Order Code RS21386
Updated June 13, 2003

Fact Sheet on Congressional Tax Proposals in the 108th Congress

Don C. Richards
Analyst in Public Finance
Government and Finance Division

Summary

In January, President Bush proposed an economic growth tax cut package that would have 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. On May 23, both the House and Senate approved H.R. 2, Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA), and the President signed the package on May 28, P.L. 108-27. While similar in many ways to the President's proposal, the new law differs in many important respects including the taxation of dividends and the timing of several provisions. The final version includes a temporary increase in the child tax credit, a reduction in individual tax rates, an acceleration of marriage tax relief, reduction in taxes on dividends and capital gains, and reduction of taxes on businesses through depreciation and expensing provisions. Including increased outlays, particularly the establishment of a $20 billion fund for assistance to state governments, the Joint Committee on Taxation estimates the total impact of the package will be $350 billion 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 May 23, both the House and Senate agreed to the conference report for H.R. 2, reconciling the differences between the House and Senate versions of the Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA; P.L. 108-27). According to the Joint Committee on Taxation, the package is estimated to result in $350 billion in reduced revenues (and increased outlays) from FY2003 through FY2013. In contrast to the Senate proposal, which would have the same net cost, the conference package does not include revenue raising measures, or "offsets." The principal outlay proposed in the package would establish a $20 billion fund to provide relief to state governments. The principal tax provisions include acceleration of individual income tax rate reductions previously scheduled to occur in 2004 and 2006, temporary acceleration in marriage penalty relief provisions, an increase in the child tax credit from $600 to $1,000 for 2003 and 2004, temporary increase in the alternative minimum exemption amounts, increase and extension of "bonus" depreciation allowance initially approved in early 2002, an increase in small business allowable expensing, and a temporary reduction in taxes on capital gains and dividends.[1]

House Proposal. 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 have reduced 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 included 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.

Senate Proposal. 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 included 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 included 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 was the taxation of dividends. The Senate approved legislation that would have reduce the taxation of dividends for foreign and domestic corporations by 50% in 2003 and provided a 100% exclusion in 2004, 2005, and 2006. The proposal also established a fund of $20 billion for federal aid to state and local governments. A series of revenue offsets were 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 was 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.)

---

[1] For an extensive discussion of the provisions of JGTRRA and a comparison with previous versions of the bill, see CRS Report RL31907, *Tax Cut Bills in 2003: A Comparison*, by David L. Brumbaugh and Don C. Richards.

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 was 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 have eliminated individual taxes on retained earnings by increasing the basis of stocks, and classified income to ensure the benefit was confined to income subject to current corporate income tax.

The remaining provisions would have accelerated 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 have:

(1) Increased 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).

(2) Accelerated 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 have accelerated with the 2006 rates becoming effective in 2003 ($10 billion, $74 billion).

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

(4) Expanded 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 have been accelerated to 2003 and indexed for inflation thereafter ($2 billion and $45 billion).

(5) Temporarily increased 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) Increased 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 have then been indexed for inflation beginning in 2004 ($1 billion and $29 billion).

---

[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.

The purpose of the President's package was 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 suggested 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, Simplification, and Equity Act, passed the House on March 19. This initial version approved by the House included 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]

Child Tax Credit Refundability. Shortly after passage of JGTRRA, the Senate modified (including the title) and approved H.R. 1308, Relief for Working Families Act, on June 5. While the size of the child tax credit was increased under JGTRRA from $600 to $1,000, the refundability of the credit, currently limited to 10% of earned income in excess of $10,500, was not modified. The Senate's version of H.R. 1308 would increase the percent used to calculate the limit from 10% to 15% in 2003, presently scheduled to increase in 2005. The bill would also provide a uniform definition of a child for tax purposes and, in 2008, increase the income threshold for couples at which the credit is phased down. As estimated by the Joint Committee on Taxation, the $9.8 billion cost of the changes over 11 years would be offset by revenue raising measures, specifically, the extension of customs user fees.

On June 12, the House approved its second version of H.R. 1308, which would reduce revenues by an estimated $82 billion from FY2003 through FY2013. Similar to the Senate's measure, the House version would accelerate the refundability calculation to include 15% rather than 10% in 2003. The income phase-out included in the Senate's version would be increased immediately in 2003. Further, the House bill would maintain the child tax credit at $1,000, currently scheduled to decrease to $700 in 2005 before increasing gradually in later years. Finally, the current version of the House bill incorporates tax relief for members of the armed services but, unlike the Senate version, does not include any revenue offsets.

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

---

[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.

---

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