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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 $695 billion for FY2003-FY2013, with $388 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 Tom Daschle has proposed a third comprehensive alternative offering several components similar to the House Democratic plan. Congress may also reconsider legislation not completed in the 107th Congress, including energy tax subsidies, tax incentives for charitable giving deductions, pension diversification as an outgrowth of concerns relating to the failure of Enron, 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 $30 billion in FY2003 and $695 billion over FY2003-FY2013.[1] The largest component is a dividend exclusion proposal that accounts for $2.6 billion in FY2003 and $388 billion, or 56%, 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 provisions of

[1] The components and estimates cited for the President's proposal, prepared by the Administration, are reported on the Treasury Department's Web site, available at [http://www.ustreas.gov/press/releases/reports/bluebook2003.pdf]. Notably, the estimates throughout this report are preliminary and are not prepared by the staff of the Joint Committee on Taxation (JCT) who, as the revenue estimators for Congress, determine the official revenue estimate of any tax change.

the President's proposal have been incorporated into legislative language, 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.

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, $92 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 ($6 billion, $64 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 ($3 billion, $58 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 ($1 billion and $48 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 ($3 billion and $29 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 $16 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 for the proposals are substantially increased over the current programs 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 beginning 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 expensed in the first year of each of the years 2002, 2003, and 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:

(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.

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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].

(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, several Senators have introduced targeted proposals. Senators Dianne Feinstein and Lincoln Chaffee have introduced S. 126 to freeze marginal rate cuts at current levels. S. 120, sponsored by Senators Kay Bailey Hutchinson and Evan Bayh, would both accelerate and freeze marginal tax rates. Senator Hutchinson has also introduced S. 24, S. 25, and S. 26 to respectively eliminate individual tax on dividends, lower the dividend tax to the capital gains rate, and lower tax on both interest and dividends to the capital gains rate.

Several of the 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, H.R. 1836), 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.

The Senate Finance Committee marked up two tax bills on February 5, the CARE Act of 2003 and the Armed Forces Tax Fairness Act of 2003 (now numbered S. 351). The CARE Act proposes charitable giving incentives, which are estimated by the Joint Committee on Taxation (JCT) to reduce revenue. However, these reductions are expected to be offset by revenue raising proposals included in the measure, chiefly curtailing tax shelters. The JCT 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. The Armed Forces Tax Fairness Act of 2003 proposes tax relief for military personnel and family members of astronauts who died in the February 1 shuttle disaster. Also included in the proposal are additional 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. According to the report of the JCT after the markup, the resulting impact would be an estimated $78 million reduction in receipts for FY2003 and an increase of $6 million from FY2003 through FY2013. Representative Thomas, Ways and Means Committee Chair, introduced a similar provision in the House, H.R. 878, Armed Forces Tax Fairness Act of 2003. This measure was considered by the House Ways and Means Committee on February 27. The House version, after markup, contains a revenue-raising measure relating to expatriates, which differs from the Senate Finance Committee version. In addition, a variety of additional tax provisions were added during House Ways and Means Committee markup.

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. While revenue concerns limited the consideration of some tax changes in the 107th Congress, the House approved H.R. 7, a bill to expand tax benefits for charitable giving and charities. H.R. 7 was estimated to reduce revenue by $13.3 billion over 10 years, with about half the cost associated with a capped above-the-line deduction for charitable contributions for non-itemizers. This bill was a considerably scaled back version of the President's faith-based initiative made earlier in 2002 that would have cost $80 billion. The revenue cost was limited, however, because there was a cap on the deductions gradually rising to $200. Singles would have limits half as large. The bill also included provisions to permit tax free distributions from individual retirement accounts to charities, raise the cap on corporate charitable contributions, modify excise taxes on net investment income of charities, and make a number of minor changes. The Senate Finance Committee approved a version of the Lieberman-Santorum bill (S. 1924) as a substitute for H.R. 7. It included a temporary non-itemizer's deduction with a floor and a ceiling and several other provisions. The bill would also have included revenue offsets such as provisions to address tax shelters (S. 2498 and S. 2119).

The House and Senate passed H.R. 4 in the 107th Congress, which included a series of tax subsidies and incentives for energy. In the wake of the Enron bankruptcy, the House passed H.R. 3762, which required permitting some diversification in 401(k) plans. The Senate Finance Committee approved a similar bill, S. 1971, which also contained provisions concerning executive compensation, and formally excluded incentive stock options from payroll tax withholding.

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 William 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.