Repeals of Tax Credits, Deductions, Exclusions and Other Preferences

Individual Tax Credits, Deductions and Exclusions from Income Repealed

The Fair Flat Tax Act of 2005 provides real tax relief to the middle class while simplifying, flattening and balancing the individual income tax code. Repealing some individual tax credits, deductions and exclusions from income enables larger standard deductions and broader middle-class tax relief. Following is a list of individual tax credits and other preferences repealed under the legislation.

● Exclusion of income earned abroad by U.S. citizens ● Exclusion of certain allowances for Federal employees abroad ● Above the line deduction for teacher classroom expenses ● Exclusion of employee meals and lodging ● Exclusion of benefits under cafeteria plans ● Exclusion of housing allowances for ministers ● Exclusion of miscellaneous fringe benefits ● Exclusion of employee awards ● Exclusion of income earned by voluntary employees' beneficiary associations ● Credit for disabled access expenditures ● Exclusion of workers compensation benefits ● Exclusion of damages for physical injuries and sickness ● Exclusion of special benefits for disabled coal miners ● Exclusion of premiums on group term life insurance, accident and disability insurance ● Deferral of interest on savings bonds ● Deduction for state and local taxes – replaced by state and local income, property and sales tax credit

Corporate Credits, Deductions and Exclusions from Income Repealed

The Fair Flat Tax Act will also help to reduce the deficit by approximately $100 billion over five years* by repealing a number of corporate tax preferences that favor one business sector over another or allow corporations to avoid paying their fair share. Following is a list of corporate tax breaks slated for repeal.

● Inventory property sales source rule exception (currently, US companies with excess tax credits use them to cut US taxes by shifting US income abroad) ● Deferral of Active Income for controlled foreign corporations (currently, foreign subsidiaries of US firms delay US tax liability by investing in low tax places) ● Reduced rates on first $10 million of corporate taxable income (currently, companies pay lower taxes on initial income instead of an overall flat rate) ● Deferral of Active Financing Income (currently, serves as incentive for US companies to invest in low tax foreign countries) ● Deferral of gain on non-dealer installment sales (currently, law allows prorating of profit from sales over several years rather than in one year) ● Special tax rate for nuclear decommissioning reserve fund (currently, companies can create reserve fund to pay decommissioning costs; that reserve fund is taxed at 20 percent instead of 35%) ● Exception from net operating loss limitations for corporations in bankruptcy proceeding (currently, corporations acquiring others are exempted from certain limits on carrying losses forward 15 years) ● Excess of percentage over cost depletion for fuels (currently, companies can deduct more than their original capital investment) ● Deferral of gain from disposition of electric transmission property to implement FERC policy (currently, cost to government occurs in one year; instead of repeal, this bill will spread the cost over eight years instead) ● Expensing of energy exploration and development costs (currently, the law allows expensing rather than depreciation and eliminates corporate Alternative Minimum Tax on drilling costs) ● Completed contract rules (currently, contractors can mismatch income and expense reporting to create a deferral of tax) ● Tax credit for enhanced oil recovery costs (currently gives credit for new methods)

* Source: Joint Committee on Taxation