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The Taxpayer Relief Act of 1998: A Fact Sheet

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Summary

On September 16, 1998, House Ways and Means Committee Chairman Bill Archer unveiled a $80 billion, 5-year tax cut proposal (H.R. 4579). The biggest tax cut components of the proposal are provisions designed to reduce marriage-tax penalties, provide relief for small savers, provide tax reductions for farmers and estates, and extend various expiring tax provisions. These tax cuts would be funded out of expected future budget surpluses, including social security tax revenues. The proposal was marked up by the Ways and Means Committee on September 17, and the full House approved the tax cut plan on September 26. The Senate, however, failed to consider the measure by its October 1998 adjournment. Instead, a scaled-back version of the tax bill that addressed only the expiring tax provisions and a few other items was included in the omnibus spending bill enacted in late October (P.L. 105-277).

Background

The Taxpayer Relief Act of 1998 would provide $80 billion in tax reductions over 5 years. The tax reductions are organized into five major categories; family tax relief, education and infrastructure, small business and farmers, extension of expiring provisions, and social security provisions.

The largest tax reductions, $51 billion, fall under the family tax relief provisions. Of these the most important is the measure designed to reduce marriage tax penalties. This provision, which would cost $28 billion over 5 years, would increase the standard deduction for joint returns to twice that of the standard deduction for single returns. The proposal would also create a $200 ($400 in the case of joint returns) exclusion for interest and dividend income. This provision would reduce revenues by $15 billion over the 5-year period. These two provisions would be effective starting in tax year 1999.

Additional changes under the family tax relief provisions would allow nonrefundable personal tax credits to offset a taxpayer's alternative minimum tax liability. These nonrefundable credits include the child tax credit, adoption credit, dependent care credit, and others. This change would be effective for tax year 1998.

The education and infrastructure provisions would provide $4 billion in tax reductions over the period. Among other things, the provisions in this section of the bill would permit private higher education schools to establish qualified prepaid tuition programs; provide a 4-year exception from arbitrage rebate for tax-exempt bonds issued to finance public school construction; and increase the private activity bond volume cap to the greater of $75 per capita or $225 million. These changes would be effective starting in tax year 1999.

The small business and farmer tax relief provisions contained in the bill would reduce revenue by $24 billion over 5 years. The major change under this section would be an acceleration in the scheduled increases in the exemption from the estate and gift tax. Under the proposal, the equivalent exemption amount would be $1 million for decedents dying and gifts made after December 31, 1998. (Under current law, the exemption is scheduled to rise to $1 million by 2006.) This change would reduce revenue by $18 billion over 5 years. The second major change under this section would accelerate the full deduction for health insurance premiums for the self-employed starting January 1, 1999. (Under current law, full deductibility of health insurance premiums would not occur until tax year 2007.) The revenue cost of this provision would be $5 billion over the period. Other changes include making permanent the income averaging provisions for farmers and extending the net operating loss carryback period for farm losses.

The fourth major section of the bill would extend several expiring tax provisions through February 29, 2000, at a cost of $6 billion over the 5-year period. The bill would extend the research tax credit, the work opportunity tax credit, and the welfare to work tax credit. The bill would also permanently extend the deduction provided for contributions of appreciated stock to private foundations.

The last major section of the bill would increase the social security earnings limit for individuals who have attained retirement age. The earnings limit would be increased to $17,000 in 1999, $18,500 in 2000, and $26,000 in 2001. In 2002, the earnings limit will become $30,000, which is the same level as scheduled under present law. This provision would increase social security benefits by $550 million over the 5-year period. At the same time however, the bill would also reduce social security benefits by delaying benefit recomputations. Under this bill, the recomputation of benefits resulting from earnings after a worker had reached retirement age would not be reflected in the worker's social security benefit check until the January of the second year after the year in which the earnings were earned. This provisions would reduce social security benefits by $570 million over the period. The net effect of these two provisions would be to reduce social security outlays by $20 million over the 5-year period. These provisions would be effective beginning in tax year 1999.