

ment separately to the Enforcement account base (\$600 million of the allocation adjustment) and the proportion of the Operations Support appropriation that directly supports Enforcement account activities (\$290 million of the allocation adjustment). The Administration proposes this adjusted structure because it mitigates budget execution problems that may arise independent of the Administration's request. Further, the structure applies the allocation adjustment to the enforcement resources most directly involved in generating return-on-investment in the form of additional receipts.

Within the enforcement activity funding, IRS will continue initiatives implemented with 2009 appropriations and establish new initiatives that will bring in at least an additional \$2 billion in receipts for each year of work, once new hires reach full productivity in 2012. Not only will these resources help the IRS continue to increase the roughly \$55 billion in enforcement receipts each year, but they will also help close the tax gap, defined as the difference between taxes owed and those paid on time. The 2010 allocation adjustment will be used to target international tax compliance and help the IRS reduce that specific portion of the tax gap.

### Health Reform Reserve Fund

The Administration proposes to set aside a reserve fund of more than \$630 billion over 10 years dedicated to financing reforms to the American health care system. The Administration recognizes that this is not sufficient to fully fund comprehensive reform, but it is a crucial first step in the effort. The proposed reserve fund would be financed by a combination of specific health care savings and a rebalancing of the tax code as described below:

**Limit the tax rate at which itemized deductions reduce tax liability to 28 percent.**—The Administration proposes to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting only single taxpayers with income over \$200,000 and married taxpayers filing a joint return with income over \$250,000 (at 2009 levels). The proposed limitation would be effective for taxable years beginning after December 31, 2010.

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

**Reduce the tax gap/improve compliance.**—The tax gap generally is the difference between the amount owed under the tax law and the amount actually paid on time. The Administration proposes to help reduce the tax gap through proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Information reporting proposals would apply to certain life insurance contracts, to payments to cor-

porations, and to payments from Government entities. Additional proposals would require a certified Taxpayer Identification Number (TIN) from contractors and would increase penalties with respect to information returns.

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

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

Proposals to expand penalties would impose a penalty on failure to comply with electronic filing requirements and clarify that the bad check penalty applies to electronic checks and other forms of payment.

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

**Modify alternative fuel mixture credit.**—Current law provides a credit for alternative fuels sold for use or used as fuel in a motor vehicle or motorboat and for alternative fuel mixtures (a mixture of alternative fuel and a taxable fuel such as diesel fuel) sold for use or used as a fuel (whether or not in a motor vehicle or motorboat). A person with insufficient tax liability may file a claim for a payment equal to the credit. Alternative fuels include liquid byproducts derived from the processing of paper or pulp (known as "black liquor" when derived from the kraft process), which paper companies burn to produce