DESCRIPTION OF ADMINISTRATION REVENUE PROPOSALS, EXPIRING TAX PROVISIONS, ESTATE TAX DEDUCTION FOR ESOPs, AND ESTIMATED TAX PROPOSAL

Scheduled for Markup

by the

HOUSE COMMITTEE ON WAYS AND MEANS

on October 1, 1987

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

September 30, 1987

JCX-12-87

CONTENTS

INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup on October 1, 1987, of possible revenue options under the budget reconciliation instructions for fiscal years 1988-1990.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a brief description (including estimated budget effects) of revenue proposals to be discussed at the October 1 committee markup. Part I of the document describes the revenue proposals included in the President's 1988 budget. Part II describes three expiring tax provisions. Part III describes a modification of the estate tax deduction for ESOPs. Part IV describes an estimated tax proposal. Part V is a table showing the estimated budget effects for fiscal years 1988-1990 of the revenue proposals described in this document.

---

[1] This document may be cited as follows: Joint Committee on Taxation, Description of Administration Revenue Proposals, Expiring Tax Provisions, Estate Tax Deduction for ESOPs, and Estimated Tax Proposal (JCX-12-87), September 30, 1987.

I. REVENUE AREAS ADDRESSED BY THE PRESIDENT'S 1988 BUDGET PROPOSALS

A. Employment Tax Provisions

1. Extend Medicare Payroll Tax to All State and Local Government Employees

Present Law

Before enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), State and local government employees were covered under Medicare only if the State and the Secretary of Health and Human Services entered into a voluntary agreement providing such coverage. In COBRA, the Congress extended Medicare coverage (and the corresponding hospital insurance payroll tax) on a mandatory basis to State and local government employees hired after March 31, 1986.

For wages paid in 1987 to Medicare-covered employees, the total hospital insurance tax rate is 2.9 percent of the first $43,800 of wages; the tax is divided equally between the employer and the employee.

Explanation of Provision

The provision would extend Medicare coverage (and the corresponding hospital insurance payroll tax) on a mandatory basis to all employees of State and local governments not otherwise covered under present law, without regard to their dates of hire.

Effective Date

This provision would be effective January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extend Medicare payroll tax to all State-local government employees	1.3	1.9	1.9	5.2

See pp. 1-2 of the Revenue Options Pamphlet (JCS-17-87).

2. Expand Employer Share of FICA Tax to Include All Cash Tips

Present Law

The FICA taxes imposed on a employee and the employee's employer generally are equal. The employer is responsible for withholding the employee's share of the tax from the employee's wages and remitting the tax, together with the employer's share of the tax, to the Internal Revenue Service.

In the case of tips, however, an employee is subject to the employee's share of FICA tax, but the employer is not. The employer is responsible for FICA taxes only to the extent (if any) the Federal minimum wage rate exceeds the actual wage rate paid by the employer. Any tips received in excess of the minimum wage are not subject to the employer's portion of the tax. The employee's earnings record on which benefits are ultimately based reflects the full amount of reported tips, even though less than the full tax rate may be paid by the employer on those wages.

Explanation of Provision

Under the provision, all cash tips would be included within the definition of wages for purposes of the employer's share of FICA taxes. Thus, employers would be required to pay FICA taxes on the total amount of cash tips (up to the Social Security wage base).

Effective Date

The provision would be effective January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Expand employer share of FICA tax to include all cash tips	0.2	0.3	0.3	0.8

See pp. 3-4 of the Revenue Options Pamphlet (JCS-17-87).

3. Extend FICA Tax to Student Earnings

Present Law

The Social Security System is financed by payroll taxes imposed under the Federal Insurance Contributions Act ("FICA"). The 1987 rates of this tax are 7.15 percent paid by employers and 7.15 percent paid by employees on wages (up to maximum of $43,800). An employee only receives Social Security credit for his earnings if his salary constitutes wages and if his job is included in the definition of employment ("covered employment") under section 3121. The Act generally defines wages to include all remuneration for employment but provides specific exemptions, including most wages earned by students in the employ of their school.

Explanation of Provision

The President's budget proposal would eliminate the exemption from the definition of wages for services performed by a student which under current law, under various circumstances in an academic setting, are excluded from coverage under Social Security, and are not subject to FICA taxes. Such students include those employed by a school they are attending (or college club or an auxiliary nonprofit organization of a school) and student nurses employed by a hospital or nurses' training school they are attending.

Effective Date

This proposal would be effective January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extend FICA Tax to Student Earnings	0.1	0.1	0.1	0.2

4. Extend FUTA Tax to Railroad Employment

Present Law

Under present law, railroad employment is not covered by the Federal-State unemployment insurance system. Instead, railroad employees are covered by a separate Railroad Sickness and Unemployment Insurance Fund, which is financed by payroll taxes levied on rail employers.

Explanation of Provision

The provision would extend coverage under the Federal-State unemployment insurance system to railroad employment. In addition, a transitional program would be developed to guarantee certain levels of benefits for rail workers who became unemployed after September 30, 1987. The Railroad Sickness and Unemployment Insurance Fund would continue to finance sickness payments and to repay the Fund's debt to the rail industry pension fund.

Effective Date

The provision would be effective October 1, 1987.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extend FUTA tax to railroad employment	0.1	0.1	0.1	0.4

See pp. 10-11 of the Revenue Options Pamphlet (JCS-17-87).

Possible Subcommittee Action

The Subcommittee on Public Assistance and Unemployment Compensation will mark up a railroad unemployment compensation bill next Tuesday, October 6. The bill, H.R. 2167, could result in additional revenue to the Federal budget. The bill is based on the 1984 report to Congress of the Railroad Unemployment Compensation Committee, which was created by the Railroad Retirement Solvency Act of 1983. Also, the Subcommittee will consider a provision to repay the long outstanding debt to the retirement benefits.

B. Excise Tax Provisions

1. Proposals Relating to Black Lung Benefits

a. Increase in coal excise tax

Present Law

A manufacturers excise tax is imposed on the sale or use by the producer of domestically mined coal. In COBRA, the rate of the tax was increased by 10 percent, effective April 1, 1986, to $1.10 per ton of coal from underground mines, and 55 cents per ton of coal from surface mines, subject to a cap of 4.4 percent of the sales price.

Amounts equal to the tax revenues are appropriated automatically to the Black Lung Disability Trust Fund. Present law includes an unlimited authorization for advances to the Trust Fund, generally repayable with interest, from the Treasury. However, COBRA provided a five-year moratorium on interest accruals (to October 1, 1990) with respect to such repayable advances. As of the beginning of fiscal 1987, the Trust Fund deficit--i.e., the amount of advances repayable to the general fund--was $2.9 billion.

Explanation of Provision

The provision would increase the excise tax to $1.70 per ton for coal from underground mines and $0.85 per ton for coal from surface mines, subject to a cap of 6.8 percent of the sales price. (The Administration also has proposed repeal of the five-year moratorium on interest accruals on repayable advances to the Trust Fund.)

Effective Date

The increased coal excise tax rates would be effective January 1, 1988, through December 31, 1990, with decreasing rates thereafter.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Increase in coal excise tax	0.3	0.3	0.3	0.7

See pp. 12-13 of the Revenue Options Pamphlet (JCS-17-87).

b. Inclusion of black lung cash benefits in gross income

Present Law

Title IV of the Federal Coal Mine Health and Safety Act provides for payment of monthly cash benefits to eligible coal miners who are totally disabled by black lung disease and to their survivors. Also, a coal miner receiving black lung cash benefits is eligible for related medical and rehabilitation benefits.

Under present law, black lung disability benefits are excludable from gross income as workers' compensation benefits (Rev. Rul. 72-400, 1972-2 C.B. 75).

Explanation of Provision

Under the provision, black lung cash benefits would be includible in the recipient's gross income. (The value of medical and rehabilitation benefits received by a disabled miner would continue to be excludable from income.)

Effective Date

The provision would be effective for taxable years beginning on or after January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Inclusion of black lung cash benefits in gross income	0.1	0.2	0.2	0.5

See pp. 13-14 of the Revenue Options Pamphlet (JCS-17-87).

2. Repeal of Current Gasohol, Bus, and State and Local Government Highway Excise Tax Exemptions

Present Law

Excise taxes are imposed on motor fuels, tires, and trucks and trailers, and a use tax is imposed on heavy highway vehicles. Revenues equivalent to amounts derived from these taxes are deposited in the Highway Trust Fund. These Highway Trust Fund excise taxes are scheduled to expire after September 30, 1993. Exemptions from all or part of some of these excise taxes are provided for fuels containing alcohol, for private and public bus operators, and for State and local governments.

Explanation of Provision

The President's budget proposes to repeal the exemptions from Highway Trust Fund excise taxes for alcohol fuels, buses, and State and local governments.

Effective Date

The proposal would be effective January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Repeal bus exemption	0.1	0.1	0.1	0.2
Repeal State and local government exemptions	0.1	0.2	0.2	0.5
Repeal alcohol fuels exemptions	(1)	(1)	(1)	(1)

(1) Gain of less than $50 million.

See pp. 15-16 of the Revenue Options Pamphlet (JCS-17-87).

3. Imposition of Air and Ship Travel Tax

Present Law

Present law imposes no general excise tax on international travel to and from the United States. A $3 per person international departure tax is imposed, however, as part of the funding for the Airport and Airway Trust Fund, applicable to certain international departure flights exempt from the 8-percent passenger ticket tax.

Explanation of Provision

The President's budget proposes to impose an excise tax of $1 per ticket for international travel to and from the United States, its possessions, and its territories by airline or cruise ship carriers. Travel to and from Canada, Mexico, and travel to the United States that originates in U.S. possessions and territories would be exempt from the tax. Revenue from this tax would be used to support international tourism and marketing activities, defined to include planning, developing and carrying out programs to stimulate and encourage foreigners to travel in the United States. The proposal would fund the $12 million annual budget of the U.S. Travel and Tourism Administration; any revenues collected in excess of the existing USTTA budget would go into the general fund of the Treasury.

Effective Date

The provision would be effective on January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Imposition of $1 air and ship travel tax	(1)	(1)	(1)	0.1

(1) Gain of less than $50 million.

See pp. 19-20 of the Revenue Options Pamphlet (JCS-17-87).

C. Certain New User Fees

1. Internal Revenue Service

Present Law

The Internal Revenue Service (IRS) currently does not charge taxpayers for issuing determination letters or private ruling letters. In 1984, the IRS issued 106,353 advance determination letters on the qualification of corporate and self-employed pension plans, and acted on 69,613 applications and ruling requests from tax-exempt organizations. The IRS also issued 34,246 private ruling letters in response to taxpayers' requests during 1984.

Explanation of Provision

The provision would impose user fees for each determination letter and private ruling letter issued by the IRS. The level of the fees is not specified.

Effective Date

These fees would become effective on January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
IRS user fees	0.1	0.1	0.1	0.3

See p. 27 of the Revenue Options Pamphlet (JCS-17-87).

2. Bureau of Alcohol, Tobacco, and Firearms

Present Law

The Treasury Department's Bureau of Alcohol, Tobacco, and Firearms (BATF) collects licensing fees and excise taxes on various types of alcohol and tobacco products and on firearms. These fees and taxes are collected pursuant to the Internal Revenue Code, the Federal Alcohol Administration Act, and the Federal Gun Control Act. In addition, occupational taxes are imposed on persons engaged in certain alcohol- and firearms-related businesses and permit requirements apply to these and other persons engaged in alcohol-, tobacco-, and firearms-related businesses.

Explanation of Provision

The President's budget proposes increasing fees for various services provided by BATF. While no detailed proposal has been submitted to Congress, it is understood that the new fees may include an increase in firearms licensing fees; imposition of fees for permits to produce alcoholic beverages, to engage in certain industrial uses of alcohol, and to procure or use certain tax-free or specially denatured distilled spirits; and imposition of licensing fees for occupations presently covered by alcohol occupational taxes. Similar fees also would be imposed on tobacco-related permits.

Possible Alternative Proposal

To realize the objective of the President's as yet undescribed fee increase proposal, the present BATF occupational taxes would be increased as follows:

(1) The alcohol and firearms producer occupational taxes would be increased from $110 per year (brewers) and $500 per year (firearms) to $1,000 per year and extended to distilled spirits plants, wineries, and tobacco manufacturers. A reduced rate of $500 per year would apply to businesses having gross receipts of less than $500,000 in the preceding taxable year.

(2) The present alcohol wholesale and firearms dealer occupational taxes would be increased from $255 per year (liquor and wine), $123 per year (beer), and $200 per year (firearms) to $500 per year.

(3) The present alcohol retail dealer occupational taxes would increased from $54 per year (liquor and wine) and $24 per year (beer) to $250 per year and would be extended to persons presently required to acquire permits for tax-free

use of alcohol. (The special $4.50 tax on limited retail dealers would be repealed.)

(4) The present stamp tax rates for persons receiving drawbacks of certain alcohol taxes would be increased from a range of $25 to $100 per year to $500 per year.

Effective Date

Both proposals would be effective on January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
President's proposal	0.1	0.1	0.1	0.2
Possible alternative	0.1	0.1	0.1	0.3

See pp. 28-29 of the Revenue Options Pamphlet (JCS-17-87).

3. Customs Service

Present Law

As enacted in the Omnibus Budget Reconciliation Act of 1986, an ad valorem user fee is applied to all formal entries of merchandise imported for consumption in the amount of 0.22 percent during fiscal year 1987, dropping to the lesser of 0.17 percent or the rate which will provide revenue equal to the appropriated level of Custom's commercial operations in September 30, 1989. The fee does not apply to articles classifiable in schedule 8 of the Tariff Schedules (including products containing U.S. components which are classifiable in item 807.00 of the Schedules).

Explanation of Provision

The President's budget proposal would eliminate the schedule 8 exemption for articles containing U.S. components (effective July 1, 1986), and would extend the current fee indefinitely beyond its scheduled expiration date.

Effective Date

This proposal would be effective on January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extend fee and repeal schedule 8 exemption	0.2	0.2	0.6	0.9

See pp. 30-31 of the Revenue Options Pamphlet (JCS-17-87).

Possible Alternative Proposal

An alternative proposal with regard to customs user fees would amend the current provisions in the following respects:

1. The schedule 8 exemption would be modified so that the foreign value of item 806.30/807.00 imports would be subject to the fee (periodic reporting would be allowed for articles which are totally duty-free);

2. The fees would be extended for one additional year;

3. The fee level of 0.22 percent would be maintained for one additional year at which time it would be adjusted to

the lesser of 0.22 percent or the rate which would provide revenue approximating the appropriated level of Customs' commercial operations;

4. A provision would be added precluding Customs from collecting an annual fee from operators of foreign trade zones and bonded warehouses in addition to the per-entry customs user fee;

5. A clarification would be made to the customs overtime provision to preclude OMB from apportioning such funds (Customs would be precluded from arbitrarily reducing "regular" (i.e., non-overtime) work hours);

6. Clarifying language would be added requiring customs services to be "adequately provided" (including preclearance operations) without additional charges other than user fees;

7. A GAO study would be requested relating to Customs' centralized inspection and examination procedures; and

8. An extension would be made in the time period for filing requests for refunds of user fees paid by vessel operators who had paid for 10 or more entries before the 10-trip ceiling on fees was established in the Tax Reform Act of 1986.

Effective Date

This proposal would be effective upon date of enactment.

Budget Effect

[Fiscal years, billions of dollars]

Freeze fee at 0.22% through September 30, 1990, close 806.30/807.00 loophole and other changes	0.3	0.3	0.6	1.2

D. Debt Collection: 3-Year Extension

Extension of this provision is supported by the Administration, as indicated in a letter from James C. Miller, III, Director of the Office of Management and Budget, to Chairman Rostenkowski, dated August 4, 1987.

Present Law

Certain Federal agencies are authorized to notify the IRS that a person owes a past due, legally enforceable debt to the agency. The IRS then must reduce the amount of any tax refund due the person by the amount of the debt and pay that amount to the agency. This program expires after December 31, 1987.

Under IRS regulations, the program only affects refunds due individuals, not corporations.

Explanation of Provision

Under the provision, the Federal debt collection program would be extended for three years for all Federal agencies. Also, the program would be expanded to cover corporate, as well as individual, debts owed to Federal agencies.

The IRS and GAO would be required to report on the effectiveness of the program and its effect on voluntary tax compliance.

Effective Date

The provision would be effective on January 1, 1988, and would expire after December 31, 1990.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extension of Federal Debt Collection Program	0.3	0.3	0.3	0.9

See p. 256 of the Revenue Options Pamphlet (JCS-17-87).

II. EXPIRING TAX PROVISIONS

A. Telephone Excise Tax: 3-Year Extension

Present Law

A 3-percent excise tax is imposed on amounts paid for local and toll (long-distance) telephone service and teletypewriter exchange service. The tax is scheduled to expire after December 31, 1987.

Explanation of Provision

The telephone tax would be extended for three years, through December 31, 1990, at the present three-percent rate.

Effective Date

The provision would be effective on January 1, 1988.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
3-year extension of current telephone excise tax	1.3	2.3	2.5	6.0

See pp. 42-44 of the Revenue Options Pamphlet (JCS-17-87).

B. Freeze Current Estate and Gift Rates

Present Law

The estate and gift taxes are unified, so that a single progressive rate schedule is applied to an individual's cumulative gifts and bequests. The generation-skipping transfer tax is computed by reference to the maximum Federal estate tax rate.

For 1987, the gift and estate tax rates begin at 18 percent on the first $10,000 of taxable transfers and reach 55 percent on taxable transfers over $3 million. For transfers occurring after 1987, the maximum gift and estate tax rate is scheduled to decline to 50 percent for taxable transfers over $2.5 million.

Explanation of Provision

The gift and estate tax rates applicable in 1987 would be made permanent.

Effective Date

The provisions would be effective for transfers occurring after December 31, 1987.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Freeze rates at 55%	(1)	0.2	0.2	0.4

(1) Gain of less than $50 million.

See pp. 258-260 of the Revenue Options Pamphlet (JCS-17-87).

C. FUTA Tax: 3-Year Extension

Present Law

Under present law, the gross FUTA tax rate of 6.2 percent of the first $7,000 in wages paid to an employee consists of a permanent component of 6.0 percent and a temporary component of 0.2 percent. (The net FUTA tax is 0.8 percent after taking into account the 5.4 percent credit for State unemployment taxes.)

The temporary 0.2-percent tax component is scheduled to expire at the beginning of the first year following the year in which the advances from general revenues are repaid. The advances were fully repaid in 1987. As a result, for the year beginning January 1, 1988, the FUTA tax rate will be 6.0 percent (0.6 percent after taking into account the 5.4 percent credit for State unemployment taxes).

Explanation of Provision

The temporary FUTA tax component of 0.2 percent would be extended for three years through 1990. In addition, the ceiling on funds retained in the Extended Unemployment Compensation Account (EUCA) and the Federal Unemployment Account (FUA) would be raised in each account to 0.375 percent of covered wages. Half of the additional revenue would be retained in EUCA and the other half in FUA. This would allow the buildup of reserves to cover future outlays. If these reserves are insufficient to cover outlays, interest would be charged on any new general fund advances to EUCA and FUA.

Effective Date

The provision would be effective for wages paid after December 31, 1987.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Extend FUTA repayment tax for 3 years	0.7	1.0	1.0	2.7

See p. 77 of the Revenue Options Pamphlet (JCS-17-87).

III. ESOP ESTATE TAX DEDUCTION

These provisions are contained in H.R. 1311 introduced on February 26, 1987, by Mr. Rostenkowski and Mr. Duncan and in S. 591 introduced on the same date by Senator Bentsen.

Present Law

The 1986 Act provided generally that the taxable estate of a decedent is determined by deducting from the gross estate 50 percent of the proceeds of a sale of employer securities by an executor to an ESOP or an eligible worker-owned cooperative. The deduction is not available for sales after December 31, 1991.

Under IRS Notice 87-13, the deduction is not available unless (1) the decedent directly owned the securities immediately before death, and (2) the securities are allocable to participants.

Explanation of Provision

H.R. 1311 and S. 591 would be adopted. The bills confirm the positions taken in IRS Notice 87-13. The bills also limit the maximum allowable deduction to 50 percent of the taxable estate (without this deduction) and limit the maximum reduction in tax liability to $750,000. The deduction would be further limited to proceeds of sales of employer securities that are issued by a domestic corporation that has no publicly traded stock outstanding. Sales proceeds attributable to assets transferred from qualified plans other than ESOPs would not be eligible for the deduction. Certain holding period and allocation requirements would apply to the employer securities acquired.

Effective Date

The effective dates in the bills would apply. Thus, generally, the confirmation of IRS Notice 87-13 applies to sales of employer securities after October 22, 1986. The other provisions generally apply to sales (or, in certain cases, taxable events) after February 26, 1987.

Budget Effect

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Modify estate tax deduction for ESOPs	1.3	1.6	1.9	4.8

See pp. 270-271 of the Revenue Options Pamphlet (JCS-17-87).

IV. ESTIMATED TAXES

These estimated tax provisions are contained in H.R. 1581, introduced on March 12, 1987, by Chairman Rostenkowski and Mr. Duncan, with several modifications.

A. Estimated Tax Penalty Relief for 1987

Present Law

Individuals

The 1986 Act increased from 80 to 90 percent the percentage of the current year's tax liability that must be paid in order to avoid an estimated tax penalty for taxable years beginning after December 31, 1986.

Corporations

Present law does not give explicit authority to the Treasury to provide alternative estimated tax rules for corporations.

The Treasury has issued regulations, applicable to estimated tax payments due before July 1, 1987, that permit corporations to base those estimated payments on 120 percent of 1986 taxable income with certain modifications.

Explanation of Provisions

Individuals

The increase in the required percentage of the current year's liability that must be paid as estimated taxes in order to avoid a penalty would be delayed for one year. In addition, employers would be required to make newly filed Forms W-4 effective on a more timely basis.

Corporations

Two safe harbors would be provided for estimated tax payments due before July 1, 1987. First, all corporations, including large corporations, would be permitted to base those estimated tax payments on 100 percent of the 1986 tax liability. Second, statutory authorization would be provided for the safe harbor provided in the Treasury regulations.

B. Corporate Estimated Tax Reform

Present Law

Under present law, a corporation that fails to pay an installment of estimated income tax on or before the due date generally is subject to a penalty computed at the rate of interest for tax underpayments. The penalty may not be waived. The penalty is computed by applying the underpayment interest rate to the amount of the underpayment of the installment for the period of the underpayment. The amount of the underpayment is the difference between the payments made on or before the due date of each installment and 90 percent of the total tax shown on the return for the year, divided by the number of installments that should have been made. The penalty on underpayments of estimated tax that are between 80 percent and 90 percent of the actual tax due is imposed at three-quarters of the full rate.

There are three exceptions to the penalty. No penalty is imposed upon a corporation if total tax payments for the year equal or exceed installments based on (1) the preceding year's tax liability, if a return showing a liability for tax was filed for the preceding year; (2) the tax computed by using the facts shown on the prior year's return under the current year's tax rates; or (3) 90 percent of the taxes which would be due if certain income already received during the current year was annualized. Large corporations may not use exceptions (1) and (2) described above. A large corporation is defined as a corporation having at least $1 million of taxable income in any of the three prior taxable years. No penalty is imposed where the tax is less than $40.

Explanation of Provisions

The provision would consolidate all the corporate estimated tax rules into one section of the Code, similar to the provision enacted for individuals in 1984. Also, several modifications would be made to present law.

The underpayment penalty with respect to any installment would apply to the difference between payments made by the due date of the installment and the lesser of an installment based on (1) 90 percent of the tax shown on the return; or (2) 100 percent of the tax shown on the preceding year's return. As under present law, exception (2) would generally not apply to a large corporation, except that a large corporation could use that exception for purposes of making its first estimated payment for any taxable year. In determining whether a corporation is a large corporation because it's taxable income exceeds $1 million, net operating loss and capital loss carryforwards and carrybacks would be disregarded.

In addition, the full rate of the penalty would be imposed with respect to any payment only to the extent the total payments for the year up to the required installment are below 90 percent of the taxes which would be due if the income already received during the current year was placed on an annual basis. Any reduction in a payment resulting from using the annualization exception must be made up in the subsequent payment if the corporation does not use the annualization exception for that subsequent payment.

Finally, no penalty would be imposed if the tax for any taxable year is less than $500.

Effective Date

This provision would be effective for taxable years beginning after December 31, 1987.

Budget Effect of Estimated Tax Provisions

[Fiscal years, billions of dollars]

	1988	1989	1990	1988-90
Estimated Tax (A and B, above)	1.8	0.4	0.3	2.6

PRELIMINARY

V. ESTIMATED EFFECTS OF POSSIBLE BUDGET OPTIONS, FISCAL YEARS 1988-90
(Billions of Dollars)

Item	1988	1989	1990	1988-90
I. PRESIDENT'S BUDGET PROPOSALS FOR RAISING REVENUE				
A. Employment Tax Provisions				
1. Extend Medicare payroll tax to all State-local employees	1.3	1.9	1.9	5.2
2. Expand employer share of FICA tax to include all cash tips	0.2	0.3	0.3	0.8
3. Extend FICA tax to student earnings	0.1	0.1	0.1	0.2
4. Extend FUTA tax to railroad employment	0.1	0.1	0.1	0.4
B. Excise Tax Provisions				
1. Proposals relating to black lung benefits				
a. Increase in coal excise tax	0.2	0.3	0.3	0.7
b. Inclusion of black lung cash benefits in gross income	0.1	0.2	0.2	0.5
2. Repeal of current exemptions				
a. Gasohol	(1)	(1)	(1)	(1)
b. Bus	0.1	0.1	0.1	0.2
c. State-local government highway excise tax	0.1	0.2	0.2	0.5
3. Imposition of air and ship travel tax	(1)	(1)	(1)	0.1
C. Certain New User Fees				
1. Internal Revenue Service	0.1	0.1	0.1	0.3
2. Bureau of Alcohol, Tobacco, and Firearms	0.1	0.1	0.1	0.2
3. Customs Service	0.2	0.2	0.6	0.9
D. Debt Collection: 3-Year Extension	0.3	0.3	0.3	0.9
Subtotal:	2.9	3.9	4.3	10.9
II. EXPIRING PROVISIONS				
A. Telephone Tax: 3-Year Extension	1.3	2.3	2.5	6.0
B. Freeze Estate and Gift Rates at 55%	(1)	0.2	0.2	0.4
C. FUTA Tax: 3-Year Extension	0.7	1.0	1.0	2.7
Subtotal:	2.0	3.5	3.7	9.1
III. ESOP ESTATE TAX DEDUCTION	1.3	1.6	1.9	4.8
IV. ESTIMATED TAX	1.8	0.4	0.3	2.6
CUMULATIVE TOTALS:	8.0	9.4	10.2	27.4

Joint Committee on Taxation

NOTE: Estimates do not reflect interaction among provisions.
(1) Gain of less than $50 million.