

# CRS Report for Congress

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## **“Tax Rebate” for 2001: Frequently Asked Questions About The Rate Reduction Tax Credit**

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### **Summary**

The *Economic Growth and Tax Relief Reconciliation Act of 2001*, P.L. 107-16, includes changes in individual income tax rates. Under the legislation, a new 10% rate bracket is established that is retroactive to January 1, 2001. Technically, the benefit of the reduced rate for 2001 is delivered in the form of a tax credit equal to 5% of the taxpayer's 2001 taxable income, up to the top of the new 10% tax bracket range for taxable income. The range applies from the first dollar of taxable income to \$6,000 for single individuals, \$10,000 for heads-of-households, and \$12,000 for married couples who file joint income tax returns. This means that those taxpayers who have taxable income equal to or exceeding the 10% bracket will receive a maximum credit of \$300 in the case of single individuals, \$500 for heads-of-households, and \$600 for married taxpayers filing jointly. The legislation directs the Treasury Department to mail checks to taxpayers in anticipation of the 2001 tax reduction delivered by the “rate reduction tax credit.” The rate reduction credit check to be sent taxpayers is frequently referred to in the popular press as a “tax rebate.” The Treasury Department will calculate the amount of the checks based on information reported on tax returns for the 2000 tax year. When taxpayers file their 2001 tax returns, they will reconcile the credit to which they are entitled with the check they received from the Treasury. If the credit is larger than the advance payment the taxpayer can reduce their tax liability for 2001 by the difference. This report is designed to help answer constituent questions on the amount of the check to be sent to them and will be updated as additional information becomes available.

### **How much will I receive?**

The amount of your check depends upon your filing status, non-refundable credits, and the taxable income you reported for the 2000 tax year. The maximum rate reduction tax credit amount is \$300 for single individuals (5% of \$6,000), \$500 for those who file as heads-of-households (5% of \$10,000), and \$600 for married couples filing jointly (5% of \$12,000). For those taxpayers whose taxable income (after non-refundable tax credits)

fell below the top of the 10% bracket, the check will be equal to 5% of their taxable income.

Taxable income is the narrowest measure of income used on the income tax return. It is equal to adjusted gross income<sup>1</sup> (AGI) reduced by personal exemptions and either the standard deduction or itemized deductions. As an example, a married couple with \$20,000 in adjusted gross income for tax year 2000 would have taxable income of \$7,050 (AGI reduced by two personal exemptions of \$2,800 each and the standard deduction amount of \$7,350). Thus, their check will be equal to 5% of \$7,050 or \$352.50.

A married couple filing jointly with the same income level but with a child would have a 2000 tax liability that is substantially smaller than the previous example. This is because they would include an additional personal exemption for the child and are eligible for the \$500 child tax credit. Since their tax liability is lower they will receive a smaller check of \$31.88 (AGI less three personal exemptions of \$2,800 each, less the standard deduction of \$7,350 which would lower their taxable income to \$4,250). This taxable income is subject to a 15% tax rate. Thus, they have a gross tax liability of \$637.50. Their tax liability is further reduced by the \$500 child credit to \$137.50. Their tax year 2000 taxable income of \$137.50 will be multiplied by 5% to determine the amount of the rate reduction check to be sent.<sup>2</sup>

Non-refundable credits<sup>3</sup> such as the dependent care tax credit, the adoption tax credit, foreign tax credit, etc., could reduce the amount of the check.

The IRS is sending taxpayers a letter which will provide the amount of the check to be sent, the week that the check is to be processed, and the possibility of an offset for outstanding debts such as child support. The letter will contain a chart allowing taxpayers to verify the amount of the check according to his or her filing status. Those taxpayers ineligible for the advance payment will receive an explanation of why they are ineligible. These letters will be sent out by mid-July

### **Can you tell me an easy way to figure out the likely amount of my check?**

If you look at the income tax return you filed for this tax year 2000 you can determine the amount of your taxable income after nonrefundable credits. For those who filed form 1040, the amount of your check will be the lesser of line 39 multiplied by 5%, line 51, or your maximum advance payment amount. Those who filed the 1040A form will find their check will be the lesser of line 25 multiplied by 5%, line 33, or your maximum advance payment amount. For those taxpayers who used form 1040EZ, their check amount will

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<sup>1</sup> For an explanation of commonly used terms in computing an individual's income tax, see: U.S. Library of Congress. Congressional Research Service. *Federal Individual Income Tax Terms: An Explanation*. Report RL30110 by Louis Alan Talley.

<sup>2</sup> Other examples can be found on the Internal Revenue Services website. The IRS web address for these examples is [http://www.irs.gov/ind\\_info/apinfo/index.html](http://www.irs.gov/ind_info/apinfo/index.html).

<sup>3</sup> Tax credits can be either refundable or non-refundable. Refundable credits are those which can exceed tax liability, resulting in a direct payment from the Treasury. Non-refundable credits can only be used to the extent they eliminate tax liability.

be the lesser of line 6 multiplied by 5%, line 10, or your maximum advance payment amount. Remember that the maximum advance payment amount is determined by your filing status (\$300 for singles, \$500 for heads-of-households, and \$600 for married couples filing jointly.)

The Internal Revenue Service (IRS) is responsible for computing the credit amount and authorizing the Treasury Department to send the check.

### **Will all taxpayers receive a check?**

Individuals and couples who filed and owed income taxes after non-refundable credits for tax year 2000 (due April 16, 2001) should receive a check.<sup>4</sup> Estates, trusts, nonresident aliens, and those claimed as a dependent will not receive a check.

### **To what address will my check be mailed?**

Generally, the IRS will mail the check to the address shown on the taxpayer's 2000 income tax return. The IRS address files are updated weekly with the use of the U.S. Postal Service's national change-of-address database. Thus, those taxpayers who have moved since filing their tax returns should make certain that the U.S. Postal Service has their forwarding address. Taxpayers may notify the IRS directly about a change of address by filing form 8822. This form is available on the IRS web site, [www.irs.gov](http://www.irs.gov). If you do not have a computer, you may obtain the form from your local IRS office or by call 1-800-829-3676. Those taxpayers who had refunds deposited directly into bank accounts should still expect to receive a check by mail. While the possibility of using electronic means to deliver the funds was explored, it was determined to be impossible to use electronic transfers because of data limitations and the fact that taxpayers may have closed such accounts since filing their tax returns. Taxpayers may not request direct deposit for the advance payment.

### **When will my check arrive?**

The Internal Revenue Service will use the taxpayer's tax year 2000 return to determine eligibility for sending a check. Thus, those taxpayers who have filed for an extension of time to file their tax return will not receive their check until after they have filed their 2000 tax returns. Those taxpayers may receive their advance payment up until late December. The checks are to be issued according to the last two digits of the taxpayer's identification number, from lowest to highest (00-09, 10-19, 20-29, etc.). A taxpayer's identification number is generally his or her Social Security number. In the case of married taxpayers who filed a joint return the mailing date is determined by the first Social Security number that appears on the return. It has been reported that the initial batch of checks will be issued the week of July 23, with a majority of taxpayers receiving their checks in September. Currently, the IRS expects to send out the checks as provided in the table

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<sup>4</sup> The earned income tax credit is a refundable credit and not a factor in determining the advance payment to be sent to taxpayers.

below. Taxpayers who have failed to receive their check by October 5 may call the IRS's toll-free telephone number (800-829-1040) to check on the status of their advance payment. No interest is to be paid to those taxpayers who receive their checks later. The Treasury Department is precluded from sending any checks after December 31, 2001.

Table 1. Projected Schedule for Sending Advance Payments	
Last two digits of Social Security Number	Refund to be Received the Week of:
00-99	July 23
10-19	July 30
20-29	August 6
30-39	August 13
40-49	August 20
50-59	August 27
60-69	September 3
70-79	September 10
80-89	September 17
90-99	September 24

### **What happens if I fail to receive a check but have taxable income in 2001?**

A worksheet will be provided to taxpayers when they file their 2001 tax returns due by April 15, 2002. Those taxpayers who did not receive a check for the maximum rate reduction tax credit because they did not have tax liability in tax year 2000, or whose tax liability was less than the maximum amount, will be provided a tax credit to reduce their 2001 tax liability when they file their 2001 tax returns.

### **If I was subject to the alternative minimum tax will I be eligible for a check?**

A provision was included in the bill so that taxpayers who are subject to the alternative minimum tax will not have their credit (check) reduced. In general, persons subject to the alternative minimum tax will receive the maximum amount.

### **Will my check be included as taxable income?**

For federal income tax purposes your check will not be included in income. In the case of states which allow a deduction for federal income taxes, the check may offset the amount of federal taxes paid and reduce the deduction. To the extent that the deduction is reduced, the amount of state income increases, thus, the state income tax would increase. At this time, it is not known if the Treasury Department will send notices to taxpayers in states that allow a deduction for federal taxes reminding them to reduce their deduction on their state income tax return by the amount of their check.

### **Other facts or special rules of interest**

- The check being sent for the rate reduction tax credit is subject to the refund offset provisions of the Internal Revenue Code. Thus, the credit amount may be reduced by being offset against outstanding government debt, student loans, past-due child support payments, state tax delinquencies, etc.
- Taxpayers paying past taxes through an installment agreement with the IRS will have the advance payment applied to the balance due, thus, reducing the balance owed. No change is made in the installment agreement and they should continue to make their usual monthly payment.
- Taxpayers may not file amended returns or claims for a refund for tax year 2000 as a means of collecting the rate reduction credit. Qualifying for a check is the only means of receiving payment before a taxpayer files his or her 2001 individual tax return.
- The amount of the check will not be included in the taxpayer's federal gross income for 2001.
- No repayment is required if a taxpayer receives a check (based on tax year 2000's tax liability) but fails to have tax liability for tax year 2001.
- It is estimated that the IRS will issue more than 95 million checks, with approximately 11 million mailed per week.
- The Office of Management and Budget has requested \$115.8 million in additional funding in FY 2001 for Treasury costs associated with processing and mailing the checks. The Treasury's Financial Management Service is to receive \$49.6 million for disbursements of the checks with IRS receiving \$66.2 million for administering the program. This payment includes all administrative costs as well as the costs associated with postage, check-writing paper, envelopes, overtime, software programs, printing, processing, as well as claim and reconciliation costs.