Order Code RS21386
Updated May 16, 2003

CRS Report for Congress
Received through the CRS Web

Fact Sheet on Congressional Tax Proposals in the 108th Congress

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Summary

The President has proposed an economic growth tax cut package 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. The House and Senate have passed versions of an economic stimulus bill, H.R. 2 and S. 1054 (incorporated into H.R. 2), respectively. Senate Minority Leader Daschle proposed a comprehensive alternative, and the House Democrats announced another plan with several similar provisions with an estimated $177 billion from FY2003-FY2013 in revenue reductions and increased outlays, but the impacts are entirely offset with revenue-raising measures. H.Con.Res. 95, this year's budget resolution, limits the size of an economic growth package that can be considered under the budget process in both the House and Senate. In keeping with the imposed instructions, H.R. 2, as approved by the House, includes a net estimated revenue reduction of $550 billion over 11 years. Also consistent with the instructions, the Senate's version has a $350 billion impact over 11 years.

Beyond the comprehensive tax proposals, both the House and the Senate have considered a range of targeted tax proposals. One of the first tax-related measures considered 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

On April 10, both the House and the Senate agreed to the conference report on H.Con.Res. 95, which directs the House Ways and Means Committee and the Senate Finance Committee to report legislation with $550 billion in tax cuts, or $176 billion less than the estimated magnitude of the President's initial economic growth proposal.

Additional language suggests initial Senate consideration of budget legislation providing for an economic growth package in excess of $350 billion would be open to a procedural point of order. (For additional discussion of tax issues in the context of the federal budgetary process, see CRS Report RL31754, *Congressional Budget Actions in 2003*, by Bill Heniff Jr.)

House Proposals

On May 9, the House adopted H.R. 2, Jobs and Growth Tax Act of 2003. According to the Joint Committee on Taxation, the proposal includes $550 billion (over 11 years) in tax cuts. One component, which differs from the President's proposal, would reduce the tax rate on both dividends and capital gains to 15% (5% for individuals in the two lower rate brackets). The Joint Committee on Taxation estimates the combined impact of this reduction would cost $277 billion from FY2003 to FY2013. Other components within the plan include providing for 50% of equipment investment to be eligible for depreciation deduction ("bonus" depreciation) through 2005 (current law allows 30% first-year additional depreciation deduction until September 2004); accelerating the marginal tax rate reductions, the expansion of the 10% tax bracket and marriage penalty relief already scheduled to take place in future years; increasing the child credit to $1,000 temporarily for 2003-2005; increasing small business expensing to $100,000 from $25,000 through 2007; and extending the five-year carryback of net operating losses for tax years 2003, 2004, and 2005.

On May 7, the House Democratic leadership proposed a similar plan with an estimated cost of $177 billion over 11 years, entirely offset by revenue-raising measures, according to Democratic estimates.[1] In terms of revenue reductions, the plan increases the child tax credit, accelerates the expansion of the 10% tax rate bracket and the marriage penalty relief, increases the depreciation "bonus" from 30% to 50% for the next 12 months, and increases the equipment expensing allowed for small businesses. Revenue offsets specifically include closing tax shelters and freezing the top-bracket rates, which are currently scheduled to decline under current law.

Senate Proposals

On May 15, the Senate incorporated S. 1054, Jobs and Growth Tax Relief Reconciliation Act of 2003 into H.R. 2 and approved the package as amended. Similar to the House version of H.R. 2 and the President's proposal, the Senate's version includes an acceleration of many of the 2001 tax cuts (including rates, marriage penalties, child credits, and expansion of rate brackets) enacted in EGTRRA. The proposal also includes a temporary increase in the amount that can be expensed by small businesses from $25,000 to $100,000 (and the threshold for qualifying investments) and a temporary increase in the alternative minimum tax (AMT) exemption. One of the major differences between the Senate's version, H.R. 2, approved by the House, and the President's proposal is the taxation of dividends. The Senate approved legislation that would reduce the taxation of dividends for foreign and domestic corporations by 50% in 2003 and

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[1] The proposal is described on the Democratic side of the House Budget Committee's Web site: [http://www.house.gov/budget_democrats/analyses/econ_stimulus/dem_jobs_plan_may03.pdf].

provide a 100% exclusion in 2004, 2005, and 2006. The proposal also establishes a fund of $20 billion for federal aid to state and local governments. A series of revenue offsets was also included in the bill to reduce the total estimated impact from FY2003 through FY2013 to $350 billion. The largest of the more than two dozen offset provisions is the repeal of the exclusion for foreign earned income and housing expenses, under Internal Revenue Code Section 911. (For further detail, including a side-by-side analysis of the principle components of H.R. 2 and S. 1054, see CRS Report RL31907, *Tax Cut Bills in 2003: A Comparison*, by David L. Brumbaugh and Don C. Richards.)

Senate Minority Leader Daschle has also announced an alternative proposal similar to the House Democratic proposal. His plan, announced on May 6, would provide an immediate $300 tax cut for each adult and up to two children per family, expand the standard deduction for married couples and earned income tax credit, and accelerate the increase in the child tax credit (an additional $100 in 2003 and another $100 in 2004). It would also increase the depreciation allowance for small businesses, increase the amount of equipment that can be expensed for small businesses from $25,000 to $75,000, and provide tax credits for health insurance premiums for small businesses and for Internet infrastructure. Finally, the plan would increase assistance to state and local governments and extend unemployment benefits. Based on initial estimates provided by Senator Daschle's office, the anticipated cost of the plan is $125 billion in 2003 and $152 billion over 11 years.

President's Proposal[2]

In January, the President proposed a tax cut with an estimated revenue effect of $40 billion in FY2003 and $726 billion over FY2003-FY2013.[3] 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 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 remaining provisions would accelerate future tax cuts enacted in 2001 to the current year (2003). In order of decreasing 11-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, currently set at $600 through 2004, $700 in 2005-2008, $800 in 2009, and $1,000 in 2010 ($14 billion, $90 billion).

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[2] For a more detailed explanation of the President's proposal, see CRS Report RS21420, *President Bush's 2003 Tax Cut Proposal: A Brief Overview*, by David L. Brumbaugh.

[3] 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.

(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. The increase is currently 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 ($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.

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.

Taxation of Armed Forces Personnel. 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 estimated the revenue increases associated with H.R. 1308 would nearly offset the revenue decreases over the 11-year projection period.[4]

Energy Taxation. 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, S. 597, The Energy Tax Incentives Act. This measure includes several energy tax cuts including tax credits for producers and

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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].

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 on Taxation to reduce revenues by $18.7 billion over ten years.

Taxation and Charitable Contributions. In other legislation, the Senate passed the CARE Act, S. 476, on April 9. The CARE Act proposes charitable giving incentives and tax provisions related to charitable and exempt organizations that are estimated by the Joint Committee on Taxation to reduce revenues. In addition, the legislation would provide a tax credit for the establishment of individual development accounts and increased outlays relating to social services block grants. However, these collective impacts are expected to be offset by revenue raising proposals included in the measure, chiefly curtailing tax shelters. Incentives in the proposal include allowing non-itemizers a limited deduction for charitable cash contributions and permitting tax-free distributions to a charity from an individual retirement account. The Joint Committee on Taxation estimated the net impact would be a reduction in receipts (and increase in outlays) of $670 million in FY2003 and an estimated net increase in revenue of $1.4 billion from FY2003 through FY2013.

Pension Tax Policy. Finally, 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. Among its principal provisions, the proposal would provide employees with diversification rights in 401(k) plans. The House approved H.R. 1000 on May 14, and the Senate subsequently referred it to the Committee on Health, Education, Labor, and Pensions. 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. The Senate Finance Committee approved a similar bill in the 107th Congress, S. 1971, which also contained provisions concerning executive compensation and formally excluded incentive stock options from payroll tax withholding.

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