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Recent House Legislation Extending Selected Provisions of the 2001 and 2003 Tax Cuts

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Summary

The Economic Growth and Tax Relief Reconciliation Act of 2001 reduced marginal income tax rates, created a new 10% income tax bracket, provided marriage tax penalty relief, and increased the child tax credit. All of the act's provisions, however, are scheduled to sunset (revert to prior law levels) at the end of 2010.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated the implementation of certain tax reductions that were originally enacted in the 2001 Act. Several of these provisions will expire at the end of 2004, including the expansion of the 10% tax bracket, marriage tax penalty relief, the increase in the child tax credit, and the increase in the alternative minimum tax (AMT) exemption.

During this session, Congress faces the issue of whether to extend and/or make permanent these expiring tax provisions. To date, the House has passed four major tax bills; H.R. 4181 would extend and make permanent marriage tax penalty relief, H.R. 4275 would extend and make permanent the 10% tax bracket, H.R. 4359 would extend and make permanent the increase in the child tax credit, and H.R. 4227 would extend the increase in the AMT exemption through 2005. These changes would reduce revenue by $568 billion over the FY2005 to FY2014 period. If the increase in the AMT exemption were made permanent, then the total cost over the period could exceed $1 trillion. Congress is currently considering going to conference on a child tax credit refundability bill (H.R. 1308) that was passed last year, and using the conference agreement as a vehicle for extending these four JGTRRA tax provisions. This report will be updated as legislative action warrants.

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Among other things, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) reduced marginal income tax rates, created a new 10% income tax bracket, provided marriage tax penalty relief, increased the child tax credit, and increased the alternative minimum tax (AMT) exemption. These changes were scheduled to phase in over a period of several years.

All of the changes in EGTRRA (including the tax rate changes) will expire (sunset) after 2010. Congress included the sunset in EGTRRA to avoid a Byrd rule (Section 313 of the 1974 Congressional Budget Act, as amended) violation in the Senate. The Byrd rule prohibits "extraneous matter" in reconciliation legislation.[1] Under the rule, extraneous matter includes, among other things, language that would cause an increase in the budget deficit (or reduce budget surpluses) in a fiscal year beyond those covered by the reconciliation legislation. As a result of the Byrd rule, EGTRRA contained language providing for the expiration of all of its provisions at the end of calendar year 2010, since the years after 2010 were outside the reconciliation budget window.

In 2003, in response to economic conditions, Congress passed the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA; P.L.108-27). JGTRRA, among other changes, accelerated the implementation of certain tax reductions that were originally enacted as part of EGTRRA. These included marriage tax penalty relief, expansion of the 10% tax bracket, an increase in the child tax credit, and an increase in the AMT exemption. These changes were temporary and were scheduled to be in effect for two years, 2003 and 2004.

During this session, Congress faces the issue of whether to extend and/or make permanent these expiring tax provisions. If the JGTRRA reductions are not extended, then in 2005, many taxpayers will see an increase in their federal income tax liabilities relative to their 2004 levels. If the EGTRRA tax reductions are not made permanent, then in 2011, almost all taxpayers will experience an increase in their federal income tax liabilities relative to their levels in 2010.

Counterbalancing congressional desire to provide continued tax reductions is congressional concern over the current and projected size of the federal budget deficit. The revenue effects of extending and making permanent the 2001 and 2003 tax reductions are substantial. The four tax bills extending and making permanent the 2001 and 2003 tax reductions that the House has passed to date have been estimated to reduce federal revenues by over $1 trillion between FY2005 and FY2014.[2]

The remainder of this report provides a brief summary of the four tax bills extending the 2001and 2003 Acts that have, to date, passed the House.

Marriage Tax Penalty Relief — H.R. 4181

In 2001, EGTRRA increased the standard deduction and the width of the 15% tax bracket for joint returns to twice the amount applicable to single returns. These changes were to be phased in over the period 2005 through 2009. EGTRRA also increased the earned income tax credit phaseout limit for joint returns with the increase phased in over the 2001 to 2007 period. In 2003, JGTRRA increased the standard deduction and 15% tax bracket for joint returns to twice the size applicable to single returns, effective for tax years 2003 and 2004. In 2005, the joint standard deduction and width of the 15% tax bracket will revert to the levels specified under EGTRRA. In 2011, they will revert to their pre-EGTRRA levels.

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[1] CRS Report RL30862, *Budget Reconciliation Process: The Senate's "Byrd Rule,"* by Robert Keith.

[2] Assuming the AMT exemption increase is made permanent.

On April 28, 2004, H.R. 4181, a bill sponsored by Representative Jim Gerlach, was passed by the House on a vote of 323 to 95. The bill would extend the JGTRRA increase in the standard deduction and 15% tax bracket for joint returns and make them permanent for tax years beyond 2010. The bill would also make permanent the increase in the earned income tax credit phaseout limits for joint returns. The estimated revenue effects of H.R. 4181 are shown in Table 1.

Table 1. Estimated Revenue Effects of H.R. 4181, FY2005 Through FY2014
(billions of dollars)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
-5.7	-5.8	-3.3	-1.6	-0.3	-	-15.8	-25.2	-24.1	-22.9	-104.7

Source: Joint Committee on Taxation. JCX-31-04. April 28, 2004.

Ten Percent Income Tax Bracket — H.R. 4275

In 2001, EGTRRA established a new 10% income tax bracket that was applicable to the first $12,000 of taxable income on joint returns, the first $6,000 of taxable income on single returns, and the first $10,000 of taxable income on head of household returns. In 2008, the 10% bracket thresholds were scheduled to increase to $14,000 for joint returns and $7,000 for single returns.

In 2003, JGTRRA accelerated the expansion of the threshold for the 10% tax bracket. In 2003 and 2004, the 10% tax rate is applicable to the first $14,000 of taxable income on joint returns and the first $7,000 of taxable income on single returns. In 2005, the 10% tax bracket thresholds revert to the levels specified by EGTRRA. In 2011, the 10% bracket is scheduled to sunset.

On May 13, 2004, H.R. 4275, sponsored by Representative Pete Sessions, passed the House on a vote of 344 to 76. H.R. 4275 would maintain the JGTRRA expansion of the 10% bracket thresholds and make the 10% bracket permanent for tax years beyond 2010. The estimated revenue effects of H.R. 4275 are shown in Table 2.

Table 2. Estimated Revenue Effects of H.R. 4275, FY2005 Through FY2014
(billions of dollars)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
-4.2	-6.4	-6.8	-4.3	-3.2	-3.3	-36.2	-50.8	-51.2	-51.6	-218.2

Source: Joint Committee on Taxation. JCX-34-04. May 14, 2004.

The Child Tax — H.R. 4359

EGTRRA increased the child tax credit from $500 to $1,000 with the increase phased in over the 2001 to 2010 period. EGTRRA also extended the refundability of the child tax credit to families with fewer than three children. JGTRAA increased the child tax credit to $1,000 for tax years 2003 and 2004.

Absent legislative action, the child tax credit will revert to its EGTRRA specified levels in 2005, decreasing from $1,000 in 2004 to $700 in 2005 through 2008, $800 in 2009, $1,000 in 2010, and revert to $500 for 2011 and beyond.[3]

On May 20, 2004, H.R. 4359, sponsored by Representative Jon Porter, was passed by the House by a vote of 271 to 139. This bill would permanently extend the $1,000 amount of the child tax credit, permanently allow the child tax credit to offset alternative minimum tax (AMT) liability in full, increase the refundability percentage to 15% in 2004, include combat pay for purposes of calculating the refundability of the credit, and increase the phaseout thresholds for the credit to $250,000 for joint returns ($125,000 for unmarried taxpayers). The estimated revenue effects of H.R. 4359 are shown in Table 3.

Table 3. Estimated Revenue Effects of H.R. 4359, FY2005 Through FY2014
(billions of dollars)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
-9.8	-18.1	-18.5	-18.9	-18.6	-13.7	-13.3	-37.9	-39.0	-40.2	-227.9

Source: Joint Committee on Taxation. JCX-37-04. May 21, 2004.

Alternative Minimum Tax (AMT) — H.R. 4227

EGTRRA increased the AMT exemption from $45,000 to $49,000 for joint returns and from $33,750 to $35,750 for unmarried taxpayers. These increases were effective for tax years 2001 through 2004. JGTRRA increased the AMT exemption to $58,000 for

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[3] For more information see CRS Report RS21860, *The Child Tax Credit*, by Gregg Esenwein.

joint returns and $40,250 for unmarried taxpayers. These changes were effective for tax years 2003 and 2004.

Absent legislative action, in 2005 the AMT exemption amounts will revert to their pre-EGTRRA levels of $45,000 for joint returns and $33,750 for unmarried taxpayers.

On May 5, 2004, H.R. 4227, sponsored by Representative Rob Simmons, was passed by the House by a vote of 333-89. The bill would extend for one year, through 2005, the temporary JGTRRA increase in the AMT exemption amount to $58,000 for joint returns and $40,250 for unmarried taxpayers. The bill would also index the AMT exemption in 2005 for inflation occurring in 2004. The Joint Committee on Taxation (JCT) estimated revenue effects of H.R. 4227 are shown in Table 4.

Table 4. Estimated Revenue Effects of H.R. 4227, FY2005 Through FY2014

(billions of dollars)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
-7.1	-10.7	-	-	-	-	-	-	-	-	-17.8

Source: Joint Committee on Taxation. JCX-32-04. May 5, 2004.

It is important to note that the JCT revenue estimate of the AMT exemption increase tends to understate the actual long-run revenue effects of H.R. 4227 for two reasons. First, although the increase in the exemption is only in effect for 2005, Congress may decide to extend the increase in the AMT exemption over the entire forecast period. Without congressional action, the number of taxpayers subject to the AMT will jump from around 3 million in 2004 to over 36 million in 2014 (assuming the other three tax cuts are extended).[4] Second, the JCT estimate shows the revenue loss of extending the AMT exemption relative to current law, which assumes that the JGTRRA marriage tax penalty tax relief provisions and the JGTRRA increase in the 10% tax bracket will have expired in 2005. If these provisions were extended, then the revenue cost of enacting H.R. 4227 would be higher.

Although the JCT does not provide a revenue estimate of extending H.R. 4227, a revenue estimate by the Brookings-Urban Tax Policy Center indicates that, if extended, H.R. 4227 would reduce revenues by approximately $475 billion over the FY2005 through FY2014 period. This estimate assumes that the other three tax bills; H.R. 4181, H.R. 4275, and H.R. 4359, are eventually enacted. Table 5 shows the Brookings-Urban Tax Policy Center revenue estimate of extending H.R. 4227.

[4] For more information see CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, and CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects*, by Gregg Esenwein.

Table 5. Estimated Revenue Effects of Making H.R. 4227 Permanent, FY2005 Through FY2014

(billions of dollars)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
-9.5	-26.1	-32.0	-39.2	-48.2	-58.3	59.6	-55.7	-66.9	-79.8	-475.3

Assumes AMT exemption of $58,000 for joint returns, $40,250 for unmarried taxpayers. Exemption indexed for inflation after 2004. Also assumes enactment of H.R. 4181, H.R. 4275, and H.R. 4359.

Source: Urban Institute/Brookings Institution Tax Policy Center, June 17, 2004 [http://taxpolicycenter.org/publications/template.cfm?PubID=8907].