Common Elements of Camp Tax Reform Bill and Administration's FY 2016 Budget Proposal

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Introduction

There is a general perception that Republicans and Democrats are miles apart when it comes to business tax reform. And, yes, there are issues on which key players in the parties differ. However, a close look at the tax reform bill introduced last year by Rep. Camp (R-MI), the former chair of the House Ways and Means Committee, and the Administration's most recent budget proposal reveals similarities on a number of significant business tax issues.

KPMG LLP has prepared a chart that highlights key commonalities between the two proposals. These commonalities are important to understand for a variety of reasons, including:

- They show how members of both parties might be willing to approach difficult issues, such as the taxation of multinational businesses
- They show what kinds of revenue raisers both parties might be willing to accept – at least in the context of a broad tax reform bill that accomplishes other (favorable) goals
- They could turn out to be the building blocks for tax reform legislation that actually could become law.

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This chart summarizes some of the key similarities between the Tax Reform Act of 2014, as introduced by former Chairman of the House Ways and Means Committee, Dave Camp, in December 2014 (Camp Bill), and the tax provisions in President Obama's Fiscal Year 2016 Budget, as described by the Treasury Department (Treasury) in the "Green Book" released on February 2, 2015 (Administration's Budget). Information contained herein is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a) (2) of Treasury Department Circular 230 and is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.[1]

Topic	What's Similar	More on Camp Bill	More on Administration's Budget
General Approach	Both the Administration's Budget and the Camp Bill propose lowering the corporate tax rate, reforming the tax rules applicable to multinationals, and broadening the corporate tax base by eliminating or modifying deductions and other current benefits. The Camp Bill, however, proposes more comprehensive tax reform than does the Administration's Budget.	The Camp Bill proposes comprehensive tax reform addressing individuals as well as businesses – and includes specific proposals for passthrough entities.	The Administration's Budget focuses on business tax reform. It does not address individual tax reform and it does not propose lowering the rate at which owners of passthrough entities would pay tax on flow through income. It does, however, include some proposals intended to benefit "small" businesses (regardless of how organized).

[1] Unless specified otherwise, all section references in this chart are to the Internal Revenue Code of 1986, as amended, or to Treasury regulations promulgated thereunder.

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Revenue Target	Both proposals call for revenue-neutral tax reform. However, the Administration's Budget calls for revenue neutrality over the short and the long term, while the Camp Bill focuses on the "standard" 10-year scoring window. Also, this Congress might use a macroeconomic estimate for tax reform (i.e., an estimate of the impact on the overall economy); the details of a tax reform proposal structured to be revenue neutral using a macroeconomic estimate can be expected to differ from those of a proposal structured using "traditional" scoring conventions. The Administration has not adopted macroeconomic scoring of tax legislation and some Congressional Democrats have been critical of scoring tax legislation in this manner.	Although the Camp Bill was structured to be revenue neutral using Joint Committee on Taxation (JCT) traditional scoring conventions, Chairman Camp also requested macroeconomic estimates. The JCT provided three macroeconomic estimates of the Camp Bill using different models and assumptions. The results varied significantly depending on the model used.	The Administration did not use macroeconomic estimates in scoring its budget proposals.
Corporate Tax Rate	Both the Administration's Budget and the Camp Bill propose lowering the current 35% statutory maximum corporate tax rate. However, the Camp Bill proposes a lower rate than does the Administration's Budget.	The Camp Bill would reduce the maximum corporate tax rate to 25% (over a 4-year transition period).	The Administration proposes to reduce the rate to 28%

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International Reform			
New minimum tax *Under current law, U.S. companies generally do not pay tax on profits earned by foreign subsidiaries until the profits are repatriated; at that time, credits for foreign income taxes paid can mitigate double taxation of the same income. The "Subpart F" rules limit a U.S. corporation's ability to defer tax on unrepatriated earnings of foreign subsidiaries by requiring certain U.S. shareholders of controlled foreign corporations (CFC) to include in income on a current basis certain kinds of income that is passive or highly mobile (Subpart F income).*	Both the Administration's Budget proposal and the Camp Bill recognize that the current rules applicable to multinational businesses need to be reformed. Although the technical details of the proposals differ, there are some conceptual similarities between the two approaches. For example, the Administration's proposed minimum tax, coupled with its "ACE allowance," is conceptually similar to the minimum tax proposal in the Camp tax reform bill. While the Administration's "ACE allowance" is aimed at exempting from the minimum tax a return on actual activities undertaken in a foreign country, the Camp tax reform bill would exclude from the "foreign base company intangible income" tax base a specified percentage (in the Camp tax reform bill, 10%) of the CFC's qualified business asset investment.	Very generally, under the Camp Bill, a U.S. corporate shareholder would be entitled to a 95% deduction for the foreign-source portion of dividends received from certain foreign subsidiaries—thus eliminating most residual U.S. tax. The proposed system would be quite complex, however, as the exemption of virtually all active foreign earnings from U.S. tax requires effective measures to prevent the offshore shifting of profits, which would erode the U.S. tax base. To protect against base erosion, the Camp Bill would impose a minimum tax of 15% on a CFC's foreign earnings by creating a new category of subpart F income (foreign base company intangible income or FBCII) for foreign earnings subject to an effective tax rate below 15%. The bill would exclude from the FBCII tax base a specified percentage (10%) of the CFC's qualified business asset investment, defined as the aggregate adjusted basis of certain tangible depreciable property used in the CFC's trade or business.	The Administration's Budget would supplement the existing subpart F regime with a per-country minimum tax on foreign earnings that would apply to a U.S. corporation that is a U.S. shareholder of a CFC or that has foreign earnings from a branch or from the performance of services outside the United States. Foreign earnings subject to the proposal would be subject to tax at a rate of 19% less 85% of the per-country foreign effective tax rate (the "residual minimum tax rate"). The minimum tax for a particular country generally would be the applicable residual minimum tax rate multiplied by the minimum tax base for that country. A U.S. corporation's minimum tax base for a country for a tax year would be the total amount of foreign earnings for the tax year assigned to that country, reduced by an allowance for corporate equity (ACE). The ACE provision would provide a risk-free return on equity invested in active assets and is intended to exempt from the minimum tax a return on the actual activities undertaken in a foreign country. The minimum tax would be imposed on current earnings regardless of whether they were repatriated to the United States. The subpart F regime generally would continue to require a U.S. shareholder of a CFC to currently include in gross income its pro rata share of the CFC's subpart F income, but the proposal would modify the existing

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			subpart F rules as applied to U.S. corporate shareholders, including by: (1) making the subpart F "high-tax" exception mandatory; (2) repealing rules regarding CFC investments in U.S. property; and (3) repealing rules regarding previously taxed earnings.
Taxation of "Old" CFC Earnings	Both the Camp Bill and the Administration's Budget propose one-time taxes on accumulated untaxed foreign earnings held by subsidiaries of U.S. multinationals. Note, however, that the Administration's Budget proposes a higher rate on repatriated earnings than the Camp Bill. Other technical details also vary.	Under the Camp Bill, the transition to the territorial system would deem accumulated, untaxed foreign earnings to be repatriated to the United States. Those earnings would be taxed at one of two reduced rates, depending on how the CFC deployed the earnings. Earnings in cash or cash equivalents would be taxed at 8.75%, while other earnings, perhaps invested in plant and equipment, would be subject to a 3.5% rate. The resulting tax could be paid in installments over eight years.	The Administration's Budget proposes a "transitional" one-time tax on a CFC's accumulated earnings not previously subject to U.S. tax –at a 14% rate. A credit would be allowed for the amount of foreign taxes associated with such untaxed earnings multiplied by the ratio of the one-time tax rate to the maximum U.S. corporate rate for 2015. Any untaxed CFC earnings subject to this tax could then be repatriated without any additional U.S. tax liability. The tax due under this proposal would be payable ratably over five years.
Interest expense deductions	Both the Camp Bill and the Administration's Budget propose new limitations on interest expense deductions of U.S. corporations as part of their proposed reforms of the international tax system. Note, however, that the context and details of the two proposals are very different.	The Camp Bill could limit the amount of deductible interest expense of a U.S. corporation that is a U.S. shareholder with one or more foreign corporations when the U.S. and foreign corporations are members of the same worldwide affiliated group. The proposal is intended (1) to reduce the incentive for U.S. corporations to maintain excessive leverage and (2) to prevent U.S. corporations from generating excessive interest deductions and incurring disproportionate amounts of debt to produce exempt foreign income under the proposed dividend-exemption system.	The Administration's Budget would limit interest expense deductibility in the U.S. when a multinational group's U.S. operations are over-leveraged relative to the group's worldwide operations. The U.S. interest expense deduction of any member of a group that prepares consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), international financial reporting standards (IFRS), or other method authorized by the Secretary under regulations ("financial reporting group") would be limited to the member's interest income plus the member's proportionate

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		The proposal focuses on 2 indicia of excessive leverage: (1) indebtedness of a U.S. corporation that exceeds the level of indebtedness of a worldwide affiliated group (comprising related U.S. and foreign entities) and (2) net interest expense of a U.S. corporation that exceeds a prescribed percent of the U.S. corporation's adjusted taxable income. Affiliated corporations would be treated as one taxpayer for purposes of testing under this rule. Generally, a portion of otherwise deductible interest of a U.S. corporation would be disallowed by the lesser of: (1) the extent a U.S. group's net interest expense is attributable to debt in excess of 110% of the debt-to-equity ratio of the worldwide affiliated group or (2) the extent to which net interest expense exceeds 40% of adjusted taxable income of the U.S. corporation. Disallowed interest expense in a tax year could be carried forward to a subsequent tax year. The amount disallowed under section 163(j) (1)(A) would be reduced by the amount of any reduction under the proposal.	share of the financial reporting group's net interest expense computed under U.S. income tax principles (based on the member's proportionate share of the group's earnings as reflected in the group's financial statements). U.S. subgroups (including their CFCs) would be treated as a single member of a financial reporting group for purposes of applying the proposal. If a member failed to substantiate its share of the group's net interest expense, or a member so elected, the member's interest deduction would be limited to 10% of the member's adjusted taxable income (as defined under section 163(j)). Any disallowed interest would be carried forward indefinitely and any excess limitation for a tax year would be carried forward to the 3 subsequent tax years. A member of a financial reporting group subject to the proposal would be exempt from the application of section 163(j). The proposal would not apply to (1) financial services entities or (2) financial reporting groups that would otherwise report less than $5 million of net interest expense, in the aggregate, on one or more U.S. income tax returns for a tax year. Entities exempt from the proposal would remain subject to section 163(j).

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Exception under subpart F for active financing income *The exception for certain active financing income is a temporary provision that expired most recently for CFC tax years beginning after December 31, 2014*	Both the Camp Bill and the Administration's Budget propose extending the exception under subpart F for certain insurance, banking, financing, and similar income ("active financing income"). Note, however, that the Administration proposes to make the exception permanent, while the Camp Bill would extend the exception for five years. The Camp Bill also proposes modifications to the active financing exception.	The Camp Bill proposes to modify the active financing exception by: (1) providing that foreign personal holding company income (FPHCI) – and consequently foreign base company services income – would not include any item of qualified banking or financing income of an eligible CFC or qualifying insurance income of a qualifying insurance company, if such income is subject to an effective foreign income tax rate of at least 50% of the maximum U.S. corporate rate (i.e., if it meets the 12.5% tax rate threshold); (2) excluding from FPHCI (and foreign base company services income) 50% of any other item of qualified banking or financing income of an eligible CFC, or qualifying insurance income of a qualifying insurance company; and (3) amending section 960 to ignore the exclusion of 50% of the high-taxed active financing and insurance income.	
Look-through treatment of payments between related CFCs *This temporary provision expired most recently for CFC tax years beginning after December 31, 2014*	Both the Camp Bill and the Administration's Budget would make permanent the exclusion from the definition of FPHCI the receipt of certain dividends, interest, rents, and royalties from related parties under section 954(c)(6).		

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Tax Accounting			
Section 179 expensing *Under section 179, taxpayers generally can elect to deduct part of the cost of certain depreciable property placed in service during a tax year. For the 2010 through 2014 tax years, the maximum deduction amount had been $500,000 (reduced by the amount the qualifying investment exceeded $2 million). For subsequent tax years, the limits have reverted to $25,000 as the maximum deduction and $200,000 as the beginning of the phase-out range.*	Both the Camp Bill and the Administration's Budget proposal would permanently extend an increased limit on the amount that can be expensed under section 179 each year. Note, however, that the Administration's proposal would provide a higher limit than the Camp Bill.	The Camp Bill proposes a $250,000 maximum limitation on the amount of business property that can be expensed under section 179 during a tax year. This limitation would be reduced dollar-for-dollar as total investment exceeds $800,000. These dollar amounts would be adjusted for inflation. Computer software would permanently be added to the eligible investments, as would heating and air conditioning units. Also, an existing temporary provision allowing a taxpayer to elect to treat building improvements that are characterized as qualified leasehold improvement property, qualified retail improvements, or qualified restaurant property as section 179 property would be made permanent. This election would apply to all such property placed in service in the same year and would be subject to the overall $250,000 limit.	The Administration's Budget would extend the increased expensing and investment limitations of $500,000 and $2 million, respectively, for qualifying property placed in service in tax years beginning after 2014. The proposal would increase the expensing limitation to $1 million for qualifying property placed in service in tax years beginning after 2015, reduced by the amount that a taxpayer's qualifying investment exceeded $2 million (but not below zero). These limits, and the current cap on sports utility vehicles, would be indexed for inflation for all tax years beginning after 2016. In addition, qualifying property would permanently include off-the-shelf computer software, but would not include real property. An election under section 179 would be revocable with respect to any property, but such revocation, once made, would be irrevocable.

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Start-up and organizational costs *A taxpayer generally can deduct up to $5,000 of start-up expenditures in the tax year in which the active trade or business begins (reduced by the amount by which such expenses exceed $50,000) and amortize the remaining amount ratably over a 180-month period. Similar rules apply for organizational expenditures.*	Both the Camp Bill and the Administration's Budget would consolidate and make permanent the rules for start-up and organizational expenditures The Administration's Budget, however, would provide a higher limit than would the Camp Bill on the amount that could be expensed.	The Camp Bill would generally permit a taxpayer to elect to deduct up to $10,000 of qualifying expenditures in the tax year in which the active trade or business begins. This $10,000 ceiling would be reduced (but not below zero) by the amount by which the cumulative amount of such expenditures exceeds $60,000. The remainder of such expenditures would be amortized over a period of not less than 15 years (i.e., 180 months).	The Administration's Budget would permanently allow up to $20,000 of eligible expenditures to be deducted in the tax year in which a trade or business begins (with the amount reduced by the amount by which such expenses exceed $120,000) and the remaining amount to be amortized ratably over a 180-month period
Like-kind exchanges *Section 1031 generally provides that no gain or loss is recognized when business or investment property is exchanged for "like-kind" business or investment property.*	Both the Camp Bill and the Administration's Budget propose carving back nonrecognition treatment applicable to like-kind exchanges. The Camp Bill's proposal, however, is significantly broader in scope than the Administration's Budget proposal.	The Camp Bill would repeal section 1031 entirely – that is, nonrecognition treatment would not be available for exchanges of any like-kind property.	The Administration's Budget proposal would limit the amount of capital gain deferred under section 1031 from the exchange of real property to $1 million (indexed for inflation) per taxpayer per tax year. In addition, under the proposal, art and collectibles would no longer be eligible for like-kind exchange treatment.

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Last-in, first-out (LIFO) inventory method *The LIFO inventory method treats the most recently acquired (or manufactured) goods as having been sold during the year.*	Both the Camp Bill and the Administration's proposal would repeal the use of the LIFO method. Further, under both proposals, taxpayers using LIFO would be required to change their method of inventory accounting and include the LIFO reserve in income as a section 481(a) adjustment. Note, however, that the period over which the adjustment would be taken into account is somewhat different under the two bills.	Under the Camp Bill, the section 481(a) adjustment would be taken into account over a 4-year period beginning with the taxpayer's first tax year after 2018.	Under the Administration's Budget, the adjustment would be taken into account ratably over 10 tax years, beginning with the year of change.
Lower-of-cost-or-market (LCM) inventory method *The LCM method allows an eligible taxpayer to write down carrying values of eligible inventories to replacement or reproduction cost and to write down the cost of subnormal (damaged) goods to reflect the decline in value.*	Both the Camp Bill and the Administration's proposal would repeal the use of the LCM and subnormal goods methods and would require any resulting section 481(a) adjustment to be included in gross income ratably over a four-year period. Note, however, that the proposals differ as to when the section 481(a) adjustment would begin to be included.	Under the Camp Bill, the income adjustment would begin being picked up after 2018.	The Administration's proposal would require the adjustment to be taken into income beginning with the year of the change in method.

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Capitalization and inclusion in inventory of certain expenses *Under Uniform capitalization (UNICAP) rules, certain direct and indirect costs allocable to real or tangible personal property produced by the taxpayer (or acquired for resale) must be included in inventory or capitalized into basis. Exceptions apply, including for certain small taxpayers that acquire personal property for resale and have $10 million or less in average annual gross receipts for the 3 preceding tax years.*	Both the Camp Bill and the Administration's Budget would expand the exception to the UNICAP rules for qualifying small businesses; however, these expansions would be effected in different ways. Note that the Camp Bill (but not the Administration's Budget) also would repeal certain other exceptions.	Under the Camp Bill, the exception for small taxpayers that acquire personal property for resale would be expanded to cover taxpayers that acquire real property. Thus, taxpayers meeting the current $10 million gross receipts test would be exempt from the UNICAP rules, regardless of whether they produce real or personal property or acquire real or personal property for resale. The Camp Bill also would repeal certain special exceptions for taxpayers who raise, harvest, or grow trees; farming businesses; and freelance authors, photographers, and artists.	The Administration's proposal would expand the exception for qualifying small businesses as part of a broader proposal to create a uniform small business threshold of $25 million in average annual gross receipts for the prior 3 tax years for purposes of certain accounting rules.
Cash method of accounting *Although C corporations, partnerships with C corporation partners, and certain "tax shelters" generally*	Both the Camp Bill and the Administration's Budget proposal would modify the universe of taxpayers that could use the cash method and would increase the size of the "gross receipts test." However, the Camp Bill proposes a lower new gross receipts test	Under the Camp Bill, the cash method could only be used by natural persons (e.g., sole proprietors) and taxpayers other than tax shelters that meet a new gross receipts test (annual average gross receipts that do not exceed $10 million for the three prior taxable year period). The current rule that allows qualified personal	Under the Administration's Budget proposal, an entity that satisfies the proposed new "$25 million gross receipts" uniform small business threshold (described above) could use the cash method. The special rules for farm corporations would no longer apply; however, qualified personal service

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must use the accrual method of accounting, qualified personal service corporations and certain entities meeting a "no more than $5 million gross receipts test" can use the cash method. Special rules apply to farming businesses.	than the Administration's proposal. The Camp Bill also takes different approaches to farms and personal service corporations than the Administration's proposal.	service corporations, and businesses without inventory that are neither C corporations nor partnerships with C corporation partners, to use the cash method would be eliminated. Thus, these taxpayers generally would have to meet the proposed new gross receipts test to use the cash method. Special rules would continue to apply to farming businesses.	corporations and businesses entities that are neither C corporations nor partnerships with C corporation partners could continue to use the cash method, regardless of their sizes.
Domestic production activities deduction *Section 199 provides a deduction with respect to certain domestic production activities.*	Both the Camp Bill and the Administration's Budget would carve back the ability to take a deduction with respect to certain domestic production activities. However, the Camp Bill would completely repeal section 199, while the Administration's Budget would repeal it only with respect to certain fossil fuel related activities.	The Camp Bill would repeal section 199. However, the Camp Bill also proposes different corporate and individual rate structures than under current law. For example, it proposes a statutory maximum corporate tax rate of 25%. From an individual perspective, it would provide a 35% bracket resulting from a 10% surtax on modified adjusted gross income (MAGI) in excess of certain thresholds. MAGI would be decreased by qualified domestic manufacturing income. A Ways and Means staff summary explains that "excluding qualified domestic manufacturing income from the 35-percent bracket" would ensure that S corporations and partnerships engaged in qualifying activities are taxed at a rate no higher than 25%.	The Administration's Budget proposes repealing the section 199 domestic manufacturing deduction, but only for oil and natural gas, coal, and other hard mineral fossil fuels. More generally, the Administration's Budget also proposes a lower statutory maximum corporate rate of 28% as part of business tax reform.

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Research tax credit *This temporary provision expired at the end of 2014. Under the "traditional" method, the credit equals 20% of qualified research expenses above a base amount. The elective alternative simplified research credit (ASC) generally equals 14% of qualified research expenses in excess of 50% of average qualified research expenses for the 3 preceding years (with a reduced rate if there are no qualified research expenses in any 1 of those years)*	Both the Camp Bill and the Administration's Budget would make the R&E credit permanent and would repeal the traditional method, leaving the ASC as the only methodology for calculating the credit. Both also would increase the rate of the ASC, although the Administration proposes to increase the rate to a higher level than under the Camp Bill. Both also would make other changes to the R&E credit, with the Administration generally making the credit program more generous than the Camp Bill.	Under the Camp Bill, the rate of the ASC generally would be 15% (or 10% if the taxpayer does not have qualified research expenses in one of the three preceding tax years). The Camp Bill would not treat amounts paid for supplies as qualified research expenses; would not treat research with respect to computer software as qualified research; would change the rules applicable to amounts paid to qualified research consortia, eligible small businesses, universities, and federal laboratories; and would repeal the election under section 280C(c) to claim a reduced research credit in lieu of reducing deductions otherwise allowed. Subject to a transition rule, the Camp Bill also would modify section 174 to require specified research or experimental expenditures to be capitalized and amortized over 5 years (or over 15 years in the case of specified research and experimental expenditures attributable to research outside the United States).	The Administration's proposal would raise the ASC rate to 18% (with no special rate for start-up companies). In addition, it would allow more types of contract expenses to be allowed a 75% qualified research expense; would allow individual owners of partnerships and S corporations to use R&E credits generated by the entity regardless of the income generated by the entity; would allow the credit against alternative minimum tax (AMT); and, in the case of individuals, would eliminate the requirement to amortize research expenses over 10 years for AMT purposes.
Passthrough Entities			
Employment tax rules for owners of passthrough entities *Employees of S corporations are subject to*	Both the Camp Bill and the Administration's Budget propose changing the employment tax rules applicable to owners of partnerships and S corporations. However, there are differences in both the kinds of businesses	The Camp Bill would change the self-employment tax rules to treat an S corporation shareholder's share of nonseparately computed income from any trade or business conducted by the S corporation as net earnings from self-employment. It also would repeal the	The Administration's proposal would change the employment tax rules with respect to passthrough entities, substantially all the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science,

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employment taxes on "reasonable compensation" under the "FICA" rules. Partners of partnerships are subject to the "SECA" self-employment tax regime. Special rules apply to "limited partners" of partnerships for self-employment tax purposes.	covered by each proposal and the amount of income potentially subject to employment tax under the two proposals.	current-law exception (contained in section 1402(a)(13)) to the definition of net earnings from self-employment for the distributive share of "limited partners," other than guaranteed payments for services. Then, it would allow S corporation shareholders and partners (including members of LLCs) a new deduction intended to approximate a return on invested capital. According to a summary of the Camp Bill prepared by Ways and Means Committee staff: "The effect of the deduction would be that partners and S corporation shareholders who materially participate in the trade or business of the partnership or S corporation would treat 70% of their combined compensation and distributive share of the entity's income as net earnings from self-employment (and thus subject to FICA or SECA, as applicable) and the remaining 30% as earnings on invested capital not subject to SECA. For partners and S corporation shareholders who do not materially participate in the trade or business (i.e., passive investors), the effect of the deduction would be that no amount would be treated as net earnings from self-employment."	performing arts, consulting, athletics, investment advice or management, brokerage services, and lobbying. An individual owner and service provider who materially participates in such a service business would be subject to SECA tax on his entire distributive share of passthrough income (subject to current law exceptions for items such as rents, dividends, and capital gains), while an owner who does not materially participate would be subject to SECA taxes only on an amount of income equal to "reasonable compensation," if any, for services provided to the business. Material participation generally would be determined using the section 469 rules, except that the exception for limited partners would not apply in the SECA context. Reasonable compensation would be as large as guaranteed payments received from the business for services. Distributions of compensation to shareholders of professional services businesses that are S corporations would no longer be treated as wages subject to FICA taxes, but would be included in earnings subject to SECA taxes.

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Publicly traded partnerships (PTPs) *Some PTPs in energy and natural resources and financial services industries may qualify to be taxed as flow throughs, rather than as C corporations.*	Both the Camp Bill and the Administration's Budget proposal would narrow the universe of PTPs that can qualify to be taxed as flow through entities. However, the proposals take completely different approaches to what kinds of PTPs should remain eligible for flow through treatment.	The Camp Bill would change the definition of "qualifying income" for purposes of the PTP rules so that only certain mining and natural resources PTPs could be treated as partnerships. Thus, financial services PTPs would have to be classified as corporations for federal tax purposes. In addition, the Camp Bill would exclude income from fertilizer and timber from the definition of qualifying income, and would strike language (added in 2008) relating to income from the transportation or storage of ethanol and other renewable fuels. Thus, it appears that some natural resources PTPs no longer would be able to be taxed as partnerships under this proposal.	The Administration's Budget would repeal the exemption from corporate tax for PTPs that derive qualifying income from activities relating to fossil fuels, but would not change the rules applicable to financial services and other PTPs.
Carried interest *A carried interest generally is an interest in partnership profits (rather than capital). In recent years, there have been several legislative proposals to change how carried interests are taxed, particularly in the investment partnership context.*	Both the Camp Bill and the Administration's Budget propose changing the treatment of carried interests in some partnerships. However, the proposals take different approaches.	The Camp Bill's proposal appears to follow a model suggested by certain commentators whereby the general partner is presumed to borrow from the other partners an amount equal to the partnership capital that is used to fund the general partner's share of profit. Because no interest is charged on the borrowed capital, interest is effectively imputed to the general partner on the amount deemed borrowed. Under the Camp Bill, the imputed interest in effect is used to establish a "recharacterization account balance," and partnership income allocated to the general partner is treated as ordinary income to the extent of the "recharacterization account balance."	The Administration's Budget proposal presumes that all income allocated to a partner providing specified services to an investment partnership would be taxed as ordinary income rates except to the extent the partner could prove, under a narrow rule relating to qualified capital, that a portion of the partner's return was attributable to invested capital. In other words, any income allocated to the service partner that could not be properly traced to a qualified capital interest would be presumed to be properly attributable to services and hence taxable at ordinary income rates. More specifically, the Administration's proposal would tax as ordinary income a partner's share of income from an

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
		More specifically, the Camp Bill would recharacterize a portion (and, in some situations, all) of a service partner's share of partnership income as ordinary based on a formula designed to approximate the compensation earned by the service partner for managing the partnership's capital. That is, the service partner's defined share of partnership capital would be multiplied by a specified rate of return (the federal long-term rate plus 10 percentage points). This calculation would produce a number (the "recharacterization account balance") that would establish the amount of partnership income that could be allocated to the service partner as ordinary income under the provision. The provision also would provide rules for distributions and dispositions of applicable interests. The proposal would apply to a partnership engaged in a trade or business conducted on a regular, continuous, and substantial basis consisting of: (1) raising or returning capital; (2) identifying, investing in, or disposing of other trades or businesses; and (3) developing such trades or businesses. Although not stated in the Camp Bill, a staff summary indicates that the provision would not apply to a partnership engaged in a real property trade or business.	investment services partnership interest (ISPI) in an investment partnership; would require the partner to pay self-employment taxes on such income; and generally would treat gain recognized on the sale of such interest as ordinary. An ISPI generally would be a carried interest in an investment partnership that is held by a person who provides services to the partnership. A partnership would be an investment partnership only if: (1) substantially all of its assets were investment-type assets (certain securities, real estate, interests in partnerships, commodities, cash or cash equivalents, or derivative contracts with respect to such assets); and (2) over half of the partnership's contributed capital was from partners in whose hands the interests constitute property not held in connection with a trade or business. The Administration's proposal provides exceptions for "invested capital," as well as anti-abuse rules applicable to certain "disqualified interests."

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Partnership technical termination rules *Under current law, a partnership can "technically terminate" under section 708(b)(1)(B) if, within a 12-month period, there is a sale or exchange of 50% or more of the total interest in both partnership capital and partnership profits. If a partnership technically terminates, certain events are deemed to take place to effectuate the tax fiction that the "old" partnership has terminated and a "new" partnership has begun.*	Both the Camp Bill and the Administration's Budget proposal would repeal the technical termination rules contained in current section 708(b)(1)(B).		
Partnership audit procedures	See discussion in "Compliance" section of chart, below.		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Loss limitation rules and non-deductible items *A partner's distributive share of partnership losses for a tax year is allowed only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership tax year (subject to carryforward rules).*	Both the Camp Bill and the Administration's proposal would modify the section 704(d) loss limitation rules to provide that a partner's distributive share of expenditures not deductible by the partnership (or chargeable to capital account) would be allowed only to the extent of the partner's adjusted basis in the partnership interest at the end of the year. Thus, the loss limitation rule would apply to a partner's distributive share of charitable contributions and foreign taxes.		
Preferential dividend rules for real estate investment trusts (REITs)	Both the Camp Bill and the Administration's Budget proposal would repeal the preferential dividend rule (under Code section 562(c)) for certain public REITs. Both also would give Treasury authority to provide cures for inadvertent violations of the preferential dividend rule for other REITs. There may be some differences in the scope of public REITs covered by the repeal of the preferential dividend rule. Also, the Camp Bill would give Treasury authority to provide cures when failures to comply with the preferential dividend rules are due to reasonable cause and not wilful	The Camp Bill would repeal the preferential dividend rule for "publicly offered" REITs – i.e., REITs that are required to file annual and periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934.	The Administration's Budget would repeal the preferential dividend rule for both "publicly traded" REITs and "publicly offered" REITs. Specifically, the preferential dividend rule would not apply to a distribution with respect to stock if: (1) as of the record date of the distribution, the REIT was publicly traded; or (2) as of the record date of the distribution: • The REIT was required to file annual and periodic reports with the Securities and Exchange Commission under the Securities Act of 1934; • Not more than one-third of the voting power of the REIT was held by a single person (including any voting power that would be attributed to that person under the rules of section 318); and

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
	neglect; because statutory language is not available for the Administration's Budget, it is unclear whether or not its proposal covers "reasonable cause" situations.		• Either the stock with respect to which the distribution was made is the subject of a currently effective offering registration, or such a registration has been effective with respect to that stock within the immediately preceding 10-year period.
Financial Institutions & Products			
Tax on large financial institutions	Both the Camp Bill and the Administration's Budget propose imposing taxes on large financial institutions. Both proposals could apply to banks as well as nonbank institutions, such as insurance companies. However, the proposals would apply to different tax bases, plus the Administration's proposal potentially applies to a larger number of financial institutions. Further, the Camp Bill's proposal is intended to ensure that large banks bear a share of the cost of lowering corporate rates given that other industries bear the brunt of the burden of other base broadening reform proposals; the Administration's Budget is aimed at reducing "excessive risk" taken on by major financial firms through leverage.	The Camp Bill proposes a quarterly excise tax of 0.035% on systemically important financial institutions (SIFIs), as defined under the Dodd-Frank Wall Street Reform and Consumer Protection Act. This excise tax would be based on the SIFI's total worldwide consolidated assets, as reported to the Federal Reserve, in excess of a $500 billion threshold, indexed for increases in the gross domestic product; thus, only financial institutions with over $500 billion in total consolidated assets would be subject to the tax. The quarterly tax would be due on the first day of the third month beginning after the close of each quarter.	The Administration's Budget would impose a fee on "covered liabilities" of financial firms with worldwide consolidated assets of at least $50 billion. The fee could apply not just to banks, but also to insurance companies, exchanges, asset managers, broker-dealers, specialty finance companies, and financial captives. Covered liabilities would be "assets less equity for banks and nonbanks based on audited financial statements with a deduction for separate accounts (primarily for insurance companies)." The rate of the fee would be seven basis points, and the fee would be deductible in computing corporate income tax. A financial entity subject to the fee would report it on its annual federal income tax return. Estimated payments of the fee would be made on the same schedule as estimated income tax payments.

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Derivatives *The timing and character of gain or loss on derivative contracts may vary depending on how the contracts are classified or traded. For example, gain or loss with respect to a forward contract is generally recognized only when the contract is transferred or settled and is generally capital if the contract is a capital asset in the hands of the taxpayer. Certain futures contracts must be marked to market with capital gain or loss treated as 60% long-term and 40% short-term. Certain options that are otherwise similar may be subject to disparate tax treatment depending on whether they are entered into over-the-counter or traded on certain exchanges.*	Both the Camp Bill and the Administration's Budget include proposals to require that derivative contracts be marked to market annually, with the resulting gain or loss treated as ordinary gain or loss. Such gain or loss would be treated as attributable to a trade or business of the taxpayer for the purpose of determining nonbusiness deductions, which are allowed in computing a net operating loss. Both proposals also would repeal or amend several current law provisions related to the timing and character of gain or loss with respect to derivatives, including sections 1233, 1234, 1234A, 1256, 1258, and 1259. There appear, however, to be some technical differences between the proposals, including differences in the definition of a derivative contract (e.g., whether the value of such a contract must be determined by reference to the value of actively traded property).	Under the Camp Bill, a derivative contract generally would be defined as any contract the value of which, or any payment or other transfer of which, is (directly or indirectly) determined by reference to one or more of the following: (1) any share of stock in a corporation; (2) any partnership or beneficial ownership interest in a partnership or trust; (3) any note, bond, debenture, or other evidence of indebtedness; (4) any real property (other than property to which an exclusion is available); (5) certain actively traded commodities; (6) any currency; (7) any rate, price, amount, index, formula, or algorithm; and (8) any other item prescribed by the Secretary.	Under the Administration's proposal, a derivative contract generally would be any contract the value of which is determined, directly or indirectly, in whole or in part, by the value of "actively traded property."

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Market discount *Market discount generally arises when a debt instrument is acquired in the secondary market for an amount less than its stated principal amount (or adjusted issue price, if it was issued with original issue discount). A holder of a debt instrument with market discount generally treats gain from disposition of the instrument and principal payments under the instrument as ordinary income to the extent of accrued market discount. Generally, market discount accrues ratably over the term of a debt instrument unless the holder elects to accrue on a constant yield basis. A holder may also elect to include market discount in income as it accrues.*	The Camp Bill and the Administration's Budget contain similar provisions with respect to market discount. Both generally would require holders of debt instruments with market discount to include market discount currently in taxable ordinary income as it accrues. Both also generally would require accrual of market discount on a constant yield basis. Further, both generally would limit the accrual of market discount to the greater of: (1) the bond's yield to maturity plus 5%; or (2) the applicable federal rate for such bond plus 10%.		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Cost basis of specified securities *Taxpayers who purchased identical stock at different times and for different prices may specifically identify which lots they sell. A first-in, first-out (FIFO) rule applies in the absence of specific identification. An average basis method is permitted for stock in a regulated investment company and for stock acquired in connection with a dividend investment plan.*	Both the Camp Bill and the Administration's Budget propose to change how a taxpayer determines the basis of covered stock. However, the technical details of the proposals are different.	The Camp Bill would require taxpayers that sell a portion of their holdings of a "specified security" to determine gain or loss on a FIFO basis, eliminating specific identification. "Specified securities" would include stock, debt, options, commodities and commodity derivatives contracts (to the extent Treasury requires basis reporting for these contracts), and any other financial instruments for which Treasury requires basis reporting. The proposal would apply on an account-by-account basis, except that multiple accounts with the same broker would be aggregated. Further, the proposal would not require the use of FIFO to the extent that Treasury regulations permit the use of the average cost method. Therefore, the current cost basis rules for RIC shares and stock acquired in a dividend reinvestment plan permitting the use of an average basis would not be affected.	For portfolio stock with respect to which the taxpayer has a long-term holding period, the Administration's Budget would require taxpayers to determine the basis of stock sold using an average basis method. The average basis method would be applied to all identical shares of portfolio stock with a long-term holding period held by the taxpayer, including stock held through a different broker or in a separate account, but would not apply to shares held in a nontaxable account, such as an individual retirement account. The statute would provide authority to the Secretary to draft regulations applying the average basis method to stock other than portfolio stock. Special rules could also be required to coordinate the average basis method with the rules applicable to stock in passive foreign investment companies.
Insurance			
Reinsurance with non-taxed affiliates *Under current law, a property and casualty company generally can deduct from gross premiums written on insurance contracts during a tax year the*	Both the Camp Bill and the Administration's Budget generally would prohibit a deduction for property and casualty reinsurance premiums paid to a related company that is not subject to U.S. taxation on the premiums, unless the related company elects to treat the premium income as effectively connected to a U.S. trade or		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
amount of premiums paid for reinsurance in determining its premiums earned for the tax year.	business (and thus subject to U.S. tax). Further, both generally propose that any income from reinsurance recovered by the U.S. insurance company, as well as any ceding commissions received in connection with a premium deduction that has been disallowed, not be subject to U.S. tax. Note that the statutory language of the Camp Bill provides that, if the taxpayer can demonstrate to the Internal Revenue Service (IRS) that a foreign jurisdiction taxes the reinsurance premiums at a rate equal to or greater than the U.S. corporate rate, the deduction for the reinsurance premiums would be allowed. The Administration's description of its proposal does not include this provision; however, because statutory language for the Administration's Budget is not available, it is not clear to what extent the technical details differ from those in the Camp Bill.		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
Corporate-owned life insurance (COLI) *Interest deductions of a company other than an insurance company generally are reduced to the extent the interest is allocable to unborrowed policy cash value (based on a statutory formula). However, section 264(f)(4)(A) provides exceptions to the pro rata interest disallowance rule for contracts that cover individuals who are officers, directors, employees, or 20-percent owners of the taxpayer.*	Both the Camp Bill and the Administration's proposal would eliminate the section 264(f)(4)(A) exceptions to the pro rata interest expense disallowance rule other than for contracts covering 20% owners of the business that owns the contracts. In other words, the exception would be repealed for contracts covering officers, directors, and employees who are not 20% owners.		
Life insurance proration for purposes of determining the dividends received deduction (DRD) *A life insurance company generally is permitted a DRD only with regard to the "company's share" of dividends,*	Both the Camp Bill and the Administration's Budget would change the existing proration regime for purposes of computing the DRD. Under both proposals, instead of keying off the policyholders' and company's shares of net investment income, the policyholders' share would equal the ratio of an account's mean reserves to mean assets and		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
reflecting the fact that a portion of the company's dividend income funds tax-deductible reserves for obligations to policyholders. The increase or decrease in reserves is computed by reducing the ending balance of reserve items by the policyholders' share of tax-exempt interest. The "proration" regime is used to compute the shares of net investment income held by the company and the policyholders.	the company's share would equal one less the policyholders' share.		
Operating losses of life insurance companies *As a general matter, C corporations can carry net operating losses (NOLs) back up to 2 tax years and forward up to 20 tax years. Life insurance companies, however, are subject*	Both the Camp Bill and the Administration's Budget would put life insurance companies on the same loss carryback and carryforward schedule as other corporations. That is, under both proposals, LOs could be carried back up to 2 tax years and forward up to 20 years. The Camp Bill also would allow a loss carryback or carryforward to offset only 90% of the company's		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
to special rules under which losses from operations ("LOs") can be carried back up to 3 tax years and forward up to 15 tax years.	income. The Administration's description of its proposal does not mention this limitation; however, statutory language with more details regarding the proposal is not yet available.		
Special estimated tax payments *Section 847 currently includes rules that allow insurance companies that are required to discount unpaid losses an additional deduction if special estimated tax payments (SETPs) are made in accordance with certain requirements.*	Both Camp's Bill and the Administration's proposal would repeal section 847. Both also apparently would provide that the entire balance of any existing "special loss discount account" would be included in gross income for the first tax year beginning after a certain date and that the entire amount of existing SETPs would be applied against additional tax that is due as a result of the provision. Any SETPs in excess of the additional tax that is due would be treated as an estimated tax payment under section 6655. (Note that, in the case of the Camp Bill, information about including the balance of existing accounts in income is based on descriptions of the bill, rather than on the bill language.)	The Camp Bill does not appear to provide for including the amount of the special loss discount account balance in income over a multi-year period.	The Administration's proposal would provide that, in lieu of immediate inclusion in gross income of the full special loss discount account balance for the first tax year beginning after the specified date, taxpayers could elect to include the amount in gross income ratably over a four-tax-year period. During this period, taxpayers would be permitted to use existing SETPs to offset any additional tax that is due as a result of the income inclusion. At the end of the fourth year, any remaining SETPs would be treated as an estimated tax payment under section 6655.
Sales of life insurance contracts *The buyer of a previously-issued life insurance contract*	Both the Camp Bill and the Administration's Budget proposal would require a person or entity who purchases an interest in an existing life insurance contract	The Camp Bill would provide that the exceptions to the transfer-for-value rule would not apply in the case of a transfer in a "reportable sale" – i.e., a direct or indirect acquisition of an interest in a life	The Administration's Budget would eliminate the current exception for sales of policies to a partner of the insured, a partnership in which the insured is a partner, or a corporation in which the

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
who receives a death benefit under such contract generally is subject to tax on the difference between the death benefit received and the sum of the amount paid for the contract plus premiums paid by the buyer. Exceptions apply, including when the buyer is the insured, a partner of the insured, a partnership in which the insured is a partner, or a corporation in which the insured is a shareholder or officer.	with a death benefit equal to or exceeding $500,000 to report certain information about the buyer and seller and the policy to the IRS, to the insurance company that issued the policy, and to the seller. On the payment of any policy benefits to the buyer, both proposals also would require the insurance company to report the gross benefit payment, the buyer's TIN, and the insurance company's estimate of the buyer's basis to the IRS and to the payee. In the case of certain transfers of life insurance contracts (or interests in life insurance contracts), both proposals also would narrow the exceptions to the "transfer-for-value" rule.	insurance contract if the acquirer has no substantial family, business, or financial relationship with the insured (apart from the interest in the contract).	insured is a shareholder or officer. The exception, however, would continue to apply to transfers to the insured and to transfers to a partnership or corporation that is at least 20% owned by the insured.
Energy & Natural Resources			
Percentage depletion *Under current law, the capital costs of oil and natural gas wells are recovered through depletion deductions. A taxpayer may qualify to use the*	Both the Camp Bill and the Administration's Budget would repeal the use of percentage depletion for oil and gas wells.		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
percentage depletion method in determining the amount of depletion.			
Passive loss rules and working interests in oil and natural gas properties *Under the passive activity loss rules of section 469, passive activities generally include trade or business activities in which the taxpayer does not materially participate. However, there is an exception for a working interest in an oil or natural gas property that the taxpayer holds directly or through an entity that does not limit the taxpayer's liability with respect to the interest.*	Both the Camp Bill and the Administration's Budget would repeal the oil and gas exception to the passive activity rules.		

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Enhanced oil recovery credit	Both the Camp Bill and the Administration's Budget would repeal the Code section 43 enhanced oil recovery credit (which has been price phased out since 2006).		
Credit for oil and gas from marginal wells	Both the Camp Bill and the Administration's Budget would repeal the Code section 45I credit for producing oil and gas from marginal wells (which has been price phased out since 2006).		
Exempt Organizations & Charitable Contributions			
Excise tax on private foundation investment income *Under section 4940, private foundations that are exempt from federal income tax under section 501 (other than exempt operating foundations) generally are subject to a 2% excise tax on their net investment income; however, the rate is reduced to 1% in any year in which a foundation meets or exceeds the average historical level of its charitable distributions.*	Both the Camp Bill and the Administration's Budget propose to replace the two excise tax rates on tax-exempt foundations with a single rate that is lower than the current generally applicable 2% rate; this single rate is lower in the Camp Bill than in the Administration's Budget proposal. Both proposals also would repeal both (1) the special reduced excise tax rate available to tax-exempt private foundations that meet or exceed their historic levels of charitable distributions and (2) the exception to the tax on net investment income that currently applies to exempt operating foundations.	The Camp Bill would replace the current two rates of tax on tax-exempt private foundations with a single tax rate of 1%. The tax on taxable private foundations would be equal to the excess (if any) of the sum of the 1% excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax-exempt, over the income tax imposed on the foundation.	The Administration's Budget would replace the current two rates of tax on tax-exempt private foundations with a single tax rate of 1.35%. The tax on taxable private foundations would be equal to the excess (if any) of the sum of the 1.35% excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax-exempt, over the income tax imposed on the foundation.

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Mandatory e-filing for Form 990-series *Pursuant to section 6033 and the regulations thereunder, only certain organizations are required to e-file their annual information returns or notices.*	Both the Camp Bill and the Administration's Budget would require electronic filing of all Form 990-series forms.		
Charitable contribution AGI limit *Section 170(b) generally limits the deductibility of charitable contributions by individuals to 50% or 30% of adjusted gross income (AGI) for cash contributions and 30% or 20% of AGI for property contributions to public charities or private foundations, respectively.*	Both the Camp Bill and the Administration's Budget would simplify the AGI limitations. The Administration's Budget provides greater simplification and higher AGI limitations than the Camp Bill.	The Camp Bill would maintain a distinction between contributions made to public charities and those made to private foundations but would eliminate the distinction between cash and property contributions made to such organizations. Specifically, the 50% and 30% AGI limitations for contributions to public charities would be replaced with a single 40% AGI limitation. The 30% and 20% AGI limitations for contributions to private foundations would be replaced with a single 25% AGI limitation.	The Administration's Budget would retain the 50% AGI limitation for cash contributions to public charities and replace the deduction limit for all other contributions with a 30% AGI limitation.

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Charitable contribution for college athletic event seating rights *Under section 170(l), donors generally may deduct as charitable contributions 80% of the value of a contribution made to colleges or universities for the right to purchase tickets for seating at an athletic event.*	Both the Camp Bill and the Administration's Budget would repeal the charitable contribution deduction permitted for contributions relating to the right to purchase seats to collegiate sporting events.		
Charitable contribution for qualified conservation contributions *Through December 31, 2014, section 170(b)(1)(E) permitted an enhanced deduction for certain qualified conservation contributions (i.e., generally 50% of AGI for most contributions and 100% of AGI for certain contributions by farmers and ranchers).*	Both the Camp Bill and the Administration's Budget would (1) make permanent the enhanced deduction, and (2) eliminate the deduction for contributions of land to be used as a golf course.		The Administration's Budget also would modify conservation easements in a number of ways, including providing regulatory authority to adopt minimum standards, altering the definition of "conservation purposes"; imposing new recordkeeping and reporting requirements; conforming the rules for historic preservation easements; and authorizing a pilot program to convert the conservation easement deduction into a tax credit allocable by a federal interagency board to qualified charitable organizations, which in turn would allocate the credit to donors.

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Compensation, Benefits, and Qualified Plans			
Employment taxes for passthrough entity owners	See discussion in "Passthroughs" part of chart (above)		
Minimum distribution rules for inherited distributions *It is possible for a non-spouse beneficiary of an individual retirement account (IRA) to take minimum required distributions over a period that extends over a long period of time (for example, over the rest of the beneficiary's life).*	Both the Camp Bill and the Administration's Budget would change the minimum distribution requirements for non-spouse beneficiaries of deceased IRA owners and retirement plan participants to require the distributions to be taken into account over a five-year period. Both also would provide special rules for beneficiaries who are disabled, chronically ill, not more than 10 years younger than the deceased, and minor children.		
Worker Classification	See discussion in Compliance part of chart, below.		
Compliance			
Modify due date for returns of partnerships, S corporations, and C corporations	Both the Camp Bill and the Administration's Budget propose modifying income tax return due dates so that taxpayers receive Schedules K-1 before the due date for filing their income tax returns. Calendar year partnership and calendar year S corporation returns (Forms 1065 and 1120-S) and Schedules K-1 furnished to		

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Topic	What's Similar	More on Camp Bill	More on Administration's Budget
	partners and shareholders would be due March 15. Returns of calendar year corporations other than S corporations would be due April 15 instead of March 15. Fiscal year partnership returns would be due the 15th day of the third month following the close of the tax year and fiscal year returns for corporations other than S corporations would be due by the 15th day of the fourth month following the close of the tax year.		
Partnership audits and adjustment *The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) established certain rules applicable to all but certain small partnerships. These rules were intended to provide consistent treatment of partnership items among all partners on both partnership returns and partnership audits, and to lessen the administrative and judicial burdens placed on the government. The*	Both the Camp Bill and the Administration's Budget would replace the existing TEFRA and ELP procedures with a single system of centralized audit, adjustment, and collection of tax for all partnerships, except eligible partnerships that elect out. Although some of the concepts underlying the proposals are similar, there are technical differences between the two proposals – including whether the burden of adjustments is borne by partners in the year adjustments are made or by partners in the year to which the adjustments relate.	Under the Camp Bill, the audit and adjustments of all items would be determined at the partnership level. Partnerships with 100 or fewer partners (none of which are passthrough entities) could elect out. Any adjustments for a partnership tax year (the reviewed year) would be taken into account by the partnership (not the individual partners) in the year that the audit or judicial review is completed (the adjustment year). The partnership would also have the option of initiating an adjustment for the reviewed year, but with the adjustment taken into account in the adjustment year.	The Administration's Budget proposes to create new simplified partnership procedures (SPP) for any partnership that had 100 or more direct partners in the aggregate during the year to which the adjustment relates or that had any one partner that is a pass-through partner during such year, i.e., another partnership, estate, trust, S corporation, nominee or similar person. A partnership subject to the SPP regime because it had a passthrough partner could elect out of the SPP regime if it could demonstrate that it had fewer than 100 direct and indirect partners in the aggregate in the year to which the adjustment relates. The IRS would audit the partnership (source partnership) and make adjustments at the partnership level that would flow to the partners who held partnership interests in the year to which the adjustments relate. Any additional tax due would be assessed

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Tax Relief Act of 1997 established a second streamlined audit and adjustment procedure for a large partnership, as well as a simplified reporting system for partnerships that have 100 or more partners during the preceding tax year and that elect to be treated as electing large partnerships (ELPs). Few large partnerships have elected into the ELP regime.			in accordance with the direct partners' ownership interests for that year, and any direct partner that is a passthrough partner would be required to pay the tax for its members. Passthrough partners would have 180 days to challenge the assessment based on the tax attributes of its direct and indirect partners for the year to which the adjustments are made. Unlike the TEFRA rules, the SPP would allow only the partnership to request a refund and partners would have no right to participate in the partnership level proceedings. The IRS would not be required to give notice to partners of the partnership audit or the final partnership adjustment. The IRS would be required to give notice only to the source partnership, and only the source partnership through an authorized person, a U.S. individual identified on the partnership return, could participate in the examination. If the partnership failed to make a designation, the IRS would make the designation of the authorized person.
Worker classification *Under section 530 of the Revenue Act of 1978, the IRS is prohibited from reclassifying an independent contractor to employee status,*	Both the Camp Bill and the Administration's Budget propose statutory modifications to the worker classification rules. Both also would allow the IRS to issue certain guidance on employee classification (as provided in the specific proposals). There are differences, however, in the approaches taken by the Camp	Under the Camp Bill, workers qualifying for a safe harbor would not be treated as employees, and service recipients would not be treated as employers of those workers, for any federal tax purpose. The safe harbor also would apply to three-party arrangements in which a payor other than the service recipient pays the worker. The IRS also would be authorized to issue such	The Administration's Budget would allow the IRS to require service recipients to prospectively reclassify workers who are currently misclassified. It also would provide for reduced or waived penalties in certain situations. In addition, it would lift the prohibition on worker classification guidance, with Treasury and the IRS being directed to issue guidance that: (1) interprets the common law in a neutral

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even when the worker may be an employee under the common law rules, if the service recipient has a reasonable basis for treating the worker as an independent contractor and certain other requirements are met. The 1978 legislation also prohibits the IRS from issuing guidance addressing the proper classification of workers.	Bill and the Administration's Budget. For example, the Camp Bill would provide a statutory safe harbor under which certain workers could not be reclassified (even on a prospective basis) and would permit retroactive reclassification in limited circumstances. The Administration's Budget generally would allow the IRS to reclassify misclassified workers prospectively, would direct the IRS to provide narrow safe harbors and/or rebuttable presumptions, and would require service recipients to meet certain notice requirements with respect to independent contractors.	regulations as it determines are necessary to carry out the purposes of the proposal. To qualify for the safe harbor, the worker would have to satisfy certain sales or service criteria and the worker and service recipient would be required to have a written agreement meeting specified requirements. In addition, the service recipient would withhold tax on the first $10,000 of payments made to the worker in a year at a rate of 5%. Amounts withheld under the safe harbor would be creditable by the worker against quarterly estimated-tax requirements. In any situation when the IRS determines that the requirements of the safe harbor were not satisfied, the proposal generally would limit the IRS to reclassification of the worker as an employee and service recipient as an employer on a prospective basis. To avoid retroactive reclassification, the worker or service recipient would have to have satisfied the written agreement and the reporting and withholding requirements of the safe harbor and to have had a reasonable basis for claiming that the safe harbor applied.	manner; and (2) provides narrow safe harbors and/or rebuttable presumptions. Service recipients would be required to give notice to independent contractors explaining how they will be classified and the implications of such classification. Independent contractors receiving payments totaling $600 or more in a calendar year from a service recipient would be permitted to require the service recipient to withhold federal income tax from their gross payments at a flat rate percentage selected by the contractor.
Truncated Social Security numbers (SSNs) on Form W-2	Both the Camp Bill and the Administration's Budget would require employers to include an "identifying number" on Form W-2 furnished to an employee, rather than the employee's SSN. This would correspond to the current rule for other information returns		

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	such as Form 1099, and would allow Treasury and the IRS to exercise regulatory authority to permit a truncated SSN on the Form W-2 to reduce the potential for identity theft.		
Statute of limitations in case of overstatement of basis	Both the Camp Bill and the Administration's Budget include proposals that would have the effect of making the six-year statute of limitations for assessment apply to a return on which the taxpayer claims an adjusted basis for any property that is more than 125% of the correct adjusted basis.		

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