JOINT COMMITTEE ON TAXATION
JCX-18-86
August 1, 1986
REVENUE ESTIMATES, PRELIMINAI

POSSIBLE HOUSE OFFER

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
I - INDIVIDUAL INCOME TAX PROVISIONS		
15- and 27-percent rates	-199.5	House recedes.
Eliminate individual rate stagger	(1)	House recedes, with an amendment of 1/1/87 effective date.
Increase in standard deduction	-41.8	House recedes with an increase from $600 t $750 for elderly and blind who are single (Senate offer).
Personal exemption increase	-130.3	House recedes.
Floor under itemized deductions	17.4	Senate recedes, with an amendment reducing the floor to $350 each for the taxpayer a spouse, and eliminating the floor for oth dependents.
Repeal second earner deduction	27.0	Same in both bills.
Repeal income averaging	8.9	Senate recedes (item in President's Proposal).
Increase the earned income tax credit (4)	-14.8	House recedes, with amendment raising maxi mum credit from $700 to 800 and changing phaseout range to $9-17,000 (Senate offer
Taxation of unemployment compensation	3.5	Same in both bills.
Limit exclusion of scholarships and fellowships	0.5	Senate recedes (item in President's Proposal).
Taxation of prizes and awards	(2)	Senate recedes.
Repeal sales tax deduction	0.0	Senate recedes.
$100 floor on charitable contributions deduction for nonitemizers	0.0	House recedes.
Increase medical expense deduction floor	6.1	House recedes, with amendment providing a 7.5% floor.
Repeal deduction for special needs adoption expenses	0.0	Senate recedes.
Limitations on deductions for meals, travel, and entertainment		
Individual	5.2	Senate recedes (see Note b).
Corporate	6.3	
Miscellaneous itemized deductions, employee business expense	19.7	Senate recedes, with amendment providing a floor of 2% of AGI (Senate offer).
Repeal political contributions tax credit	0.6	Senate recedes.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Subtotal, Individual Income Tax Provisions		
Individual	-297.5	
Corporate	6.3	
Total	-291.2	
II - **CAPITAL COST PROVISIONS**		
Depreciation, expensing		
Individual	5.5	All transitional rules are open.
Corporate	18.0	
Investment tax credit		
Individual	22.5	Same in both bills, with all transitional rules open.
Corporate	128.6	
Repeal finance leasing		
Corporate	1.3	Same in both bills.
Credit limitations		
Corporate	1.0	Same in both bills.
Incremental Research Tax Credit		
Individual	-0.3	Senate recedes.
Corporate	-3.8	
Charitable deduction for donations of scientific equipment		
Individual	(3)	Senate recedes.
Corporate	(3)	
Orphan drug credit		
Corporate	*	Senate recedes, with a 3-year extension (see Note b).
Amortization of trademarks and tradenames		
Individual	(2)	House recedes.
Corporate	0.1	
Repeal 5-year amortization of pollution control		
Individual	(2)	Senate recedes (item in President's Proposal).
Corporate	*	
Repeal 50-year amortization of railroad tunnels and bores		
Corporate	(2)	Senate recedes (item in President's Proposal).
Expensing for removal of architectural barriers		
Corporate	-0.1	House recedes.
Rehabilitation tax credits		
Individual	3.2	Same in both bills, with all transitional rules open.
Corporate	1.0	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Retain 5-year amortization of expenditures for rehabilitation of low-income rental housing		
Individual	*	Combine low-income housing provisions into new credit.
Corporate	*	
Low-income housing credit		
Individual	-4.0	
Merchant Marine Capital Construction Fund		
Corporate	(2)	Senate recedes.
Subtotal, Capital Cost Provisions		
Individual	26.9	
Corporate	146.1	
Total	173.0	
III - CAPITAL GAINS AND LOSSES		
Capital gains		
Individual	(1)	House recedes.
Corporate	(1)	Senate recedes.
Incentive stock options		
Individual	*	Senate recedes.
Straddles		
Individual	*	House recedes on covered calls; Senate recedes on other provisions.
Corporate	*	
Subtotal, Capital Gains and Losses		
Individual	*	
Corporate	*	
Total	*	
IV - AGRICULTURE, TIMBER, ENERGY, AND NATURAL RESOURCES		
Special expensing provisions		
Individual	0.3	Senate recedes (item in President's Proposal).
Corporate	0.1	
Preproductive period expenses of farmers		
Individual	0.6	Senate recedes.
Corporate	0.2	
Prepayments		
Individual	0.1	House recedes, with modifications.
Preproductive expenses of growing timber		
Individual	0.1	Senate recedes, with amendment providing

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Corporate	1.9	that preproductive expenses are amortized over 5 years with no depreciation provision.
Repeal 84-month amortization, 10% credit for reforestation		
Individual	(2)	Senate recedes (item in President's Proposal).
Corporate	(2)	
Capital gains treatment of timber income		
Corporate	0.0	Treat as ordinary income, effective 1/1/87.
Intangible drilling costs		
Individual	(2)	Senate recedes.
Corporate	0.5	
Oil, gas, geothermal depletion		
Individual	1.0	Senate recedes (similar item in President's Proposal).
Corporate	0.5	
Gain on disposition of interest in oil, gas, or geothermal property		
Individual	(2)	Senate recedes (item in President's Proposal).
Corporate	(2)	
Mining exploration and development		
Corporate	0.2	Senate recedes.
Hard minerals depletion		
Individual	(2)	Senate recedes (similar item in President's Proposal).
Corporate	1.0	
Gain on disposition of interest in mining property costs		
Corporate	(2)	Senate recedes (item in President's Proposal).
Capital gains treatment of coal and iron ore royalties		
Individual	0.0	Treat as ordinary income.
Corporate	0.0	
Energy-related tax credits and incentives		
Individual	0.0	House recedes on residential solar; Senate recedes on remainder (10% business solar credit in 1988 (see Note b); similar item in President's Proposal).
Corporate	-0.1	
Excise	*	
Customs	*	
Subtotal, Agriculture, Timber, Energy, and Natural Resources		
Individual	2.1	
Corporate	4.3	
Excise	*	
Customs	*	
Total	6.4	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
V - TAX SHELTERS, INTEREST EXPENSE		
At-risk rules		
Individual	1.2	Senate recedes.
Corporate	-1.2	
Limitation of passive losses		
Individual	32.1	House recedes, with amendment providing ı exception for working interests.
Corporate	-12.2	
Limitation on deduction for nonbusiness interest		
Individual	26.2	House recedes.
Subtotal, Tax Shelters, Interest Expense		
Individual	59.5	
Corporate	-13.4	
Total	**46.1**	
VI - CORPORATE AND GENERAL BUSINESS TAXATION		
33-percent top corporate rate		
Corporate	-124.7	House recedes.
Dividends paid deduction		
Individual	0.1	Senate recedes (item in President's Proposal).
Corporate	-2.4	
Dividends received deduction		
Corporate	1.1	Senate recedes.
Extraordinary dividends		
Corporate	0.2	House recedes, with modifications (see No b).
Dividend exclusion		
Individual	2.6	Same in both bills.
NOL carryovers		
Corporate	0.3	Staff compromise (keep House rate and bus ness continuity requirement; modify Hous investment asset rule; keep Senate built deductions and capital contributions; modify Senate bankruptcy rule).
NOL carryback tax rate limitation		
Corporate	0.0	Senate recedes.
Recognition of gain or loss in liquidations		
Individual	-0.2	Senate recedes, with changes in effective date permitting binding contract or sub-stantial completion of plan of liquidatic by 8/1/86; revised rule for small, closel
Corporate	2.2	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
		held corporations requiring substantial completion of plan of liquidation by 1/1/89.
Basis allocation		
Individual	(2)	House recedes.
Corporate	0.3	
Real estate investment trusts		
Individual	(3)	House recedes, with modifications adding spill-over dividends and taxable year conformity.
Mortgage backed securities		
Corporate	-0.3	House recedes with amendment for treatment of REMIC residual income, 5-year transition period, and modification of technical issues (with no special rule denying agency participation).
Regulated investment companies		
Individual	0.7	House recedes, with modifications regarding spill-over dividends and taxable year conformity.
Excise	0.1	
Personal holding companies		
Corporate	-0.1	Senate recedes.
Subtotal, Corporate and General Business Taxation		
Individual	3.2	
Corporate	-123.4	
Excise	0.1	
Total	**-120.1**	
VII - MINIMUM TAX PROVISIONS		
Revise the alternative minimum tax		
Individual	4.8	House recedes on rates, with modifications (a) providing broadest base as between both bills, (b) replacing book preference with e&p in a revenue-neutral manner, (c) providing a carryover of disallowed interest (see Note b).
Revise corporate minimum tax		
Corporate	31.0	
Subtotal, Minimum Tax Provisions		
Individual	4.8	
Corporate	31.0	
Total	**35.8**	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
VIII - ACCOUNTING PROVISIONS		
Limitation on the use of cash accounting		
Corporate	2.7	Senate recedes (similar item in President Proposal).
Simplified LIFO for certain small businesses		
Individual	-0.2	Senate recedes.
Corporate	-1.8	
Recognition of gain on pledges of installment obligations		
Individual	0.2	House recedes, with modification providin revolving credit is subject to general r (with a 9-month exception). Senate rece on (a) special election for sales of tim shares and residential lots, and (b) exc tion to general rule for sales of busine or rental property under $150,000.
Corporate	6.2	
Capitalization of inventory, construction and development costs		
Individual	2.3	Senate recedes (similar item in President Proposal).
Corporate	28.5	
Long-term contracts		
Individual	0.6	Senate recedes.
Corporate	13.6	
Repeal of reserve for bad debt for nonfinancial institutions		
Individual	0.4	Senate recedes (item in President's Propo al). House recedes on use of reserve method for dealers' guaranteed debts.
Corporate	6.8	
Partnership, Sub S, and personal service tax year conformity		
Individual	1.7	House recedes.
Qualified discount coupons		
Corporate	0.1	House recedes (item in President's Proposal).
Require utilities to accrue earned but unbilled income		
Corporate	1.5	House recedes.
Contributions in aid of construction		
Corporate	0.5	Senate recedes (Senate offer).
Discharge of indebtedness		
Individual	0.0	House recedes.
Corporate	0.3	
Subtotal, Accounting Provisions		
Individual	5.0	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Corporate	58.4	
Total	63.4	
IX - FINANCIAL INSTITUTIONS		
Limitation on bad debt reserves		
Corporate	4.6	Senate recedes (item in President's Proposal).
Disallow interest to carry tax-exempt bonds		
Individual	-4.6	Senate recedes (item in President's Proposal).
Corporate	5.0	
Special NOL carryover rules for depository institutions		
Corporate	-0.3	Senate recedes on treatment of future NOLs. House recedes on treatment of 1982-85 NOLs.
Special reorganization rules for troubled thrifts		
Corporate	0.7	Senate recedes (item in President's Proposal).
Subtotal, Financial Institutions		
Individual	-4.6	
Corporate	10.0	
Total	5.4	
X - INSURANCE PRODUCTS AND COMPANIES		
Structured settlements		
Individual	0.0	Senate recedes.
Policyholder loans		
Individual	(2)	House recedes.
Deduction of policyholder loss		
Individual	0.0	Senate recedes.
Special life insurance company deduction		
Corporate	3.4	Same in both bills.
Tax-exempt organizations engaged in insurance activities		
Corporate	1.4	Senate recedes, with an exception for TIAA/CREF (pension reserves only), and for certain church-sponsored insurance.
Treatment of acquisition expenses		
Corporate	3.5	Senate recedes, with technical modifications regarding life insurance reserves, ceasing to be an insurance company, and title insurers.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Treatment of tax-exempt income		
Corporate	0.6	Senate recedes, with 15% rate, effective 1/1/87.
Treatment of loss reserves		
Corporate	4.2	House recedes, with 100% of AFR, modifications of reserve strengthening rules, fr[illegible] start reduced by pre-existing NOLs, and modified extension of long-tail lines.
Treatment of net gain from operations		
Corporate	0.0	House recedes.
Protection against loss account for mutual companies		
Corporate	0.2	House recedes, except recapture of existi[illegible] accounts left open.
Special exemptions, rates, and deductions of small mutual companies		
Corporate	-0.1	House recedes.
Subtotal, Insurance Products and Companies		
Individual	(2)	
Corporate	13.2	
Total	13.2	
XI - PENSIONS AND DEFERRED COMPENSATION; EMPLOYEE BENEFITS; ESOPS		
Individual retirement arrangements (IRAs)		
Individual	24.8	Senate recedes, with an amendment to retai[illegible] present law for returns of taxpayers without retirement plans and to allow a $2,00[illegible] IRA deduction, phased out between $40,000 and $50,000 of AGI ($25,000 and $35,000 f[illegible] singles) for returns of taxpayers for whi[illegible] any individual has a retirement plan. No nondeductible IRA contributions would be permitted. Senate recedes on early withdrawal tax. Other issues open.
Other plans (401(k), 403(b), 457)		
Individual	3.4	Senate recedes, with modifications.
Deferred annuity contracts		
Corporate	0.1	Senate recedes, with a modification.
Simplified employee plans (SEPs)		
Individual	0.0	Senate recedes.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Minimum standards for qualified plans		
Individual		House recedes on vesting, integration, definition of highly compensated employees, includible compensation, and minimum participation rule with modifications; other issues open.
Tax on pre-retirement distributions, uniform basis recovery rules		
Individual	1.9	Senate recedes (similar items in President's Proposal).
Replace 10-year averaging with limited 5-year averaging		
Individual	0.5	Senate recedes.
Repeal 3-year basis recovery rule for contributory plans		
Individual	8.7	Senate recedes, except House recedes on Senate rule on lump-sum distributions of employee contributions (item in President's Proposal).
Loan provisions		
Individual	*	Senate recedes.
Increase early retirement age / 415 limits		
Individual	4.5	House recedes with modifications, except Senate recedes on cost-of-living indexing; special rule for police and firefighters open.
Tax on excess retirement distributions		
Excise	0.1	Senate recedes with a modification (item in President's Proposal).
Adjustments to Section 404 limitations		
Individual	0.2	Senate recedes with a modification (similar items in President's Proposal).
Excise	*	
Tax on qualified plan reversions		
Excise	0.2	House recedes on general rule with a modification; Senate recedes on ESOP exception.
Extension of the exclusion for group legal plans		
Individual	-0.2	Senate recedes with an amendment (Senate offer).
Employment	-0.1	
Extension of the exclusion for education assistance		
Individual	-0.2	Senate recedes.
Employment	-0.1	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Limit employer provided child care to $5,000		
Individual.........	*	Senate recedes.
Discrimination rules for employee benefits		
Individual.........	0.5	Staff compromise with 1/1/88 effective da
Cafeteria plans		
Individual.........	*	Staff compromise with 1/1/88 effective da Senate recedes on full-time life insuran salesmen.
Faculty housing		
Individual.........		House recedes with technical modification
Self-employed health insurance		
Individual.........	0.0	Senate recedes.
Health benefits for retirees		
Individual.........	0.0	Senate recedes.
Limitation on accrued vacation pay		
Individual.........	(2)	Same in both bills.
Corporate.........	0.2	
Changes related to ESOPs		
Corporate.........	2.6	Senate recedes with an amendment.
Subtotal, Pensions and Employee Benefits		
Individual.........	44.1	
Corporate.........	2.9	
Excise.........	0.3	
Employment.........	-0.2	
Total.........	**47.1**	
XII - FOREIGN TAX PROVISIONS		
Separate limitations for categories of income		
Corporate.........	2.2	Senate recedes, except House recedes as t((a) separate box for currency translatioı gains, which House offer would delete, aı (b) business needs exception for currenc) gains of dollar taxpayers, which House oi fer would allow. As to look-through rul€ House recedes with technical amendments, but dividends from each non-controlled foreign corporation would be separate box and other payments from noncontrolled foreign corporations would be treated lik payments from unrelated parties.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Income from sale of property		
Corporate	2.4	Senate recedes (item in President's Proposal), except as to source of income from sales of non-inventory property that does not incur 10% tax, where House recedes (to treat as U.S. source) and extends 10% rule to all sales of personal property.
Dividend and interest income		
Corporate	(2)	Senate recedes to House general rule but, except for dividends paid to U.S. persons, provides look-through treatment for active foreign businesses (and 10% floor on payments to related foreigners).
Allocation of interest and other expenses		
Corporate	2.4	House accepts Senate offer (which leaves method of raising revenue open).
Application of research expenses to foreign source income		
Corporate	-0.4	Senate recedes.
Possessions tax credit (transfer of intangibles)		
Corporate	0.2	Senate recedes (item in Treasury proposal).
Transfers of intangibles		
Corporate	0.4	Senate recedes (item in Treasury proposal).
Foreign investment companies		
Corporate	0.1	Generally, House recedes but with restrictions (including requirement that foreign fund furnish information) on identification of income and flow-through of income character and with technical modifications.
Foreign investors in U.S. partnerships		
Corporate	0.0	House recedes with amendment extending treatment to foreign partnerships.
Transfer prices of imports		
Corporate	*	House recedes.
All other items in foreign title		
Corporate (or Excise)	4.6	Open.
Subtotal, Foreign Tax Provisions		
Individual	0.2	
Corporate	11.9	
Total	12.1	(i.e., $1.5 billion less than House bill)

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
XIII - TAX-EXEMPT BONDS		
Subtotal, Tax-Exempt Bonds		
Individual	3.0	Senate recedes with modifications. All transitional rules are open.
Corporate	-0.4	
Total	2.6	(i.e., $1 billion less than House bill)
XIV - TRUSTS AND ESTATES, MINOR CHILDREN, ESTATE AND GIFT TAX		
Revise taxation of estates and trusts		
Individual	1.0	House recedes, with an amendment taxing th income of an estate during its first two years at rates of trusts.
Payment of estimated income taxes by trusts and estates		
Individual	2.5	House recedes, with an amendment providing an exemption for an estate's first two years from required payment of estimated taxes.
Unearned income of a minor child		
Individual	1.0	House recedes with an amendment taxing all unearned income of a minor child above a revenue-neutral, fixed dollar amount at t parents' tax rates.
Disclaimers for gift tax		
Estate & Gift	*	Senate recedes.
Conservation easement donations		
Individual	*	House recedes, with addition of Acadia National Park.
Generation-skipping transfer tax		
Estate & Gift	*	Senate recedes.
Subtotal, Trusts and Estates		
Individual	4.5	
Estate & Gift	0.0	
Total	4.5	
XV - COMPLIANCE AND TAX ADMINISTRATION		
Penalty provisions		
Individual	1.6	See Note b.
Corporate	0.6	
Excise	*	
Estate & Gift	*	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Interest provisions (4)		
Individual	0.7	See Note b.
Corporate	1.1	
Information reporting provisions		
Individual	3.6	See Note b.
Corporate	0.1	
Tax shelter provisions		
Individual	0.2	Senate recedes on tax shelter user fee (see Note b on other provisions).
Revise estimated tax rules for individuals		
Individual	1.6	See Note b.
UBIT and private foundations estimated tax		
Corporate	0.2	See Note b.
Tax litigation and tax court		
Individual	(3)	Attorney's fees: House recedes on termination date and IRS employee liability; Senate recedes on remainder (see Note b on other provisions).
IRS Trust Fund		
Individual	0.0	Senate recedes.
Corporate	0.0	
IRS administration provisions		
Individual	*	See Note b.
Employee withholding schedule		
Individual	0.7	House recedes.
Subtotal, Compliance and Tax Administration		
Individual	8.4	
Corporate	2.0	
Excise	*	
Estate & Gift	*	
Total	**10.4**	
XVI - EXEMPT AND NONPROFIT ORGANIZATIONS		Generally, title is left open (see Note b).
Trade shows		
Corporate	0.0	Open.
Distribution of low-cost articles by charities		
Excise	(3)	Senate recedes.
Tax exemption for certain title holding companies		
Individual	-0.1	House recedes.
Corporate	-0.1	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Subtotal, Exempt and Nonprofit Organizations		
Individual	-0.1	
Corporate	-0.1	
Excise	(3)	
Total	**-0.2**	
XVII - OTHER PROVISIONS		
Extend targeted jobs tax credit		
Individual	-0.1	Senate recedes.
Corporate	-0.4	
Allow ministers to reelect social security coverage		
Employment	0.0	Senate recedes.
Common paymaster rule for FICA & FUTA taxes		
Employment	0.0	Senate recedes.
Agricultural wages subject to FUTA		
Employment	0.0	Senate recedes.
FUTA for certain Indian tribes		
Employment	0.0	House recedes.
Treatment of certain technical personnel		
Employment	*	House recedes.
Federal tax deposit threshold		
Individual	0.0	Senate recedes (Senate offer).
Employment	0.0	
Exclusion of certain foster care payments		
Individual	*	Open.
Exempt certain reindeer income from tax		
Individual	*	Senate recedes.
Subtotal, Other Provisions		
Individual	-0.1	
Corporate	-0.4	
Excise	0.0	
Employment	0.0	
Total	**-0.5**	
XVIII - TECHNICAL CORRECTIONS	**-0.5**	Document distributed 7/21/86.
ACCOMMODATION OF TRANSITION RELIEF		
Individual	-0.5	
Corporate	-6.5	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]
TOTAL, TAX REFORM	
Individual	-141.4
Corporate	141.7
Excise	0.4
Employment	-0.2
Estate & Gift	*
Customs	*
GRAND TOTAL	**0.5**

Joint Committee on Taxation
August 1, 1986

---

(1) Estimate is included in rate reduction line.
(2) Gain of less than $50 million.
(3) Loss of less than $50 million.
(4) Net of outlays.

---

* Negligible.

NOTES: (a) Effective dates are generally 1/1/87 with certain exceptions, even where Senate recedes.
(b) The resolution of minor issues in this document is the same as the resolution in the document "Possible resolution of certain issues" (July 18, 1986).
(c) All transitional rules in both bills (including, but not limited to, depreciation, ITC, rehabilitation credit, and bonds) are left open and are to be paid for out of transitional relief pool.
(d) The statement "Same in both bills" does not take into account differences in effective dates, transitional rules, or technical issues.
(e) Items with a revenue effect of less than $50 million generally are not reflected in this document.
(f) This document reflects general targets in these areas. Details, structure, and technical issues related to these items are left open.