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Committee Update

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Summary of President Obama's Fiscal Year 2016 Budget Request – Financial Services and Tax Policy

On Monday, February 2, 2015, President Barack Obama unveiled his budget request for Fiscal Year 2016 (FY '16). While the president's budget will not be adopted as the budget of the United States for a variety of reasons, it is a document that helps the president lay out his agenda and his priorities for the coming year. Much of this year's budget mirrors the president's focus on "middle class economics" from the State of the Union address.

Regarding areas of interest to the Financial Services community, the budget contains increased funding for regulators like the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) to oversee financial institutions and implement the Dodd-Frank Act. It also notes the importance of passing housing finance reform legislation in the near term.

On tax policy, much of the president's initiatives hearken back to the "middle class economics" refrain, with a focus on tackling "income and wealth inequality" by supplanting "a wide range of inefficient tax breaks [that] prevent the tax system from raising the level of revenue the Nation needs." The proposals, viewed collectively as the administration's opening salvo on tax reform in the 114th Congress, have been roundly panned by Republicans in Congress, including House Ways & Means Committee Chairman Paul Ryan (R-WI), who castigated the president for attempting to "exploit envy economics."

Below is a summary of the key components of the president's budget related to financial services and tax policy.

Financial Regulatory Agencies

Among the Federal financial regulators, only the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) require funding through the annual Congressional appropriations process.

Securities and Exchange Commission: The president's FY '16 request includes $1.7 billion for the SEC, an increase of 15 percent over the FY '15 enacted level of $1.5 billion.

Commodity Futures Trading Commission: The president's FY '16 request includes $322 million for the CFTC, an increase of 29 percent over the FY '15 enacted level of $250 million.

The budget notes that "the Administration will continue to oppose efforts to restrict the funding independence of the other financial regulators, including the Consumer Financial Protection Bureau, and will fight other attempts to roll back Wall Street Reform."

Housing Finance

The president's budget notes that reform of the housing finance system and the winding down of Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac remain unfinished business. It adds that the president stands ready to work with Congress on legislation similar to the Johnson-Crapo bill from the 113th Congress which includes some of the Administration's key housing finance reform principles, such as "ensuring that private capital is at the center of the housing finance system, and that the new system supports affordable housing through programs such as the Housing Trust and Capital Magnet Funds." The president's budget estimates that $120 million will be allocated to the National Housing Trust Fund in 2016 to provide grants to states for the purpose of increasing the supply of affordable rental housing for low-income families.

The president's budget includes $173 million in total discretionary spending for the Federal Housing Administration (FHA), which would be used to implement improved risk management for the FHA's portfolio of loans. The budget also requests authority from Congress to charge lenders an administrative support fee, which is estimated to generate about $30 million.

A summary of the U.S. Department of Housing and Urban Development's budget request may be viewed here.

Tax Provisions

The president's FY '16 budget includes a number of changes to existing tax policy, in the hopes of promoting reform and simplification of the tax code.

Individual Tax Measures

Retirement Savings: Proposes the automatic enrollment of workers without access to employer-based retirement plans into IRAs through payroll deposit contributions. Workers would have the option to opt out. The budget would also expand tax credits available to small businesses that set up automatic enrollment IRAs, 401(k)s and other employer plans, or start automatically enrolling workers in their existing retirement plans. These proposals mirror legislation recently introduced by Senator Sheldon Whitehouse (D-RI) and Rep. Richard Neal (D-MA) on automatic IRAs.

Child Care: The budget triples the maximum Child and Dependent Care Tax Credit for families with children under age five, and expands availability of the full CDCTC.

EITC: The budget doubles the "childless worker" Earned Income Tax Credit (EITC) and makes the credit available to workers with earnings up to 150 percent of the poverty line, as well as workers age 21-24 and 65-66.

Education: The budget consolidates six higher education tax benefits into two, by repealing or letting expire the Lifetime Learning Credit, tuition and fees deduction, student loan interest deduction for new borrowers, and Coverdell accounts for new contributions, as well as rolling back a portion of the subsidy for 529 savings plans. The budget would make permanent and expand the American Opportunity Tax Credit. The budget would also eliminate tax on debt forgiven under Pay-as-You-Earn and other income-based repayment plans.

Capital Gains Taxation

The president's budget increases the top capital gains and dividend rate from 23.8 percent to 28 percent. It also ends "stepped up basis" by treating bequests and gifts as realization events, triggering tax liability for capital gains. There are many exclusions to this; for instance, decedents would be allowed an exclusion of $200,000 per couple or $100,000 per individual for capital gains income, and $500,000 per couple or $250,000 per individual for personal residences. Tangible personal property other than collectibles would be excluded, and family members inheriting a small, family-owned and operated business would not owe tax on the gains unless and until the assets were sold.

Additional Bank Fee

The president's budget imposes a "new fee on large, highly-leveraged financial institutions" by adding a seven basis point fee on the liabilities of U.S. financial firms with assets over $50 billion. The administration said this fee would raise $112 billion over 10 years.

Closing "Loopholes"

The president's budget proposes to close "a number of inefficient, unintended, and unfair tax loopholes in the individual tax code." One such measure would prohibit contributions to and accruals of additional benefits in tax-preferred retirement plans and IRAs once balanced are roughly $3.4 million.

Itemized Deductions

The president's budget would limit the value of most tax deductions and exclusions to 28 cents on the dollar for couples with incomes over $250,000 and individuals with incomes over $200,000.

Buffett Rule

The president's budget would enact the so-called Buffett Rule, which requires "wealthy millionaires" to pay no less than 30 percent of income – after charitable contributions – in taxes.

Business Tax Reform

To put the United States in line with major competitors, the president's budget lowers the corporate tax rate to 28 percent, and to a 25 percent effective rate for domestic manufacturing. This change would be paid for by addressing accelerated depreciation and reducing the tax preference for debt financed investment.

The president's budget would make permanent the Research and Experimentation Tax Credit, the Production Tax Credit, and the Investment Tax Credit. These would also be paid for. The budget permanently extends and enhances Section 179 expensing for small businesses, so they can write off up to $1 million of investments in equipment up front.

International Tax System

The president's budget would impose a 19 percent minimum tax on foreign earnings that requires U.S. companies to pay tax on all foreign earnings when they occur. That money could then be reinvested in the United States without additional tax.

The president's budget also attempts to end corporate inversions and prevent foreign companies operating in the U.S. from using excessive interest deductions to "strip" earnings out of the country and avoid paying U.S. tax.

The president's budget would also impose a one-time transition toll charge of 14 percent of the roughly $2 trillion of untaxed foreign earnings U.S. companies have currently accumulated overseas. This revenue would be used to fund the Highway Trust Fund.

98 North Washiington Street, Boston, MA 02114, 617-723-4009 www.newenglandcouncil.com
331 Constitution Avenue NE, Washington, DC 20002, 202-547-0048