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2001 Tax Cut: Description, Analysis, and Background

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Summary

A major tax cut was enacted in June 2001 as the Economic Growth and Tax Relief Reconciliation Act (EGTRRA; P.L. 107-16; H.R. 1836). This report summarizes the provisions of the bill, analyzes effects, and considers the development of the legislation. To comply with Senate procedural rules, the Act included a "sunset" provision that rescinds its tax cuts at the end of calendar year 2010. During 2002, the House (but not the Senate) passed several bills making all or some of EGTRRA's tax cuts permanent. There are indications that Congress will return to this issue in 2003.

In early 2001, tax cuts were a principal focus of policymakers. In February, President Bush sent Congress the outlines of a proposal to cut taxes by an estimated $1.6 trillion over 10 years; the proposal is based on a plan the President set forth during the 2000 presidential campaign. The principal elements of the plan were a cut in marginal individual income tax rates; a tax cut for many married couples; an increased child credit; elimination of the estate and gift tax; a permanent research and experimentation tax credit; a charitable contribution deduction for non-itemizers; and several tax benefits for health care and education.

In March, tax cuts similar to the President's proposal began moving through the House of Representatives. On March 8, the House approved H.R. 3, containing a cut in marginal tax rates; on March 29, the House approved H.R. 6, containing tax cuts for married couples and an increase in the child credit; and on April 4, the House approved H.R. 8, which would phase out the estate and gift tax. On May 2, the House approved H.R. 10, containing tax reductions related to pensions and retirement. On May 15, the Senate Finance Committee approved an omnibus bill including elements of all of these proposals, plus education tax benefits. The bill was reported as an amended version of H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001 that was passed by the House on May 16; the bill was approved by the Senate with further amendments on May 23.

The principal differences between the House, Senate, and Administration plans were a larger tax-rate cut in the President's and House plans than in the Senate bill; a retroactive component in the House and Senate bills designed to provide near-term economic stimulus; effective dates in the Senate bill that were generally somewhat later than those in the President's proposal and the House bills; pension provisions in the House and Senate plans, but not in the President's; and health provisions in the President's plan but generally not in the House or Senate proposals.

On May 26, the House and Senate both approved a conference version of EGTRRA. The bill's reduction in marginal individual income tax rates is smaller than proposed by the House or the President and larger than proposed by the Senate, but is closer to the Senate bill than the other proposals. Beyond the rate cuts, the bill's major elements are: tax cuts for married couples, phase-out of the estate and gift tax, an increase in the child tax credit, more generous individual retirement account (IRA) and pension provisions, tax benefits for education, and a number of other items. President Bush signed the tax cut bill on June 7.

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2001 Tax Cut: Description, Analysis, and Background

A major tax cut, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), was enacted in June 2001. This report summarizes the provisions of the bill, analyzes effects, and considers the development of the legislation.

The broad shape of the President's plan and the tax cuts passed by the House, Senate, and Conference Committee are perhaps more marked by their similarities than their differences. The centerpiece of each plan is a cut in the statutory marginal tax rates that apply to individuals' taxable incomes, although the precise details vary among the proposals. Beyond the rate cuts, each phases out the estate tax; expands the child tax credit; and provides tax cuts for two-earner married couples.

The details of the plans, however, are far from identical, as the side-by-side chart that follows makes apparent. Some of the major differences are:

- a larger marginal individual tax-rate cut in the President's and House-passed plans than in the Senate bill (in this respect, the Conference bill follows the Senate more closely than the other two plans);

- a retroactive component in the House, Senate, and Conference bills that is designed to provide near-term economic stimulus;

- retention of the gift tax in the Senate and Conference bills, but not the President's plan or House-passed measure;

- pension provisions in the House, Senate, and Conference plans, but not the President's; health provisions in the President's plan but not the House, Senate, or Conference proposals; education provisions in the Conference, Senate and President's plans, but not the House; and extension of expiring tax provisions in the President's plan, but – with some exceptions – not the House, Senate, or Conference bills;

- effective dates, "phase-in," and "sunset" provisions that differ among the plans.

The tax cuts in the Conference Committee bill are scheduled to expire ("sunset") at the end of calendar year 2010. This provision was included to ensure the bill's compliance with the "Byrd rule" applying to congressional consideration of budget legislation. During 2002, the House (but not the Senate) passed a number of bills that would rescind EGTRRA's sunset provisions and make its tax cuts permanent. There are indications that Congress will take up the issue of EGTRRA's permanence again in 2003.

Revenue Effects

The relative size of the respective tax cuts is difficult to gauge, for several reasons. First, revenue estimates for the tax cuts that passed the House that are consistent with the Senate and Conference bills and the President's proposal are not available; the House tax cuts were passed in several different bills, and revenue estimates were calculated for each bill separately without taking into account the impact of the other House-passed measures. Because the costs of the different tax cuts interact, the estimates for the different House bills cannot be simply added and compared with the President's plan or the Senate bill, the estimates for which do take into account interacting effects.

Another difficulty is posed by "phase-ins" – that is, each proposal contains numerous provisions that become fully effective only over a number of years. Thus, the total 10-year revenue loss estimates for the proposals differ, depending on how rapidly the particular plan's provisions are phased in. To illustrate, the President's plan is estimated to reduce revenue by $1,775.3 billion over 10 years ($1.8 trillion after rounding), while the Senate bill's revenue loss is estimated at $1,347.2 billion ($1.3 trillion). In part, the larger size of the President's proposal is a result of its more rapid phase-in of important elements such as its rate cuts and estate and gift tax repeal.

An added issue in gauging the size of the Conference bill's tax cut is its scheduled expiration at the end of calendar year 2010. Because of the sunset provision, the $1.3 trillion revenue loss estimated for the period FY2001 through FY2011 is smaller than it would be if the tax cuts did not expire: FY2011 includes part of calendar year 2011 when the tax cuts are scheduled to no longer apply. The expiration provision, together with the phase in of important provisions also hampers getting an idea of the long-run, annual impact of the bill. One important provision of the bill – repeal of the estate tax – is not fully effective until calendar year 2010 and due to lags in filing will not be fully reflected in revenue reductions until FY2011. A solution to this might be to rely on the revenue estimate for FY2011. At the same time however, revenue estimates for FY2011 reflect the impact of the bill's general sunset provisions and are therefore smaller than will likely result from the annual impact of permanent changes in the tax code. The side-by-side comparison in this report presents the Joint Tax Committee's revenue estimates after each item for FY2010 and the FY2001-FY2011 total.

How large are the tax cuts compared to the economy? The dollar value of economic variables 10 years in the future is extremely uncertain, as are the actual revenue reductions that will occur from the tax cuts. However, based on economic projections by the Congressional Budget Office and the Joint Committee on Taxation's revenue estimates, the estimated revenue loss from the Conference committee bill is 1.3% of gross domestic product (GDP) or 6.3% of the revenue collections otherwise expected to occur.

Distributional Effects

This analysis compares the distributional effects of the proposals, using estimates made by a private group, Citizens for Tax Justice. This is the only organization that has provided consistent estimates or provided the underlying information necessary to calculate the tax as a percentage of income, a relative distribution measure, and that also includes the impact of repealing the estate tax – an important element of the proposals.

Two types of distributional measures are shown, one absolute (indicating the total amount of dollars received by each income group) and the other relative (measuring the tax cut as a percentage of income).[1] The absolute measure indicates that most of the tax cut is received by the highest income classes, and that benefits in the President's proposal (an early version) and the House proposal are more concentrated in the higher classes than is the Senate proposal, while the conference proposal falls in between. This effect occurs primarily because of differences in the rate cuts, which are largest at higher income levels in the President's proposal and the House bills and smallest in the Senate proposal.

The tax cut as a percentage of income – the relative measure – provides information about the effect on progressivity. Ideally, the percentage change in after tax income should be used to show the degree to which changes in taxes make incomes more or less even. Using taxes as a percentage of pre-tax income reduces the percentage change at higher income levels, but nevertheless provides a reasonable depiction of the distributional effects. While the tax cut is relatively even handed in the middle income classes, the highest income individuals would receive much larger tax cuts relative to income. This effect is in part due to the estate and gift tax repeal; about half of the tax cut for the top 1% comes from the estate tax repeal. Without that tax cut, the percentage change in taxes as a percent of income would be 2.79% for the President's and House plan, 1.79% for the Senate plan, and 2.57% for the conference plans. All four measures, therefore, increase differentials in after-tax income. The average tax cut as a percent of income (shown in the totals row for the last four columns) indicates that, in the long run, the conference plan is the largest, with an average cut of 2.43% of income.

Note that some measures of distribution compare the percentage change in tax liability. These measures do not, however, provide information about progressivity for two reasons. First, percentage changes in tax liability can be very large if initial tax liability is small and they will differ substantially depending on what is chosen as the base (e.g. income taxes, or all federal taxes). A proportional cut in an already progressive tax will reduce progressivity (in the sense that incomes are distributed less equally). For a cut in a progressive tax to be distributionally neutral, cuts must be smaller at the top than at the bottom, but the extent of that difference depends on existing progressivity.

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[1]For more information on these different measures, see CRS Report RL30779, *Across the Board Tax Cuts: Economic Issues*, by Jane G. Gravelle.

Note also that, while the tax cuts at the top arise mostly from rate cuts, or reductions in estate taxes, which benefit all taxpayers in those groups, most of the middle class tax cut is directed towards particular groups: families with children and married couples. Citizens for Tax Justice finds, for example, that in the President's plan, the average tax cut is $500, but the average tax cut for families with children is $1,114, the average tax cut for single parents is $326, and the average tax cut for singles is $283. Some of these differences reflect differences in average incomes; however, the vast majority of single individuals with no children will receive no more than $300 (the new 10% rate bracket), because there is no tax reduction in the 15% rate bracket, and singles do not receive benefits focused on children or joint returns.

Table 1: Distributional Effects of the President's Tax Plan, the House Proposals (H.R. 3, H.R. 6, & H.R. 8), the Senate Proposal and the Conference Proposal at 2001 Income Levels

Income Class	Share of Cut				Percent of Income			
	President	House*	Senate	Conference	President	House*	Senate	Conference
Lowest 20%	0.8%	0.8%	1.0%	0.9%	0.51%	0.55%	0.70%	0.71%
Second 20%	3.5	4.0	5.7	5.3	1.03	1.18	1.77	1.82
Third 20%	8.4	9.1	8.9	8.5	1.48	1.60	1.63	1.74
Fourth 20%	15.7	15.3	14.7	14.5	1.69	1.64	1.65	1.82
Next 15%	18.9	19.0	24.8	23.7	1.56	1.58	2.14	2.29
Next 4%	7.8	6.7	9.8	9.5	1.12	0.96	1.48	1.59
Top 1%	45.0	45.0	35.0	37.6	4.88	4.87	3.97	4.76
Total	100.0	100.0	100.0	100.0	2.08	2.08	2.17	2.43

Source: Citizens for Tax Justice and CRS calculations based on their data.
*Reflects H.R. 3 (rate cuts), H.R. 6 (marriage penalty and child credit) and H.R. 8 (estate and gift tax), but not H.R. 10 (IRAs and pensions). H.R. 10 would make the size of cuts slightly larger, but would probably not affect the distribution very much.

Side-by-Side Comparison

Table 2 presents a side-by-side comparison of the principal provisions of the President's proposal and the House, Senate, and conference committee versions. It is not intended to be comprehensive but does contain the main features of each plan. The table presents item-by-item revenue estimates prepared by the Joint Committee on Taxation. As noted above, however, the estimates for the House bills and other plans are not comparable. In addition, the itemized revenue estimates for the House tax cuts cannot be aggregated.

Table 2. Comparison of Main Provisions

Current Law	President's Proposal	House	Senate	Conference
Individual Income Tax Rates, Personal Exemptions, and Itemized Deductions				
Tax rates applicable to individuals' taxable income are: 15%, 28%, 31%, 36%, and 39.6%.	Phased-in reduction in individual income tax rates over the period 2002-6. Rates would be: 10%, 15%, 25%, and 33%. No retroactivity. Estimated revenue loss: $118.9 billion in FY2010; $877.2 billion over 10 years.	Phased-in reduction in individual income tax rates over the period 2002-6. (H.R. 3) Rates would be: 10%, 15%, 25%, and 33%. The initial phase-in of the lowest rate would begin retroactively; a 12% rate would apply in calendar years 2001and 2002; 11% would apply in 2003-5; 10% would apply thereafter. Estimated revenue loss: $121.7 billion in FY2010; $958.3 billion over 11 years.	Phased-in reduction of individual income tax rates, generally over the period 2002-7. Rates would be: 10%, 15%, 25%, 28%, 33%, and 36%. 10% rate would apply retroactively to 2001. Increases the income threshold at which itemized deductions begin to be limited, effective in 2009. Repeals the phase out of personal exemptions, effective in 2009. Estimated revenue loss: $104.9 billion in FY2010; $842.0 billion over 11 years.	Phased in reduction of individual income tax rates over the period 2001-6. Rates are: 10%, 15%, 25%, 28%, 33%, and 35%. 10% rate applies retroactively to Jan., 2001. The phase in of other rate cuts begins Jul. 1, 2001. Phases out the income limit on itemized deductions over 2006-10. Phases out the restriction on personal exemptions over 2006-9. Estimated revenue loss: $118.5 in 2010; $874.9 billion over 11 years.

Current Law	President's Proposal	House	Senate	Conference
Married Couples				
Tax rate brackets and standard deduction provide marriage "bonuses" for couples with disparate incomes and marriage "penalties" for couples with similar incomes. Earned income tax credit (EITC) can result in a marriage penalty.	Provides a tax deduction to two-earner married couples equal to 10% of the first $30,000 earned by the lower-paid spouse up to a maximum deduction of $3,000. Phased in over 2002-2006. Estimated revenue loss: $14.2 billion in FY2010; $102.7 over 10 years.	Increases the standard deduction for couples to twice that of singles, effective in 2002; broadens the 15% rate bracket for couples to twice that of singles, fully effective in 2009; increases the EITC earned income amount for couples, effective in 2002; increases the AMT exemption amount for couples, effective in 2006. Estimated revenue loss: $36.4 billion in FY2010; $223.3 billion over 10 years.	Phases in an increase in the standard deduction for couples to twice that of singles; phase-in would occur over 2006-10. Phases in over 2006-10 a broadening of the 15% rate bracket for couples to twice that of singles. Increases the phase-out range of the EITC for couples, effective in 2002. Estimated revenue loss: $10.3 billion in FY2010; $72.2 billion over 10 years.	Phases in an increase in the standard deduction for couples to twice that of singles; phase-in will occur over 2005-9. Phases in over 2005-8 a broadening of the 15% rate bracket for couples to twice that of singles. Phases in an increase in the phase-out range of the EITC over 2002-8. Estimated revenue loss: $9.2 billion in FY2010; $59.8 billion over 10 years.
Child Tax Credit				
$500 tax credit for each child under 17. Phased out beginning with incomes of $110,000 for couples and $75,000 for singles. Credit is refundable only for families with three or more children. Refund reduced by AMT; after 2001 amount of credit reduced by AMT.	Increases the credit to $1,000. Increases the phase-out threshold to $200,000 for couples and singles. Phased in over the period 2002-6. Credit would offset the AMT; refund would not be reduced by the AMT. Estimated revenue loss: $31.9 billion in FY2010; $210.7 billion over 10 years.	Increases the credit to $1,000 over the period 2001-2006, but retains current phase-out threshold. Extends refundability to families with less than 3 children. Credit would offset the AMT; refund would not be reduced by the AMT. Estimated revenue loss: $23.9 billion in FY2011; $175.9 billion over 11 years.	Increases the credit to $1,000 over the period 2001-2011. Makes the credit refundable to the extent of 15% of earned income in excess of $10,000. Credit would offset the AMT; refund would not be reduced by the AMT. Estimated revenue loss: $25.4 billion in FY2010; $193.0 billion over 11 years.	Increases the credit to $1,000 over the period 2001-2011. Makes the credit refundable to the extent of 10% of income over $10,000 for 2001-4; 15% of income over $10,000, indexed for inflation, for 2005 and thereafter. Credit offsets the AMT; refund not reduced by the AMT. Estimated revenue loss: $25.2 billion in FY2010; $171.8 billion over 11 years.

Current Law	President's Proposal	House	Senate	Conference
Estate and Gift Tax				
Marginal tax rates ranging from 37% to 60% apply to estates over 675,000; estates above the filing threshold may claim a credit equal to the tax due on the threshold amount. The taxable threshold is scheduled to increase to $1 million by 2006.	The estate and gift tax would be phased out over the period 2002-2009. All rates are reduced rapidly during the phase out period, but not below the capital gains tax rate.	The estate and gift tax would be phased out over the period 2002-2011(H.R. 8). The rate reductions are not as rapid as in the president's proposal, and the highest rate falls below the top income tax rate. H.R. 8 would also change the unified credit to an exemption beginning in 2002.	The estate tax would be gradually repealed over the period 2002-2011. Estate and gift tax rates are reduced more gradually under this proposal during phaseout than the other two proposals. However, the applicable credit is gradually increased to $4 million by 2010. A top gift tax rate of 40% would be maintained after repeal of the estate tax.	The estate tax gradually repealed over the period 2002-10. Rate reductions are the same as in the Senate bill. However, the applicable credit is increased more slowly than under the Senate bill. In addition, the gift tax is retained at the top income tax rate of 35%.
Assets transferred at death receive a "stepped-up" basis.	The "step-up" in the basis of assets would be limited to $1.3 million plus $3 million for assets transferred to a surviving spouse.	Same basis rules as President's proposal.	Same basis rules as President's proposal and House bill.	Same basis rules as President's proposal and House and Senate plans.
Estates may also claim a credit for state death taxes ranging from .8% to 16% of adjusted taxable estate value.	The federal credit for state death taxes would be reduced in proportion to the reduction in estate and gift tax rates.	The federal credit for state death taxes would be reduced proportionately.	The federal credit for state death taxes would be reduced over the 2002-2004 period and replaced with a deduction in 2005.	The federal credit for state death taxes is reduced over the 2002-2004 period and replaced with a deduction in 2005.
	Estimated revenue loss: $73.4 billion in FY2010 ($78.9 billion in FY2011); $305.9 billion over 10 years.	Estimated revenue loss: $35.0 billion in FY2010 ($51.8 in FY2011); $185.6 billion over 10 years.	Estimated revenue loss: $22.6 billion in FY2010 ($27.0 billion in FY2011); $134.4 billion over 10 years.	Estimated revenue loss: $23.5 billion in FY2010 ($53.9 billion in FY2011); $138.0 billion over 11 years.

Current Law	President's Proposal	House	Senate	Conference
Individual Retirement Accounts (IRAs) and Pensions				
IRAs Individuals can contribute up to $2,000 annually to IRAs. Contributions are deductible for persons not participating in employer plans; income limits apply to deductions by plan participants.	No change for IRAs generally. See, however, the changes for charitable contributions and for education, below.	The dollar limit for IRA contributions increased to $5,000 over 2002-2004 and is indexed afterwards. Estimated revenue loss for IRA provision: $5.3 billion in FY2010; $34.2 billion over 10 years.	The limit for IRA contributions is increased to $5,000 over 2002-2011 and is indexed afterwards. Estimated revenue loss for IRA provision: $3.3 billion in FY2010; $17.7 billion over 10 years.	The limit for IRA contributions is increased to $5,000 over 2002-8 and indexed thereafter. Estimated revenue loss for IRA provision: $4.5 billion in FY2010; $25.1 billion over 10 years.
Pensions Tax on employer contributions to qualified pension plans is generally deferred (postponed) until distributed, conferring the equivalent of a tax exemption. The benefit is subject to limits, restrictions, and regulations.	No change.	Increases dollar limits on variety of retirement plans: limits on contribs. to defined benefit plans rise from $35K to $40K; limits on defined benefit payments rise from $140K to $160K; limits on eligible compensation rise to $200K; limits on 401(k) and like plans rise to $15K; limits on SIMPLEs rise to $10K. Limits then indexed for inflation. Other increases in limits would also occur. 401(K) and similar plans could be treated as Roth IRAs (contributions not deductible but payments not taxable). There are numerous other provisions relating to expanding portability, easing burdens of anti-discrimination rules, and simplifying rules. Estimated revenue loss of pension provisions: $2.5 billion in FY2010; $17.4 billion over 10 years.	Provisions similar to the House bill, but with slower phase-ins in some cases; the limit on contributions to defined benefit plans will not increase except for inflation. 401(K) and similar plans could be treated as Roth IRAs (contributions not deductible, payments not taxable) Credit for contributions to IRAs, 401(K) and similar plans aimed at lower income persons; sunsets in 2006. Numerous other provisions (similar to the House provisions) relating to expanding portability, easing burdens of anti-discrimination rules, and simplifying rules. Estimated revenue loss of pension provisions: $2.2 billion in FY2010; $22.6 billion over 10 years.	Provisions increasing dollar limits follow the House bill. 401(K) and similar plans can elected to be treated as Roth IRAs); effective in 2006. Follows the Senate in allowing a credit for IRA and 401(K) contributions, sunsetting in 2006. Numerous other provisions (similar to the House and Senate provisions) relating to expanding portability, easing burdens of anti-discrimination rules, and simplifying rules. Estimated revenue loss of pension provisions: $2.2 billion in FY2010; $24.5 billion over 10 years.

Current Law	President's Proposal	House	Senate	Conference
Charitable Contributions				
Taxpayers who itemize their deductions can deduct charitable contributions subject to a limitation of 50% of adjusted gross income. Non-itemizers are not permitted an additional deduction for charitable contributions. Withdrawals from IRAs are generally included in taxable income. Withdrawals before 59 ½ are subject to an additional 10% tax. Corporations are permitted to deduct charitable contributions, subject to a limit of 10% of net income. For contributions of property, taxpayers may deduct the fair market value of capital gain property but for ordinary income property – including self-created artworks – can generally only deduct their basis in the property.	Permits non-itemizers to deduct charitable contributions. (Phased in over 2002-2006). Allows persons over 59 ½ tax-free withdrawals from IRAs for charitable contributions, beginning in 2002. Increases the corporate contribution limitation to 15% of taxable income, beginning in 2002. Estimated revenue loss: $15.7 billion in FY2011; $90.0 billion over 10 years.	No House-passed provision.	Taxpayers can deduct the fair market value of self-created artworks. Effective upon enactment. Allows corporations additional deduction (generally equal to one-half ordinary income that would have been recognized from sale) for contributions of book inventory to schools, libraries, and literacy programs. Effective upon enactment.	No provisions.

Current Law	President's Proposal	House	Senate	Conference
Education				
Education IRAs Authorizes tax-exempt savings accounts for qualified higher education expenses. Distributions are excluded from income of beneficiary student. Limits annual contributions to $500 per beneficiary	Allows accounts also to be used for qualified elementary and secondary education expenses, including for private and religious schools (effective after 2001). Raises annual contribution limit to $1,000 in 2002, $2,000 in 2003, $3,000 in 2004, $4,000 in 2005, and $5,000 in 2006 and thereafter.	No provision.	Allows accounts also to be used for qualified elementary and secondary education expenses, including private and religious schools. Raises annual contribution limit to $2,000. (Effective after 2001) Extends exclusion to employer contribution to education IRA of employee, spouse, or lineal descendent, limited to $500 per beneficiary.	Same as the Senate amendment with several modifications. Does not include exclusion for employer contributions.
Qualified Tuition Savings Plans Allows qualified tuition savings plans to be tax-exempt. Distributions from accounts are taxable to student under annuity rules. Plans must be established by state governments.	Allows distributions from accounts to be excluded from income of beneficiary student, subject to lifetime limit. Allows private higher educational institutions to establish prepaid tuition savings plans under same rules. (Effective after 2001)	No provision.	Allows distributions from accounts to be excluded from income of beneficiary student. Allows private higher educational institutions to establish prepaid tuition savings plans under same rules. (Effective after 2001 except for exclusion of distributions from private institution plans, after 2003)	Same as the Senate amendment with several modifications. Imposes 10% penalty tax on distributions not used for qualified higher education expenses.

Current Law	President's Proposal	House	Senate	Conference
Employer Education Assistance Allows limited exclusion even if education is not job-related or prepares for new career. Does not cover graduate-level courses. Expires Dec. 31, 2001.	Extends current law through Dec. 31, 2002.	No provision.	Extends limited exclusion to graduate level courses (effective after 2001). Makes exclusion permanent.	Same as Senate amendment.
Interest on Higher Education Loans Allows limited above-the-line deduction for first 60 months of interest payments.	No provision.	No provision.	Repeals restriction on number of months on interest payments. Raises income phase-out ranges for eligibility. (Both effective after 2001) Allows optional tax credit of up to $500 for first 60 months of interest payments (effective after 2008).	Same as Senate amendment except does not include optional tax credit.

Current Law	**President's Proposal**	**House**	**Senate**	**Conference**
Bonds for School Facilities				
Interest on state or local governmental bonds is tax-exempt. Issuers must rebate arbitrage earnings, with some exceptions.		No provision.	Increases the arbitrage rebate exception for small issuers by $5 million (effective after 2001)	Same as Senate amendment.
Interest on private activity bonds is taxable with some exceptions, among them exempt facility bonds.	Allows bonds issued by for-profit entity pursuant to partnership agreement with public schools to be classified as exempt facility bonds (effective after 2001).		Allows bonds issued by for-profit entity pursuant to partnership agreement with public schools to be classified as exempt facility bonds (effective after 2001)	
Deduction for Higher Education Expenses				
Not allowed except as business or professional expense Allows tax credits for tuition and fees: Hope Scholarship (up to $1,500) and Lifetime Learning (up to $1,000; $2,000 after 2002).	No provision.	No provision.	Allows optional above-the-line deduction for tuition and fees. Limited to $3,000 in 2002 and 2003 and to $5,000 in 2004 and 2005. Allows higher income phase-out ranges for eligibility than would either tax credit. (Effective after 2001 and before 2006).	Same as Senate amendment except deduction limited to $4,000 in 2004 and 2005.

Current Law	President's Proposal	House	Senate	Conference
Deduction for Classroom and Training Expenses Allows deduction for unreimbursed employee expenses, limited to taxpayers who itemize and subject to 2% adjusted gross income floor. Some training expenses may qualify for the Lifetime Learning Credit.	Allows "above-the-line" deduction for non-itemizers up to $400 for elementary and secondary school teachers and other personnel who have classroom and training expenses (effective after 2001).	No provision.	Allows above-the-line deduction up to $500 for elementary and secondary school teachers and other personnel who incur professional development expenses related to their subject area. Allows tax credit for 50% of classroom material expenses; limited to $250 each year.	No provision.
	Estimated reduction in revenue of all education provisions: $1.6 billion in FY2010; $10.7 billion over 10 years.		Estimated reduction in revenue of all education provisions: $3.6 billion in FY2010; $35.5 billion over ten years.	Estimated reduction in revenue of all education provision: $3.1 billion in FY2010; $29.4 billion over ten years.

Current Law	President's Proposal	House	Senate	Conference
Health and Long-Term Care				
Tax Credit for Health Insurance Allows deduction for unreimbursed medical expenses (including health insurance premiums), limited to taxpayers who itemize and subject to 7 ½ % adjusted gross income floor.	Allows refundable tax credit for purchase of health insurance for individuals not participating in employer-sponsored or public programs. Credit limited to $1,000 per individual ($2,000 per family) up to 90% of premium (effective after 2001; phased-in before 2003).	No provision.	No provision	No provision.
Flexible Spending Accounts Allows FSAs to be funded on pre-tax basis. Balances unused at end of year are forfeited to employer.	Allows up to $500 in unused balances to be carried over to next year, rolled over into qualified retirement plan or medical savings account, or distributed to employee (effective after 2001).	No provision.	No provision.	No provision.
Archer Medical Savings Accounts Allows tax-exempt MSAs for self-employed or employees of small employers with high deductible insurance. New enrollments generally prohibited after 2002.	Repeals termination date for new enrollees and cap on number of participants. Makes accounts generally available to anyone with high deductible insurance and increases contribution limits (effective after 2001).	No provision.	No provision.	No provision.
Personal Exemption for Family Caregiver Allows exemption if individual qualifies as a dependent.	Allows additional personal exemption for family members needing long-term care (effective after 2001).	No provision.	No provision.	No provision.

Current Law	President's Proposal	House	Senate	Conference
Deduction for Long-term Care Insurance Allows deduction for unreimbursed medical expenses (including long-term care insurance premiums), limited to taxpayers who itemize and subject to 7 ½ % adjusted gross income floor.	Allows above-the line deduction for long-term care insurance premiums (effective after 2001 but phased-in before 2007). Estimated reduction in revenue: $13.5 billion in FY2011; $100.4 billion over 10 years.	No provision.	No provision.	No provision.
Health Insurance Deduction for Self-Employed If a taxpayer is not eligible to participate in an employer-subsidized health plan, a deduction is allowed for 60% of premiums in 2001, 70% in 2002, and 100% in 2003 and thereafter.	No provision.	No provision.	Allows 100% deduction for health insurance premium even if taxpayer is eligible to participate (but does not) in employer-subsidized health plan. Effective after 2001. Estimated revenue cost: $0.9 billion over 10 years.	No provision.
Research and Experimentation (R&E) Tax Credit				
A 20% tax credit applies to qualified research expenses above a base amount linked to a firm's research in the past. An alternative, three-tiered credit is available with lower rates ranging from 2.65% to 3.75%. The credit is scheduled to expire after June 30, 2004.	The R&E credit would be made permanent; no change in rates. Estimated revenue cost: $8.2 billion in FY2010; $47.3 billion over 10 years.	No provision.	The R&E credit would be made permanent. The alternative rates would be increased to a range of 3% to 5%. Estimated revenue cost: $8.3 billion in FY 2010; $47.8 billion over 10 years.	No provision.

Current Law	President's Proposal	House	Senate	Conference
Adoption Tax Credit and Employer Adoption Assistance Programs				
Taxpayers are allowed a tax credit for qualified adoption expenses. Adopted children must be under age 18 or physically or mentally incapable of caring for themselves. There is no limit on the number of children that may be adopted. The credit is $6,000 for domestic special needs children (and a permanent part of the IRC). The credit amount is $5,000 for all other adoptions (and will expire after December 31, 2001). The credit may be carried forward 5 years. A phase-out of benefits occurs for taxpayers with incomes over $75,000. The credit will be subject to the alternative minimum tax limitations after 2001. Employers may offer an adoption assistance program to employees that provides reimbursements in a like amount available under the tax credit program. The employer adoption assistance program expires after December 31, 2001.	Provides that the adoption tax credit for children without special needs is to be made permanent (the special needs adoption provision is already a permanent part of the IRC). Increases the credit to $8,500 for children with special needs and to $7,500 for adoptions of non-special needs children.	Increases the adoption tax credit to $10,000 for children with or without special needs. Increases the phase-out for either the adoption credit or amounts received from an employer adoption assistance program from $75,000 to $150,000. The adoption credit would be allowed against the alternative minimum tax. Both the credit for non-special needs children and the employer adoption program would be made a permanent part of the tax code. Qualified expenses paid or incurred in taxable years beginning on or before December 31, 2001, would remain subject to current law dollar limits.	Provides a $10,000 tax credit for taxpayers who adopt a child with special needs. A credit up to $10,000 is provided for qualified adoption expenses for all other adoptions. Employer adoption assistance programs may provide up to $10,000 to employees who adopt special needs children and may reimburse adoption expenses for all other children up to $10,000. Amounts received under an employer program are not includable in the employee's gross income. The phase-out for both the adoption credit or for amounts from employer programs is raised from $75,000 to $150,000. An adjustment for inflation is provided for both the credit and employer reimbursement for future years. The credit would be allowed against the alternative minimum tax.. Estimated revenue cost: $432 million in FY2010; $3.1 billion over 11 years.	The provisions of the House and Senate bills were similar and generally retained. The $10,000 credit/exclusion for special needs children without regard to qualified adoption expenses (under the Senate amendment) was retained but is not effective until 2003. These amounts are not available until the adoption is finalized. Further, the agreement provides a cost of living adjustment for inflation. The adoption tax credit and employer adoption assistance program provisions are made a permanent part of the Internal Revenue Code (note, however, the year 2010 sunset provisions as described in the body of this report). Estimated revenue loss: $432 million in FY2010; $3.135 billion over 11 years.

Current Law	President's Proposal	House	Senate	Conference
Dependent Care Credit				
A tax credit is allowed that is generally equal to 30% of qualified employment-related expenses for the care of a dependent. The rate is reduced (but not below 20%) for increments of income above $10,000. The amount of qualified expenses may not exceed $2,400 for 1 dependent and $4,800 for 2 or more dependents.	No provision.	No provision.	The maximum credit rate is increased to 40% and the income threshold above which the credit is reduced is increased to $20,000. The limit on qualified expenses is increased to $3,000 for 1 dependent and to $6,000 for 2 or more dependents. The changes would be effective beginning in 2003. Estimated revenue cost: $0.5 billion in FY2010; $5.4 billion over 10 years.	Same as Senate amendment except maximum credit is 35% and income threshold above which there is reduction is $15,000. Estimated revenue cost: $0.9 billion in FY2010; $7.6 billion over 10 years.
Employer Child Care Tax Credit				
Allows a deduction for ordinary and necessary business expenses of assisting employees obtain child care. Expenditures for child care facilities are capitalized and recovered over time through deduction for depreciation.	No provision.	No provision.	Allows a tax credit equal to 25% of expenditures for child care facilities and operating or contract costs of child care programs (10% for resource and referral expenditures), limited to $150,000 a year. Estimated revenue cost: $0.2 billion in FY2010; $1.5 billion over 10 years.	Same as Senate provision. Estimated revenue cost: $0.2 billion in FY2010; $1.4 billion over 10 years.