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JOHN CARNEY

UNITED STATES CONGRESSMAN of DELAWARE

Making Sure Tax Reform Works for Delaware

As the 114th Congress begins, comprehensive tax reform is emerging as a top priority for both parties. Congressman Carney wants to ensure that the priorities of Delaware taxpayers and stakeholders are being heard loud and clear in Washington. The best reform ideas typically come from people on the ground, whose families, businesses, careers, and retirement, are all directly impacted by our nation's tax policies.

Comprehensive Tax Reform: *What's happening in Washington, D.C.*

The last time Congress successfully overhauled our tax code was 1986. Since then, Congress has adopted a series of add-ons, patches, and tax extenders, which have in combination with a changing global economy, made the U.S. tax system one of the most complicated and outdated among advanced countries.

Last year, former Chairman of the House Ways and Means Committee, Dave Camp (R-MI), released a discussion draft that was the first attempt at a comprehensive overhaul of the tax code since 1986. Although the Camp plan never advanced in the last Congress, many of its ideas will be reflected in future reform proposals. For a summary of the Camp plan, please see attached.

The new Chairman of the House Ways and Means Committee, Paul Ryan (R-WI), has made clear that he will chart his own path to comprehensive tax reform. Chairman Ryan has publicly stated that he is open to negotiation and compromise with the Obama Administration. The Administration's 2016 Budget (attached) lays out several changes to the tax code that could be areas for compromise, including: reforming the tax on foreign income, preventing inversions, and lowering corporate tax rates.

Framing the Tax Reform Debate: *Congressman Carney's Goals for Tax Reform*

- Encourage Innovation and Entrepreneurialism
- Revitalize Domestic Manufacturing
- Ensure fairness, simplicity, and progressivity
- Promote International Competitiveness
- Build a Stable and Predictable Tax System and Process

Making Tax Reform Work for Delaware: *We need your input……*

Drew Slater, Kent & Sussex Coordinator
Office of Congressman John Carney
(302) 854-0667
Drew.Slater@mail.house.gov

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Chairman Dave Camp's (R-MI) 113th Congress Tax Reform Proposal

In February of 2014, Chairman Camp introduced a comprehensive tax reform proposal. Chairman Camp's proposal would broaden the tax base and restructure both the corporate and individual tax rates. It would also change the tax treatment of foreign-source income for U.S. multinational corporations, and make dozens of other changes affecting tax deductions, credits, and exemptions for individuals and corporations.

The proposal has been scored as deficit neutral; it does not increase the budget deficit relative to the projected deficits for the FY2014-23 budget window. A brief summary of the proposal is as follows:

Individual Income Tax

- The proposal would set two regular income tax brackets: 10% and 25%
- An additional 10% tax would be added to income over 400K for individual filers
- Dividends and capital gains would be taxed at the ordinary rates with a 40% exclusion
- The Alternative Minimum Tax would be repealed

Individual Deductions, Credits, and Exemptions

- Eliminates the deductions for state and local tax payments
- Scales back mortgage interest deduction (Reduces principal cap from $1M to $500k)
- Scales back the earned income tax credit
- Modifies the charitable deduction (contributions deductible to extent exceeds 2% of AGI)
- Provides larger standard deduction (11K individuals and 22K for married)
- Provides larger child tax credit ($1500 per child / expands eligibility)

Corporate and Business Income Tax

- All C-Corporations would be taxed at a top statutory rate of 25%
- Partnerships, S-Corps, and pass throughs would be taxed at top rate of 35%
- Pass throughs engaged in manufacturing would be taxed at 25%
- Imposes excise tax on "big banks" of .35% (on consolidated assets excess of $500B)

Corporate and Business Deductions, Credits, and Exemptions

- Eliminates the modified accelerated cost recovery system
- Phases out the Section 199 domestic production deduction
- Repeals "LIFO" (last-in, first out) inventory accounting
- Modifies R&D tax credit (spreads deduction over 5 years)

Multinational Taxation

- Shifts to a territorial system
- Retroactively taxes accumulated past foreign earnings at 8.75% rate
- Exempts from domestic corporate taxation 95% of all active foreign income

Education Benefits

- Changes tax treatment of Pell Grants by allowing the total value of the Pell Grant to be tax free
- Ends the use of Coverdell Education Savings Accounts
- Modifies and makes permanent the American Opportunity Tax Credit (AOTC) (expands refundability)
- Repeals Hope Credit, Lifetime Learning Credit, Tuition and fees deduction and student loan interest deduction

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Tax Reform Ideas in President Obama's Fiscal Year 2016 Budget

On February 2nd, 2016, President Obama unveiled his fiscal year 2016 budget proposal to Congress. The proposal included several changes to the tax code, calling for business tax reform and proposes new international and individual tax changes. Some of these provisions form the basis for bipartisan agreement on certain tax reform issues.

Business Tax Reform

- Lowers the top US corporate rate to 28%, with a 25% rate for domestic manufacturing
- Makes permanent the research and development tax credit
- Permanently extend new markets tax credit
- Permanently extend Section 179 expensing for small businesses

International Tax Reform:

- The Obama Administration would impose a new 14 % one-time tax that would mean U.S. companies with overseas earnings would have to pay U.S. tax right now on the $2 trillion they already have overseas, rather than being able to delay paying any U.S. tax indefinitely
- The revenue would go towards rebuilding existing roads and bridges and modernizing our infrastructure with new investments in highways, freight networks, and bus, subway, rapid transit, light rail, etc.
- A second 19% tax would be imposed on all foreign profits in the future, minus taxes paid abroad

Alters Tax Rates, Deductions, Capital Gains and Dividends

- Increases the top capital gains and qualified dividends tax rate to 28% (for joint filers with more than $500K)
- Limits step-up basis for inherited property (with exceptions for small, family owned businesses)
- Imposes a Buffett rule on higher incomes (30% minimum tax for AGI over $1M phased in fully at $2M)
- Limits to 28% the value of all itemized tax deductions and certain tax exclusions

New Excise Taxes and Fees

- Doubles the Cigarette tax from around $1 per pack to almost $2 per pack
- Imposes new 7 basis point fee on large financial institutions, with over $50B in assets

Increases the Child Care Tax Credit

- The child tax credit would go from $1,000 per eligible kid to $3,000 and become partially refundable
- The Administration's proposed change also would provide a larger credit for children younger than age five

Proposes a New "Second Earner" Tax Credit

- Working married couples, with or without kids, would get a new $500 tax credit
- For those without children, the Earned Income Tax Credit for low-income workers without children would be expanded

Provisions of the Van Hollen Middle Class Tax Plan

On January 12th, 2015, Congressman Chris Van Hollen (D-MD) unveiled an "action plan" to help improve prosperity for the middle class. The goal of the plan is focus on middle class wages, promote a global competitive edge, and provide working Americans with a fair share of U.S. economic expansion.

New Paycheck Bonus Tax Credit

- Provides a Paycheck Bonus Tax Credit of $1k per worker per year or 2K per couple
- Credit would phase out at $100K per individual indexed for inflation ($200K per couple)
- Projected to raise a typical worker's income by $40K per year

New Savers Bonus

- Creates a "saver's bonus" of $250 for each person who applies at least $500 of his or her $1k Paycheck Bonus Tax Credit toward a tax-preferred savings plan
- Would allow employees without a tax preferred savings plan to establish a "MyRA"

Incentivizing Employee Profit Sharing Opportunities

- Structures certain tax breaks for executive stock options and incentive packages on these packages being made available to all employees
- Would allow companies to deduct CEO and executive compensation in excess of $1 million if the corporation provides employees with ownership and profit sharing plans that meet certain specific standards

Second Earner Tax Deduction

- Provides a 20 percent tax deduction for second earners with dependents on up to $60K of their income
- On average could shave off $900 off a couple's taxes

Modernize the Child and Dependent Care Tax Credit

- Modernizes the credit by raising the amount of eligible expenses to $8,000 for one child ($16,000 for two+)
- Provides a 20 to 25 percent flat credit that phases out for households above $200K
- Makes the credit refundable

Implement a Financial Market Trading Fee

- Implements a small fee on financial transactions
- Would likely be structured similar to Europe's fee of .5 percent on stock trades
- Could raise up to $44 billion per year