Provisions in the Chairman's Mark:

Expiring Provisions Improvement Reform and Efficiency (EXPIRE) Act

Individual Provisions

1. Deduction for expenses of elementary and secondary school teachers

The bill extends for two years the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and service), other equipment, and supplementary materials used by the educator in the classroom. *A two year extension of this provision is estimated to cost \$430 million over 10 years*.

2. Mortgage Debt Relief

Under current law, taxpayers who have mortgage debt canceled or forgiven after 2013 may be required to pay taxes on that amount as taxable income. Under this provision, up to \$2 million of forgiven debt is eligible to be excluded from income (\$1 million if married filing separately) through tax year 2015. This provision was created in the Mortgage Debt Relief Act of 2007 to shield taxpayers from having to pay taxes on cancelled mortgage debt stemming from mortgage loan modifications through 2010. It was extended through 2013 by the Emergency Economic Stabilization Act of 2008. A two year extension of this provision is estimated to cost \$5.4 billion over 10 years.

3. Parity for employer-provided mass transit and parking benefits

The bill would extend through 2015 the increase in the monthly exclusion for employer-provided transit and vanpool benefits from \$130 to \$250, so that it would be the same as the exclusion for employer-provided parking benefits. In order for the extension to be effective retroactive to January 1, 2014, employers may reimburse expenses incurred prior to enactment by employees for vanpool and transit benefits on a tax-free basis to the extent the expenses exceed \$130 per month and are not more than \$250. A two year extension of this provision is estimated to cost \$180 million over 10 years.

4. Deduction for mortgage interest premiums

The bill extends the ability to deduct the cost of mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10% for each \$1,000 by which the taxpayer's AGI exceeds \$100,000. Thus, the deduction is unavailable for a taxpayer with an AGI in excess of \$110,000. The bill extends this provision for two additional years, through 2015. A two year extension of this provision is estimated to cost \$1.8 billion over 10 years.

5. Deduction for state and local general sales taxes

The bill extends the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for state and local income taxes for two years. A two year extension of this provision is estimated to cost \$6.5\$ billion over 10 years.

6. Above-the-line deduction for higher education expenses

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) created an above-the-line tax deduction for qualified higher education expenses. The maximum deduction was \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns). The bill extends the deduction to the end of 2015. A two year extension of this provision is estimated to cost \$596 million over 10 years.

7. Tax-free distributions from individual retirement plan for charitable purposes

The bill extends for two years the provision that permits an Individual Retirement Arrangement ("IRA") owner who is age 70-1/2 or older generally to exclude from gross income up to \$100,000 per year in distributions made directly from the IRA to certain public charities. A two year extension of this provision is estimated to cost \$1.8 billion over 10 years.

Business Provisions

8. Research and experimentation tax credit

The bill extends for two years, through 2015, the 20 percent traditional research tax credit and the 14 percent alternative simplified credit. A two year extension of this provision is estimated to cost \$15.4 billion over 10 years.

9. 9% Credit Rate Freeze for the Low-Income Housing Tax Credit Program

The low-income housing tax credit program provides a tax credit over a period of ten years after a housing facility occupied by low-income tenants is placed-in-service. The credit earned each year generally depends on three factors — the investment in the building, the portion of the building devoted to low-income units, and a credit rate (called the "applicable rate"). When the program was created, the applicable rate was 9%. As interest rates have declined, so has the amount of tax credits that can be used to build a LIHTC project. In 2008, Congress adjusted the formula and set a minimum credit amount of 9%, which is based on the original credit rate when the program was created. The provision, originally scheduled to expire at the end of 2013, was extended once, and was effective for housing credit dollar amount allocations made before January 1, 2014. This proposal would extend the expiration date by changing the deadline to allocations made before January 1, 2016. A two year extension of this provision is estimated to cost \$4 million over 10 years.

10. Treatment of military basic housing allowances under low-income housing credit

The bill extends a provision whereby any military basic housing allowance received by an active member of the military is not considered income for purposes of calculating whether an individual qualifies as a low-income tenant for the low income housing tax credit program. The provision expired at the end of 2013. The proposal would continue this treatment for two additional years. A two year extension of this provision is estimated to cost \$49 million over 10 years.

11. Indian employment tax credit

The bill extends for two years, through 2015, the business tax credit for employers of qualified employees that work and live on or near an Indian reservation. The amount of the credit is 20 percent of the excess of wages and health insurance costs paid to qualified employees (up to \$20,000 per employee) in the current year over the amount paid in 1993. A two year extension of this provision is estimated to cost \$124 million over 10 years.

12. New Markets Tax Credit

Through the New Markets Tax Credit (NMTC) program, the federal government is able to leverage federal tax credits to encourage significant private investment in businesses in low-income communities. The program provides a 39 percent tax credit spread over 7 years. The bill extends the New Markets Tax Credit for two years, permitting a maximum annual amount of qualified equity investments of \$3.5 billion. A two year extension of this provision is estimated to cost \$1.8 billion over 10 years.

13. Credit for railroad track maintenance

The bill extends for two years, through 2015, the railroad maintenance credit that provides Class II and Class III railroads (generally, short-line and regional railroads) with a tax credit equal to 50 percent of gross expenditures for maintaining railroad tracks that they own or lease. A two year extension of this provision is estimated to cost \$414 million over 10 years.

14. Mine rescue team training credit

The bill extends for two years, through 2015, a credit of up to \$10,000 for the training of mine rescue team members. A two year extension of this provision is estimated to cost \$5 million over 10 years.

15. Employer wage credit for activated military reservists

The bill extends for two years, through 2015, the provision that provides eligible employers with a credit against the employer's income tax liability for a taxable year in an amount equal to 20 percent of the sum of differential wage payments to activated military reservists. A two year extension of this provision is estimated to cost \$1 million over 10 years.

16. Work Opportunity Tax Credit

This bill extends for two years, through 2015, the provision that allows businesses to claim a work opportunity tax credit equal to 40 percent of the first \$6,000 of wages paid to new hires of one of eight targeted groups. These groups include members of families receiving benefits under the Temporary Assistance to Needy Families (TANF) program, qualified veterans (including those who are unemployed, disabled, or receiving TANF), qualified ex-felons, designated community residents, vocational rehabilitation referrals, qualified summer youth employees, qualified food and nutrition recipients, qualified SSI recipients, and long-term family assistance recipients. A two year extension of this provision is estimated to cost \$2.85 billion over 10 years.

17. Qualified zone academy bonds (QZABs) - allocation of bond limitation

QZABs are a form of tax credit bond which offer the holder a Federal tax credit instead of interest. QZABs can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. The bill extends the QZAB program through 2015 providing \$400 million in bond volume. A two year extension of this provision is estimated to cost \$251 million over 10 years.

18. Three-year depreciation for racehorses

The modification extends for two years, through 2015, the three year cost recovery period for all race horses. A two year extension of this provision is estimated to cost \$9 million over 10 years.

19. 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements

The bill extends for two years, through 2015, the temporary 15-year cost recovery period for certain leasehold, restaurant, and retail improvements, and new restaurant buildings, which are placed in service before January 1, 2016. The extension is effective for qualified property placed in service after December 31, 2013. A two year extension of this provision is estimated to cost \$4.8 billion over 10 years.

20. Accelerated depreciation for business property on Indian reservation

The bill extends for two years, through 2015, the placed-in-service date for the special accelerated depreciation recovery periods for qualified Indian reservation property. *A two year extension of this provision is estimated to cost \$158 million over 10 years.*

21. Enhanced charitable deduction for contributions of food inventory

The bill extends for two years the provision allowing businesses to claim an enhanced deduction for the contribution of food inventory. A two year extension of this provision is estimated to cost \$292 million over 10 years.

22. Bonus depreciation

The bill extends 50 percent bonus depreciation to qualified property purchased and placed in service before January 1, 2016 (before January 1, 2017 for certain longer-lived and transportation assets). It also makes a conforming change to the percentage of completion rules for certain long term contracts. A two year extension of this provision is estimated to cost \$2.85 billion over 10 years.

23. Acceleration of AMT credits in lieu of bonus depreciation

Under current law, a taxpayer has the option to forgo bonus depreciation in favor of accelerating corporate Alternative Minimum Tax (AMT) credits acquired in tax years prior to 2006. This provision would extend the election to accelerate AMT credits for two years, through 2015. A two year extension of this provision is estimated to cost \$602 million over 10 years.

24. Temporarily extend increase in the maximum amount and phase-out threshold under section 179.

For taxable years beginning in 2014 and thereafter, a taxpayer may immediately expense up to \$25,000 of Section 179 property annually, with a dollar for dollar phase-out of the maximum deductible amount for purchases in excess of \$200,000. This proposal would increase the maximum amount and phase-out threshold in 2014 to the levels in effect in 2010 through 2013 (\$500,000 and \$2 million respectively). The proposal would also extend the definition of Section 179 property to include computer software and \$250,000 of the cost of qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property for two years. A two year extension of this provision is estimated to cost \$3.1 billion over 10 years.

25. Election to expense advanced mine safety equipment

The bill extends for two years, through 2015, the provision that allows a 50 percent immediate expensing for the following advanced underground mine safety equipment: (1) communications technology enabling miners to remain in constant contact with individuals above ground; (2) electronic tracking devices that enable individuals above ground to locate miners in the mine at all times; (3) self-rescue emergency breathing apparatuses carried by the miners and additional oxygen supplies stored in the mine; and (4) mine atmospheric monitoring equipment to measure levels of carbon monoxide, methane, and oxygen in the mine. A two year extension of this provision is estimated to have no revenue effect.

26. Deduction for domestic production activities in Puerto Rico

The bill extends for two years the provision extending the section 199 domestic production activities deduction to activities in Puerto Rico. A two year extension of this provision is estimated to cost \$222 million over 10 years.

27. Modification of tax treatment of certain payments to controlling exempt organizations

In general, interest, rent, royalties, and annuities paid to a tax-exempt organization from a controlled entity are treated as unrelated business income of the tax-exempt organization. The Pension Protection Act (PPA) provided that if a payment to a tax-exempt organization by a controlled entity is no more than fair market value, then the payment is excludable from the tax-exempt organization's unrelated business income. The bill extends the provision two years to the end of 2015. A two year extension of this provision is estimated to cost \$36 million over 10 years.

28. Treatment of certain dividends of regulated investment companies (RIC's)

The bill extends a provision allowing a RIC, under certain circumstances, to designate all or a portion of a dividend as an "interest-related dividend," by written notice mailed to its shareholders not later than 60 days after the close of its taxable year. In addition, an interest-related dividend received by a foreign person generally is exempt from U.S. gross-basis tax under sections 871(a), 881, 1441 and 1442 of the Code. The proposal extends the treatment of interest-related dividends and short-term capital gain dividends received from a RIC to taxable years of the RIC beginning before January 1, 2015. A two year extension of this provision is estimated to cost \$198 million over 10 years.

29. Definition of RICs as qualified investment entities under FIRPTA

The bill extends the inclusion of a RIC within the definition of a "qualified investment entity" under section 897 of the Tax Code through December 31, 2015. A two year extension of this provision is estimated to cost \$93 million over 10 years.

30. Exceptions under subpart F for active financing income

The U.S. parent of a foreign subsidiary engaged in a banking, financing, or similar business is eligible for deferral of tax on such subsidiary's earnings if the subsidiary is predominantly engaged in such business and conducts substantial activity with respect to such business. The subsidiary must pass an entity level income test to demonstrate that the income is active income and not passive income. The proposal extends the provision to the end of 2015. A two year extension of this provision is estimated to cost \$10.4 billion over 10 years.

31. Special rules for qualified small business stock

Generally, non-corporate taxpayers may exclude 50 percent of the gain from the sale of certain small business stock acquired at original issue and held for more than five years. For stock acquired after September 27, 2010 and before January 1, 2014, the exclusion is 100 percent and the AMT preference

item attributable for the sale is eliminated. The bill extends the 100 percent exclusion of the gain from the sale of qualifying small business stock that is acquired before January 1, 2016 and held for more than five years. A two year extension of this provision is estimated to cost \$1.95 billion over 10 years.

32. Basis adjustment to stock of S corporations making charitable contributions of property

The bill extends for two years the provision allowing S corporation shareholders to take into account their pro rata share of charitable deductions even if such deductions would exceed such shareholder's adjusted basis in the S corporation. A two year extension of this provision is estimated to cost \$104 million over 10 years.

33. Reduction in S corporation recognition period for built-in gains tax

If a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for a certain period in order to avoid a tax on any built-in gains that existed at the time of the conversion. The American Recovery and Reinvestment Act reduced that period from 10 years to 7 years for sales of assets in 2009 and 2010. The Small Business Jobs Act reduced that period to 5 years for sales of assets in 2011. The bill extends the reduced 5-year holding period for sales occurring in 2014 and 2015. A two year extension of this provision is estimated to cost \$232 million over 10 years.

34. Temporary increase in limit on cover over of rum excise tax revenues (from \$10.50 to \$13.25 per proof gallon) to Puerto Rico and the Virgin Islands

The bill extends for two years the provision providing for payment of \$13.25 per gallon to cover over a \$13.50 per proof gallon excise tax on distilled spirits produced in or imported into the United States. A two year extension of this provision is estimated to cost \$336 million over 10 years.

35. American Samoa economic development credit

Certain domestic corporations operating in American Samoa are eligible for a possessions tax credit, which offsets their U.S. tax liability on income earned in American Samoa from active business operations, sales of assets used in a business, or certain investments in American Samoa. Further, the credit is subject to an economic activity-based limitation, and is based on the taxpayers', depreciation, and American Samoa income taxes. The bill extends the provision two years to the end of 2015 and modifies the credit to make it available to all qualifying manufacturing businesses operating in American Samoa. A two year extension of this provision is estimated to cost \$29 million over 10 years.

36. Multiemployer Pension Plan Funding Rules

Multiemployer plans are collectively bargained pension plans covering employees of two or more employers, usually within the same industry and/or region, and administered by a board consisting of employer and employee representatives. Multiemployer plans are subject to funding requirements that are different from those for single-employer pension plans. The Pension Protection Act of 2006 (PPA) made a number of changes to the funding rules with respect to multiemployer plans that expire on

December 31, 2014. Most importantly, PPA established a set of rules for improving the funding of multiemployer plans that fall into "endangered status" (generally less than 80% funded) or "critical status" (generally less than 65% funded or the plan is expected to have a funding deficiency or become insolvent within a certain period). These rules expire on December 31, 2014. The bill extends these provisions one year, through December 31, 2015. Staff are awaiting an estimate of the cost of this provision.

Energy Provisions

37. Plug-in Electric Motorcycles and Highway Vehicles

The bill extends for two years, through 2015, the individual income tax credit for highway-capable plugin motorcycles. The provision is also modified to no longer allow 3-wheeled vehicles to qualify. A two year extension of this provision is estimated to cost \$2 million over 10 years.

38. Credit for alternative fuel vehicle refueling property (including hydrogen property)

The bill extends for two years, through 2015, the 30% investment tax credit for alternative vehicle refueling property, up to \$30,000. Eligible refueling property includes fuel pumps for ethanol, biodiesel, liquefied hydrogen, and compressed or liquefied natural gas. A two year extension of this provision is estimated to cost \$89 million over 10 years.

39. Cellulosic Biofuels Producer Tax Credit

Under current law, facilities producing cellulosic biofuel can claim a \$1.01 per gallon production tax credit on fuel produced before the end of 2013. The bill would extend this production tax credit for two additional years, for cellulosic biofuel produced through 2015. A two year extension of this provision is estimated to cost \$55 million over 10 years.

40. Incentives for biodiesel and renewable diesel

The bill extends for two years, through 2015, the \$1.00 per gallon tax credit for biodiesel, as well as the small agri-biodiesel producer credit of 10 cents per gallon. The bill also extends through 2015 the \$1.00 per gallon tax credit for diesel fuel created from biomass. A two year extension of this provision is estimated to cost \$2.6 billion over 10 years.

41. Indian country coal production tax credit

Under current law, coal produced on land owned by an Indian tribe qualifies for a production tax credit equivalent to \$2 per ton. This provision would extend this tax credit through 2015. A two year extension of this provision is estimated to cost \$76 million over 10 years.

42. Credit for construction of new energy efficient homes

The bill extends for two years, through 2015, the credit for the construction of energy-efficient new homes that achieve a 30% or 50% reduction in heating and cooling energy consumption relative to a

comparable dwelling constructed within the standards of the 2003 International Energy Conservation Code (including supplements). A two year extension of this provision is estimated to cost \$612 million over 10 years.

43. Cellulosic Biofuels Bonus Depreciation

Under current law, facilities producing cellulosic biofuel can expense 50 percent of their eligible capital costs in the first year for facilities placed-in-service by the end of 2013. The bill would extend this bonus depreciation for two additional years for facilities placed-in-service before the end of 2015. A two year extension of this provision is estimated to cost \$1 million over 10 years.

44. Incentives for alternative fuel and alternative fuel mixtures (including liquefied hydrogen)

The bill extends through 2015 the \$0.50 per gallon alternative fuel tax credit and alternative fuel mixture tax credit. This credit can be claimed as a nonrefundable excise tax credit or a refundable income tax credit for the blending and sale of alternative fuel mixtures including compressed or liquefied natural gas, ethanol, biofuels, and liquefied hydrogen. A two year extension of this provision is estimated to cost \$903 million over 10 years.

45. Credit for fuel cell motor vehicles

The bill extends for one additional year, through 2015, the credit for new fuel cell motor vehicles. For vehicles fueled by combining hydrogen with oxygen to create electricity, taxpayers can claim a base credit \$4,000 credit for cars and light trucks. Taxpayers can claim up to \$40,000 for heavier vehicles, depending on their weight. A one year extension of this provision is estimated to cost \$47 million over 10 years.