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Fact Sheet on Congressional Tax Proposals in the 108th Congress

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Summary

The President has proposed a tax cut that would cost an estimated $726 billion for FY2003-FY2013, with $396 billion of the total resulting from a dividend relief proposal and the remainder primarily due to acceleration of future tax cuts enacted in 2001. House Democrats have proposed a smaller plan that is limited to temporary provisions costing an estimated $100 billion over 10 years. Senate Minority Leader Daschle has proposed a third comprehensive alternative offering several components similar to the House Democratic plan. In addition, one of the first tax-related measures considered in both the House and Senate during the 108th Congress would provide tax reductions to armed services personnel. Congress has also initiated reconsideration of legislation not completed in the 107th Congress: tax incentives for charitable giving deductions, pension diversification, energy taxation, and tax shelters.

This report will be updated to reflect legislative developments.

Major Comprehensive Tax Proposals

The President has proposed a tax cut with an estimated revenue effect of $40 billion in FY2003 and $726 billion over FY2003-FY2013.[1] The largest component is a dividend exclusion proposal that accounts for $7.6 billion in FY2003 and $396 billion, or 54.5%, of the FY2003-FY2013 cost. This proposal would also eliminate individual taxes on

[1] U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2004 Budget Proposal*, 108th Cong., 1st sess. (Washington: March 4, 2003). Posted on the Joint Committee on Taxation's Web site: [http://www.house.gov/jct/x-15-03.pdf]. Throughout this report, the estimated revenue impacts of the President's economic growth proposal are those prepared by the staff of the Joint Committee on Taxation.

retained earnings by increasing the basis of stocks, and classify income to ensure the benefit is confined to income subject to current corporate income tax. The provisions of the President's proposal have been incorporated into legislative form, S. 2, sponsored by Senator Nickles and Senator Miller, and H.R. 2, sponsored by Representative Thomas, Chair of the House Ways and Means Committee. On March 21 and consistent with the President's economic stimulus proposal, the House passed its version of the budget resolution, H.Con.Res. 95, which includes $726 billion for tax cuts. The Senate's version, S.Con.Res. 23, was adopted March 26. It differs from the House plan by including $350 billion in revenue reductions for economic stimulus from FY2003 through FY2013.

The remaining provisions would accelerate future tax cuts enacted in 2001 to the current year (2003). In order of decreasing 10-year impacts, and followed by FY2003 and FY2003-FY2013 cost estimates in parentheses, the President's proposal would:

(1) Increase the child credit to $1,000 per child. The credit is currently set at $600 through 2004, $700 in 2005-2008, $800 in 2009, and $1,000 in 2010 ($14 billion, $90 billion).

(2) Accelerate the scheduled income tax rate reductions. The current 38.6, 35, 30 and 27% income tax rates that are scheduled to decline to 37.6, 34, 29 and 26%, respectively, in 2004-2005 and to 35, 33, 28, and 25% in 2006 and after would accelerate with the 2006 rates becoming effective in 2003 ($10 billion, $74 billion).

(3) Increase the standard deduction and width of the 15% bracket for joint returns to twice that of singles. While currently the increase in this deduction is phased in over five years and the increase in the width of the bracket is phased in over four years beginning in 2005, under the proposal those increases would be accelerated to 2003 ($5 billion, $55 billion).

(4) Expand the10% income tax bracket. Currently $6,000 for singles and $12,000 for married couples and scheduled to rise by $1,000 and $2,000 respectively in 2008, the expansion of the bracket would be accelerated to 2003 and indexed for inflation thereafter ($2 billion and $45 billion).

(5) Temporarily increase the alternative minimum tax (AMT) exemption by $8,000 for married couples and $4,000 for singles in 2003-2005. Originally, it was temporarily increased by $4,000 and $2,000 in 2001-2004. As suggested, the acceleration of tax cuts and temporary AMT provisions are estimated to affect revenues for a limited number of years ($1 billion and $37 billion).

(6) Increase the amount of equipment that can be expensed (deducted in full in the first year) for small businesses from $25,000 to $75,000. This amount would then be indexed for inflation beginning in 2004 ($1 billion and $29 billion).

The purpose of the President's package is to stimulate the economy and to eliminate the double taxation of corporate equity income, which causes economic distortions. Some have suggested that the proposed stimulus is not needed, cannot be appropriately timed by Congress, is too large, or, to the extent permanent tax cuts increase deficits, may ultimately harm the economy. The proposal has also been criticized as favoring high-income taxpayers. Supporters of the package suggest the plan would encourage investment that could translate into increased jobs, reduce deficits if economic growth is increased, and provide broad tax relief, particularly for seniors and families.

Additionally, President Bush has proposed new "lifetime savings accounts" (LSAs), "retirement savings accounts" (RSAs), and "employer retirement savings accounts" (ERSAs). The total annual contribution limits under the proposal would be substantially increased over the current tax-advantaged plans these are intended to replace. The Administration suggests the LSAs and RSAs would increase receipts by an estimated $10.6 billion in FY2004 but would begin reducing receipts in FY2007 and thereafter. Administration officials suggest the proposals would provide expanded, simplified, and universal savings plans. Critics contend the expanded contribution limits of these sheltered accounts will reduce federal tax receipts in future years. Moreover, critics claim the proposals will transfer tax revenue from later years to the near future, thus lowering near-term deficits.

The House Democratic leadership has proposed a stimulus package directed at the short run, costing an estimated $136 billion the first year and $100 billion over 10 years.[2] (Spending increases and revenue reductions are concentrated in the first year, and costs, particularly those related to depreciation deductions, are shifted to 2003 from later years.) Chiefly, the House Democratic leadership proposal would:

(1) Impose a one-time refundable tax credit up to $300 for single persons and $600 for couples ($55 billion in 2003 and $58 billion over 10 years).

(2) Amend the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) adopted in March 2002 that allows 30% of equipment to be deducted in the first year, through 2004. Under this alternative, the share expensed for 2003 would be increased to 50% and the share for 2004 would be reduced to 10%. Additional tax relief to businesses includes an increase in the small business exemption limit from $25,000 to $50,000. The combined impact of this depreciation "bonus" and equipment investment expensing is estimated at $32 billion in 2003 and $1 billion over 10 years.

(3) Increase spending, including a retroactive extension of unemployment benefits ($18 billion and $10 billion) and direct increased one-time assistance to state and local governments ($31 billion in 2003).

In the Senate, Minority Leader Tom Daschle proposed another Democratic alternative providing for specific tax cuts as well as additional spending. The total magnitude of the plan is estimated to cost $141 billion in 2003 and $112 billion over 10 years.[3] Senator Daschle's plan would:

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[2] The revenue estimates and proposal are described on the Democrat's side of the House Budget Committee's Web site: [http://www.house.gov/budget_democrats/analyses/econ_stimulus/house_dem_stimulus_plan.pdf].

[3] Revenue estimates and the description of the proposal are provided on Senator Daschle's Web site: [http://daschle.senate.gov/pdf/democraticplan.pdf].

(1) Provide an immediate $300 tax cut for each adult and an additional $300 for up to two children. This provision is designed to affect both individuals and families with income tax liability and those paying payroll taxes, but not income taxes.

(2) Increase the depreciation "bonus" provided in March 2002 (P.L. 107-16, see item #2 under the House Democratic leadership proposal above) and increase the small business exemption limit from $25,000 to $75,000.

(3) Provide a 50% tax credit in 2003 for health insurance premium expenditures paid for by small businesses.

(4) Provide a 20% business tax credit for broadband Internet infrastructure investment, particularly in rural and under-served areas.

(5) Increase spending, including an extension of unemployment benefits and $40 billion in increased support to state and local governments.

Targeted Tax Proposals

Beyond these comprehensive tax relief proposals, Members have introduced a range of targeted proposals. Several proposals relate to accelerating, freezing, or making permanent the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16), the multi-year tax cut enacted in 2001. This Act was passed with a sunset provision because there were not enough votes to set aside a budget rule. In the 107th Congress, several bills passed the House in 2002 to make the tax cut or parts of it permanent (H.R. 586 to make all provisions permanent, H.R. 2143 to make the estate tax repeal permanent, H.R. 4019 to make marriage tax relief provisions permanent, and H.R. 4931 to make the retirement and pension provisions permanent). Already in the 108th Congress, numerous bills have been introduced to make the repeal of the estate tax and other provisions of P.L. 107-16 permanent.

Both the Senate and the House have passed versions of the Armed Forces Tax Fairness Act, which would provide tax relief for military personnel. Both versions include targeted tax reductions for military personnel, including deductions for certain unreimbursed expenses as well as time extensions for the exclusion of capital gains for a principal residence. In the House, this measure was initially considered by the House Ways and Means Committee on February 27 and, after markup, included a variety of narrow tax reductions in addition to tax relief for military personnel. The full House then considered these issues in two separate pieces of legislation: H.R. 1307, Armed Forces Tax Fairness Act, and H.R. 1308, Tax Relief and Simplification, and Equity Act, discussed below. The Senate substituted its own version, S. 351, upon consideration of H.R. 1307 on March 27. The Senate version of the Armed Forces Tax Fairness Act includes revenue raising measures (allowing the IRS to enter into installment agreements, extending IRS user fees, and providing for a mark-to-market tax on individuals who expatriate) that would offset the tax relief for military personnel. According to the report of the Joint Committee on Taxation after Senate Finance Committee markup of this legislation, the revenue enhancements would more than offset the expected reductions by an estimated $6 million from FY2003 through FY2013. In response, the House passed a revised version of the Armed Forces Tax Fairness Act, H.R. 1664, on April 9. The Joint Committee on Taxation estimated the legislation would reduce revenues by $839 million from FY2003 through FY2013. This new version of the House legislation is similar to the Senate's language but, notably, does not include the revenue raising measures.

H.R. 1308, Tax Relief and Simplification, and Equity Act, passed the House on March 19 and includes enhanced provisions to limit tax abuse by individual expatriates in addition to a number of narrow tax cuts originally offered during the Ways and Means Committee markup of the initial legislation, H.R. 878. The Joint Committee on Taxation estimates the revenue increases associated with H.R. 1308 would nearly offset the revenue decreases over the 11-year projection period.[4]

In addition, both the House Ways and Means Committee and Senate Finance Committee have passed measures relating to energy taxation. On April 2, the Senate Finance Committee passed its version, "The Energy Tax Incentives Act." This measure includes several energy tax cuts including tax credits for producers and consumers of energy. Prior to markup, the Joint Committee on Taxation estimated that the chairman's modification to the proposed measure would reduce revenues by $15.5 billion from FY2003 through FY2013. On April 3, the House Ways and Means Committee passed H.R. 1531, the Energy Tax Policy Act.[5] Again, prior to markup, the Chairman's substitute was estimated by the joint committee to reduce revenues by $18.7 billion.

In other legislation, the Senate Finance Committee marked up the CARE Act of 2003 (now numbered S. 476) on February 5. The CARE Act proposes charitable giving incentives, which are estimated by the Joint Committee on Taxation to reduce revenue. However, these reductions are expected to be offset by revenue raising proposals included in the measure, chiefly curtailing tax shelters. Prior to markup, the Joint Committee on Taxation estimated the net impact on revenue would be a reduction in receipts of $800 million in FY2003 and an estimated net increase in receipts of $83 million from FY2003 through FY2013.

In the wake of the Enron bankruptcy, Representatives Boehner and Sam Johnson have reintroduced the Pension Security Act, H.R. 1000. A similar bill passed the House in the 107th Congress. The proposal would provide employees diversification rights in 401(k) plans. The House Education and Workforce Committee reported the measure on March 18; the bill has also been referred to the House Ways and Means Committee. The Joint Committee on Taxation estimates that the revenue provisions in the bill would reduce revenues by a net of $482 million from FY2003 through FY2013. Just over half of the decrease would result from a reduction in taxable income for employees, according to the joint committee. The Senate Finance Committee approved a similar bill in the 107th

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[4] Among the taxation measures included in H.R. 1308 are targeted components affecting the taxation of agriculture. For additional information on these components and other legislation impacting the taxation of agriculture, see the CRS Electronic Briefing Book, *Agriculture*, "Tax Changes Affecting Agriculture," by Gregg A. Esenwein, available online from the CRS Web site at [http://www.congress.gov/brbk/html/ebagr9.html].

[5] For additional information regarding the taxation of energy and pending legislation, see CRS Issue Brief IB10054, *Energy Tax Policy*, by Salvatore Lazzari.

Congress, S. 1971, which also contained provisions concerning executive compensation and formally excluded incentive stock options from payroll tax withholding.

Additional Measures from the 107th Congress

Several other tax bills where some action occurred in the 107th Congress may provide an indication of issues to be considered in the 108th Congress. For example, the Ways and Means Committee approved H.R. 4946, a bill to provide long-term care relief, costing $5.5 billion over 10 years. In addition, general concerns about stock market performance and the slowly growing economy also led to the consideration of an investor relief package (H.R. 5553, reported out of the Ways and Means Committee), which included speedups in IRA and pension contribution limit increases, as well as an increase in the age at which distributions from IRAs must begin.

Finally, Ways and Means Chairman Thomas introduced H.R. 5095, a bill that would repeal the Extraterritorial Income (ETI) exclusion, restrict tax shelters associated with international activities, and provide a number of tax benefits for multinational operations.