUESTIONS



<http://www.21stcenturytaxation.com/>

http://www.cob.sjsu.edu/nellen_a

AICPA button

22

Tax Policy and Issues of Complexity

A. Tax Policy versus Tax Principles

1. Policy – design considerations
2. Principles - tools that help identify and shape the appropriate design or policy for a tax system
 1. AICPA – "*Simplicity*. The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner."

B. Causes of Complexity

1. "[T]here is no single cause of complexity. The complexity of the Federal tax system has developed over many years and is the result of many different factors, including frequent changes in the law, the use of temporary provisions, administrative guidance, judicial interpretations, and the effects of the Congressional budget process. In addition, simplicity often is in conflict with other policy objectives, such as fairness and efficiency." Joint Committee on Taxation testimony, July 17, 2001, JCX-60-01, pages 2 – 3.
2. Too many provisions – multiple tax relief measures with similar purposes. For example, family measures (filing status, dependency, child care credit, child credit, EITC), education, retirement, depreciation.
3. Using the tax law to remedy all problems.
4. Adding new provisions without removing any old provisions.
5. Trying to make the law more progressive or less regressive without changing the tax rate or tax rate structure. For example, phase-outs, partially refundable credits for some individuals (such as child credit and American Opportunity Tax Credit).
6. Using the same word but with different meanings. For example, "modified AGI" as used for most phase-out provisions, small business.
7. Ignoring existing rules. For example, odd due date rule for FBAR form, creating a child credit rather than increasing the dependent deduction
8. Overly complicated approaches to prevent possible abuses. For example, the "kiddie tax," and AMT.
9. Unrealistic and unneeded desire for accuracy. For example, not excluding small amounts of cancellation of indebtedness income, the kiddie tax calculation, the interaction of the Section 179 expensing election with other taxable limitations.
10. Two systems – regular and AMT, rather than reducing the number of tax deductions, exemptions and credits.
11. Budget related problems. For example, numerous temporary provisions that are continually renewed for short time periods. This makes them easier to renew because they do not need to be paid for over the 10-year budget projection.

C. How to Simplify Tax Systems

- Look at all rules – particularly deductions, exemptions/exclusions and credits, and answer the following:

- Why is the rule there?
- Is that purpose still valid? Is the rule still necessary?
- Is the purpose appropriate for the tax law?
- Is the purpose being met by the tax provision?

Example: What is the purpose of the numerous higher education credits and deductions?

- Apparently the purpose is to lower the cost of higher education thereby making college more affordable.
- Is the benefit measurable? Do the provisions enable more students to get to college? How do the tax provisions compare in effectiveness to government grant programs, such as Pell grants and state-financed universities? Do the provisions encourage people to go to college and to graduate?
- Why do these benefits exist inside the tax system rather than through scholarships or grants administered by the Department of Education or state agency?
- If decide to remove a temporary provision – don't renew it. If remove a permanent provision, phase-it out to allow taxpayers time to find other funding alternatives.
- Use the complexity analysis called for by IRS Restructuring Act of 1998* and AICPA for all tax law changes and establish a system to review existing, permanent provisions.
- Be more willing to sacrifice some accuracy in order to gain simplicity. For example, use safe harbor provisions, use only have one definition of modified AGI, use the standard deduction rather than specific deductions, etc.
- In reform efforts, consider that a tax with a broad base and low rates is more likely to meet principles of good tax policy.
- Simplification must also consider administrative structure, such as forms, filing procedures, appropriate use of technology, etc.

* IRS Restructuring Act of 1998 called upon JCT to perform Complexity Analysis: "Factors that may be taken into account by the staff of the Joint Committee in preparing the Complexity Analysis include the following: (1) whether the provision is new, modifies or replaces existing law, and whether hearings were held to discuss the proposal and whether the IRS provided input as to its administrability; (2) when the provision becomes effective and corresponding compliance requirements on taxpayers; (3) whether new IRS forms or worksheets are needed, whether existing forms or worksheets must be modified, and whether the effective date allows sufficient time for the IRS to prepare such forms and educate taxpayers; (4) necessity of additional interpretive guidance (e.g., regulations, rulings, notices); (5) the extent to which the proposal relies on concepts contained in existing law, including definitions; (6) effect on existing record keeping requirements and the activities of taxpayers, complexity of calculations and likely behavioral response, and standard business practices and resource requirements; (7) number, type, and sophistication of affected taxpayers; and (8) whether the proposal requires the IRS to assume responsibilities not directly related to raising revenue which could be handled through another Federal agency."

**What Federal Tax Reform Might Mean for California and
the Role (if any) for California in the Process**

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1

Agenda

Roles to Play (A General Overview)

1. The Federal Role in State Tax Policy
2. California's Engagement
 - a. Proactive
(California Delegation/California Companies)
 - b. Reactive
(California Legislation/Litigation)

**Proposed Changes to the Federal System of Taxation
that May Affect California**

1. Why "Reform" – Revenue/Distribution of the Burden
2. How "Reform"
 - a. Personal Income Tax
 - i. Flatten? More Progressive? Sheltering?

2

Agenda

- b. Corporate Income Tax
 - i. Rate Reduction, Exclusions, Deductions
 - ii. Territorial Taxation
- c. Can California Conform?
 - i. Advantages/History/Prop. 26
- d. Radical Change (VAT)?
 - i. California follows (Add-on/BNRT II)

Changes to State Taxation Imposed by the Feds

1. State Jurisdiction to Tax (Nexus)
 - a. SUT/B&C (SSUTA vs. Federal Legislation)
 - b. Mobile Workforce
 - c. Taxation of Retirement Income
 - d. Wireless Tax Fairness Act – H.R. 2002 (S. 543)

3