

Limit shifting of income through intangible property transfers.—The definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d)) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States.

Limit earnings stripping by expatriated entities.—Under the proposal, the rules that limit the deductibility of interest paid to related persons subject to low or no U.S. tax on that interest would be amended to prevent inverted companies from using foreign-related-party debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations.

Prevent repatriation of earnings in certain cross-border reorganizations.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1)) can permit U.S. shareholders to repatriate previously-untaxed earnings and profits of foreign subsidiaries with minimal U.S. tax consequences. The proposal would repeal this limitation in reorganization transactions in which the acquiring corporation is foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)).

Repeal 80/20 company rules.—Under current law, if a U.S. corporation derives at least 80 percent of its gross income from an active foreign business (commonly referred to as an “80/20 company”), then all or a portion of the interest and dividends paid by the 80/20 company are treated as foreign-source and therefore are not subject to U.S. withholding tax. Because the rules that apply to 80/20 companies are subject to manipulation, they are proposed to be repealed.

Prevent the use of equity swaps to avoid dividend withholding taxes.—Income earned by foreign persons with respect to equity swaps that reference U.S. equities would be treated as arising from U.S. sources to the extent that the income is attributable to (or calculated by reference to) dividends paid by a domestic corporation. This proposal would provide clarity and would ensure that economically equivalent transactions are subject to the same tax treatment.

Require information reporting for rental property expense payments.—The Administration proposes to subject recipients of rental income from real estate to the same information reporting requirements applicable to taxpayers engaged in a trade or business. Under the proposal, recipients of rental income making payments of \$600 or more to a service provider such as a plumber, painter or accountant in the course of earning rental income would be required to send an information return to the IRS and to the service provider. Exceptions to the reporting requirement would be made for particularly burdensome situations, such as for taxpayers (including

members of the military) who rent their principal residence on a temporary basis, or for those who receive only small amounts of rental income per year.

Levy tax on certain offshore oil and gas production.—

According to the Government Accountability Office, the return to the taxpayer from Outer Continental Shelf production is among the lowest in the world, despite other factors that make the U.S. a comparatively good place to invest in oil and gas development. In the interest of advancing important policy objectives, such as providing a more level playing field among producers, raising the return to the taxpayer, and encouraging sustainable domestic oil and gas production, the Administration is developing a proposal to impose an excise tax on certain oil and gas produced offshore in the future. The Administration looks forward to working with Congress to develop this proposal's details and enact it into law.

Reduce the tax gap/improve compliance and make reforms to close tax loopholes.—The Administration has a number of legislative proposals intended to reduce the tax gap/improve compliance and make certain reforms in domestic tax laws to close tax loopholes, as described below:

Reduce the tax gap/improve compliance.—The tax gap generally is the difference between the amount owed under the tax law and the amount actually paid on time. The Administration proposes to help reduce the tax gap through proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. Information reporting proposals would apply to certain life insurance contracts, to payments to corporations, and to payments from Government entities. Additional proposals would require a certified Taxpayer Identification Number (TIN) from contractors and would increase penalties with respect to information returns.

Proposals to improve compliance by businesses would require electronic filing by certain large organizations and implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Tax administration proposals would: (1) expand IRS access to information in the National Directory of New Hires for tax administration purposes; (2) make repeated willful failure to file a tax return a felony; (3) facilitate tax compliance with local jurisdictions; (4) extend statutes of limitations where State tax adjustments affect Federal tax liability; (5) improve the investigative disclosure statute; (6) expand electronic filing requirements for tax return preparers; (7) repeal the requirement of a partial payment with an application for an offer-in-compromise; and (8) allow assessment of criminal restitution as tax.

Proposals to expand penalties would impose a penalty

on failure to comply with electronic filing requirements and clarify that the bad check penalty applies to electronic checks and other forms of payment.

Make reforms to close tax loopholes.—The Administration also proposes to make certain reforms in domestic tax laws to close loopholes in the following areas: (1) financial institutions and products; (2) insurance companies and products; (3) tax accounting methods; and (4) estate and gift taxation. The first category of proposals would require accrual of income on forward sale of corporate stock, require ordinary treatment of income from day-to-day dealer activities, and modify the definition of “control” for purposes of the limit on deductions related to a repurchase of debt. The second category would modify rules that apply to sales of life insurance contracts, modify the dividends-received deduction for life insurance company separate accounts, and expand the pro rata interest expense disallowance. Proposals in the third category would repeal the lower of cost or market inventory accounting method and deny the deduction for punitive damages. The fourth category of proposals would require consistent valuation for transfer and income tax purposes, modify rules on valuation discounts, and require a minimum term for grantor retained annuity trusts.