RSC Republican Study Committee

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Legislative Bulletin……………………………………..………July 29, 2010

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Key Conservative Concerns

Take-Away Points

--**Cost to Taxpayers:** The legislation increases federal spending by $29.1 billion and increases taxes by $29.3 billion (both figures over ten years).

--**Extension of New Welfare Fund:** The legislation extends through FY 2011 the TANF Emergency Contingency Fund originally created by the "stimulus." The RSC introduced legislation to eliminate the program (as opposed to extending it), the Welfare Reform Restoration Act. House Republicans offered this bill as the first "YouCut" vote. The TANF Emergency Contingency Fund undermines the 1996 welfare reform law by providing incentives for states to ***increase*** their welfare caseloads.

For more details on these concerns, see below.

H.R. 5893—Investing in American Jobs and Closing Tax Loopholes Act (*Rep. Levin, D-MI*)

Order of Business: H.R. 5893 is scheduled to be considered today, Thursday, July 29, 2010 under a closed rule. The rule provides one hour of debate equally divided and waives all points of order against consideration of the bill, except for clauses 9 (the earmark rule) and 10 (PAYGO) of Rule XXI. The rule also waives the two-thirds requirement for a same day rule through Sunday, August 1, 2010.

Cost to Taxpayers: The legislation increases federal spending by ***$29.1 billion*** over ten years, and increases taxes by ***$29.3 billion*** over ten years.

Summary:

"Infrastructure Incentives" (Title I)

Extension of Build America Bonds: The "stimulus" created the Build America Bonds program. This provision would extend this provision through 2012 (otherwise set to expire at end of 2010). In 2009 and 2010, the direct payment is 35% of coupon interest, in 2011 32%, and in 2012 30%. *This provision increases entitlement spending by $24.3 billion over ten years, and reduces revenue by $4 billion.*

Exempt-Facility Bonds for Sewage and Water Supply Facilities: The legislation would exclude water and sewer facilities from state volume caps on private activity bonds. *This provision would reduce federal revenue by $371 million over ten years***.**

Application of AMT to State and Local Governments: Under current law, interest on most tax-exempt private activity bonds is subject to the AMT after 2010. The "stimulus" shields all interest on private activity bonds from the AMT in 2009 and 2010. This provision extends this provision in the "stimulus" through 2011. *This provision would reduce federal revenue by $224 million over ten years***.**

Recovery Zone Bonds: The "stimulus" created tax credit bonds, in 2009 and 2010, for investment in economic recovery zones, with a national limit of $10 billion for recovery zone economic development bonds and $15 billion for recovery zone economic development bonds. H.R. 5893 extends this provision through 2011. *This provision would reduce federal revenue by $2.375 billion over ten years*.

Extension of New Markets Tax Credit: The legislation would allow the New Markets Tax Credit to be claimed against the Alternative Minimum Tax (AMT) through the end of 2011. *This provision would reduce federal revenue by $444 million over ten years***.**

Extension of Tax-Exempt Eligibility for Loans Guaranteed by Federal Home Loan Banks: The Housing and Economic Recovery Act of 2008 allowed bonds that are guaranteed by federal loan home banks to be eligible for treatment as tax-exempt bonds regardless of whether the bonds are used to finance housing programs. This is intended to aid state and local governments in obtaining financing for infrastructure projects (though the wisdom of local government undertaking these projects may, in many cases, be questioned given severe fiscal problems in many jurisdictions). The legislation extends through 2011 (otherwise set to expire at end of 2010) this provision. *This provision would reduce federal revenue by $148 million over ten years***.**

Extension of Temporary Small Issuer Rules for Allocation of Tax-Exempt Interest Expense: The "stimulus" increased the threshold from $10 million (in expected tax-exempt obligations) to $30 million for what qualifies for the small issuer exception. H.R. 4213 would extend this provision through 2011 (otherwise set to expire at end of 2010). *This provision would reduce federal revenue by $254 million over ten years***.**

TANF Emergency Contingency Fund (Title II)

TANF Emergency Contingency Fund: The legislation extends through FY 2011 the TANF Emergency Contingency Fund created by the "stimulus." This program provides incentives for states to *expand* welfare caseloads. The RSC introduced legislation to eliminate this program—H.R. 1277, the Welfare Reform Restoration Act. The legislation was also offered by House Republicans as a "YouCut" option. *This provision would increase federal spending by $3.5 billion over ten years***.**

Tax Increases (Title III)

Title III of the legislation contains numerous tax increases on businesses, including:

- **Rule to prevent splitting foreign tax credits from income:** This provision adopts a tax increase from the President's FY 2011 budget that implements a rule that suspends the recognition of foreign tax credits from associated foreign income. *Increases taxes by $4.2 billion over ten years.*
- **Denial of foreign tax credit with regard to foreign income not subject to U.S. taxation by reason of covered asset acquisitions:** According to Committee Democrats, this provision is intended to prevent taxpayers from claiming the foreign tax credit with respect to foreign income that is not subject to U.S. taxation. *Increases taxes by $3.6 billion over ten years.*
- **Separate application of foreign tax credit limitation to items resourced under tax treaties:** This provision would segregate income (subject to both foreign taxes and income earned offshore) so that it is not the basis for claiming foreign tax credits. *Increases taxes by $250 million over ten years.*
- **Limitation on use of section 956 for foreign tax credit planning:** The bill limits the foreign tax credits that may be claimed with respect to a deemed dividend under Section 956 to the amount that would have been allowed with respect to an actual dividend. *Increases taxes by $704 million over ten years.*
- **Source rule on guarantees:** The bill subjects guarantees paid by U.S. taxpayers to a foreign person to withholding tax. *Increases taxes by $2.0 billion over ten years.*

Corporate Estimated Tax Timing Budget Gimmick (Title IV)

Corporate Estimated Tax Timing Gimmick: This provision would increase the estimated tax payments that certain corporations must remit to the federal government. This legislation would increase the payment due for the third quarter of calendar-year 2015 by 3 percentage points. The payment due for the fourth quarter of calendar-year 2015 would be reduced accordingly. This provision is merely a revenue timing shift, a gimmick used to comply with the House's PAYGO rule, yet would have real-world implications, as it forces certain companies to pay more of their tax payments earlier. Given the time value of money, earlier payments harm the bottom line of employers.

Outside Groups Opposed to Legislation (not an exhaustive list)**:**

U.S. Chamber of Commerce
National Association of Manufacturers

Does the Bill Expand the Size and Scope of the Federal Government?: Yes. The bill increases taxes by $29.1 billion and mandatory spending by $29.3 billion (both ten year figures)

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No CBO score listing any potential mandates is available.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: A committee report citing compliance with the rules regarding earmarks, limited tax benefits, or limited tariff benefits is not available.

Constitutional Authority: A committee report citing constitutional authority is unavailable.

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