

MARRIAGE PENALTY AND FAMILY TAX RELIEF ACT OF 2001

MARCH 27, 2001.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means,
submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 6]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 6) to amend the Internal Revenue Code of 1986 to reduce the marriage penalty by providing for adjustments to the standard deduction, 15-percent rate bracket, and earned income credit and to allow the nonrefundable personal credits against regular and minimum tax liability, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

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The amendments are as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE, ETC.

(a) **SHORT TITLE.**—This Act may be cited as the “Marriage Penalty and Family Tax Relief Act of 2001”.

(b) **SECTION 15 NOT TO APPLY.**—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

SEC. 2. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(a) **IN GENERAL.**—Paragraph (2) of section 63(c) of the Internal Revenue Code of 1986 (relating to standard deduction) is amended—

(1) by striking “\$5,000” in subparagraph (A) and inserting “200 percent of the dollar amount in effect under subparagraph (C) for the taxable year”;

(2) by adding “or” at the end of subparagraph (B);

(3) by striking “in the case of” and all that follows in subparagraph (C) and inserting “in any other case.”; and

(4) by striking subparagraph (D).

(b) **TECHNICAL AMENDMENTS.**—

(1) Subparagraph (B) of section 1(f)(6) of such Code is amended by striking “(other than with” and all that follows through “shall be applied” and inserting “(other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied”.

(2) Paragraph (4) of section 63(c) of such Code is amended by adding at the end the following flush sentence:

“The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 3. PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.

(a) **IN GENERAL.**—Subsection (f) of section 1 of the Internal Revenue Code of 1986 (relating to adjustments in tax tables so that inflation will not result in tax increases) is amended by adding at the end the following new paragraph:

“(8) **PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.**—

“(A) **IN GENERAL.**—With respect to taxable years beginning after December 31, 2003, in prescribing the tables under paragraph (1)—

“(i) the maximum taxable income in the lowest rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be the applicable percentage of the maximum taxable income in the lowest rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and

“(ii) the comparable taxable income amounts in the table contained in subsection (d) shall be ½ of the amounts determined under clause (i).

“(B) **APPLICABLE PERCENTAGE.**—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2004	172
2005	178
2006	183
2007	189
2008	195
2009 and thereafter	200.

- “(C) ROUNDING.—If any amount determined under subparagraph (A)(i) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”
- (b) **REPEAL OF REDUCTION OF REFUNDABLE TAX CREDITS.**—
- (1) Subsection (d) of section 24 of such Code is amended by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).
- (2) Section 32 of such Code is amended by striking subsection (h).
- (c) **INCREASE IN ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNT FOR JOINT RETURNS.**—
- (1) **IN GENERAL.**—Subsection (d) of section 55 of such Code is amended by adding at the end the following new paragraph:
- “(4) **ADJUSTMENT OF EXEMPTION AMOUNT FOR JOINT RETURNS.**—
- “(A) **IN GENERAL.**—The dollar amount applicable under paragraph (1)(A) for 2008 and each even-numbered calendar year thereafter—
- “(i) shall be \$500 greater than the dollar amount applicable under paragraph (1)(A) for the prior even-numbered calendar year, and
- “(ii) shall apply to taxable years beginning in such even-numbered calendar year and in the succeeding calendar year.
- In no event shall the dollar amount applicable under paragraph (1)(A) exceed twice the dollar amount applicable under paragraph (1)(B).
- “(B) **EXEMPTION AMOUNTS FOR 2005, 2006, AND 2007.**—The dollar amount applicable under paragraph (1)(A) shall be—
- “(i) \$46,000 for taxable years beginning in 2005, and
- “(ii) \$46,500 for taxable years beginning in 2006 or 2007.”
- (2) **CONFORMING AMENDMENTS.**—
- (A) Paragraph (1) of section 55(d) of such Code is amended by striking “and” at the end of subparagraph (B), by striking subparagraph (C), and by inserting after subparagraph (B) the following new subparagraphs:
- “(C) 50 percent of the dollar amount applicable under paragraph (1)(A) in the case of a married individual who files a separate return, and
- “(D) \$22,500 in the case of an estate or trust.”
- (B) Subparagraph (C) of section 55(d)(3) of such Code is amended by striking “paragraph (1)(C)” and inserting “subparagraph (C) or (D) of paragraph (1)”.
- (C) The last sentence of section 55(d)(3) of such Code is amended—
- (i) by striking “paragraph (1)(C)(i)” and inserting “paragraph (1)(C)”, and
- (ii) by striking “\$165,000 or (ii) \$22,500” and inserting “the minimum amount of such income (as so determined) for which the exemption amount under paragraph (1)(C) is zero, or (ii) such exemption amount (determined without regard to this paragraph)”.
- (d) **TECHNICAL AMENDMENTS.**—
- (1) Subparagraph (A) of section 1(f)(2) of such Code is amended by inserting “except as provided in paragraph (8),” before “by increasing”.
- (2) The heading for subsection (f) of section 1 of such Code is amended by inserting “PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET,” before “ADJUSTMENTS”.
- (e) **EFFECTIVE DATES.**—
- (1) **IN GENERAL.**—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2003.
- (2) **SUBSECTION (b).**—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2001.
- (3) **SUBSECTION (c).**—The amendments made by subsection (c) shall apply to taxable years beginning after December 31, 2004.
- SEC. 4. MARRIAGE PENALTY RELIEF FOR EARNED INCOME CREDIT; EARNED INCOME TO INCLUDE ONLY AMOUNTS INCLUDIBLE IN GROSS INCOME.**
- (a) **IN GENERAL.**—Paragraph (2) of section 32(b) of the Internal Revenue Code of 1986 (relating to percentages and amounts) is amended—
- (1) by striking “AMOUNTS.—The earned” and inserting “AMOUNTS.—
- “(A) **IN GENERAL.**—Subject to subparagraph (B), the earned”; and
- (2) by adding at the end the following new subparagraph:
- “(B) **JOINT RETURNS.**—In the case of a joint return, the earned income amount determined under subparagraph (A) shall be 110 percent of the otherwise applicable amount. If any amount determined under the preceding sentence is not a multiple of \$10, such amount shall be rounded to the nearest multiple of \$10.”
- (b) **EARNED INCOME TO INCLUDE ONLY AMOUNTS INCLUDIBLE IN GROSS INCOME.**—Clause (i) of section 32(c)(2)(A) of such Code (defining earned income) is amended

by inserting “, but only if such amounts are includible in gross income for the taxable year” after “other employee compensation”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 5. MODIFICATIONS TO CHILD TAX CREDIT.

(a) INCREASE IN PER CHILD AMOUNT.—Subsection (a) of section 24 of the Internal Revenue Code of 1986 (relating to child tax credit) is amended to read as follows:

“(a) ALLOWANCE OF CREDIT.—

“(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to the per child amount.

“(2) PER CHILD AMOUNT.—For purposes of paragraph (1), the per child amount shall be determined as follows:

“In the case of any taxable year beginning in—	The per child amount is—
2001 and 2002	\$ 600
2003	700
2004	800
2005	900
2006 or thereafter	1,000.”.

(b) CREDIT ALLOWED AGAINST ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—Subsection (b) of section 24 of such Code is amended by adding at the end the following new paragraph:

(2) CONFORMING AMENDMENTS.—

(A) The heading for section 24(b) of such Code is amended to read as follows: “LIMITATIONS.—”.

(B) The heading for section 24(b)(1) of such Code is amended to read as follows: “LIMITATION BASED ON ADJUSTED GROSS INCOME.—”.

(C) Section 24(d) of such Code is amended—

(i) by striking “section 26(a)” each place it appears and inserting “subsection (b)(3)”, and

(ii) in paragraph (1)(B) by striking “aggregate amount of credits allowed by this subpart” and inserting “amount of credit allowed by this section”.

(D) Paragraph (1) of section 26(a) of such Code is amended by inserting “(other than section 24)” after “this subpart”.

(E) Subsection (c) of section 23 of such Code is amended by striking “and section 1400C” and inserting “and sections 24 and 1400C”.

(F) Subparagraph (C) of section 25(e)(1) of such Code is amended by inserting “, 24,” after “sections 23”.

(G) Section 904(h) of such Code is amended by inserting “(other than section 24)” after “chapter”.

(H) Subsection (d) of section 1400C of such Code is amended by inserting “and section 24” after “this section”.

(c) ADDITIONAL CREDIT FOR FAMILIES WITH 3 OR MORE CHILDREN AVAILABLE TO ALL FAMILIES.—Subsection (d) of section 24 of such Code is amended—

(1) in paragraph (1) by striking “In the case of a taxpayer with three or more qualifying children for any taxable year, the” and inserting “The”, and

(2) in the subsection heading by striking “WITH 3 OR MORE CHILDREN” and inserting “PAYING SOCIAL SECURITY TAXES”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2001.

SEC. 6. PROTECTION OF SOCIAL SECURITY AND MEDICARE.

The amounts transferred to any trust fund under the Social Security Act shall be determined as if this Act had not been enacted.

Amend the title so as to read:

A bill to amend the Internal Revenue Code of 1986 to reduce the marriage penalty by providing for adjustments to the standard deduction, the 15-percent rate bracket, and the earned income credit, to increase the child credit, and for other purposes.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The bill, H.R. 6, as amended (the “Marriage Penalty and Family Tax Relief Act of 2001”), provides relief from the marriage tax penalty and additional tax relief to American families with children.

The bill provides net tax reductions of over \$116 billion over fiscal years 2001–2006. This will provide needed marriage tax penalty and family tax relief for over 43 million American taxpayers in 2002 (60 million in 2010), return a portion of the tax revenues not needed to fund government programs, and foster economic prosperity in the 21st century.

The bill makes several changes to reduce the marriage tax penalty, provide family tax relief, and alleviate the burden of the alternative minimum tax. Specifically, the bill increases the basic standard deduction and the size of the 15-percent regular income tax rate bracket for married couples filing joint returns to twice that for unmarried individuals. Also, the bill increases the alternative minimum tax exemption amount and the earned income credit for married couples filing joint returns. The bill (1) doubles the size of the child credit; (2) makes the child credit refundable without regard to the number of qualifying children; and (3) allows the child credit against the alternative minimum tax. Finally, the bill repeals the provisions that reduce the refundable child credit and the earned income credit by the individual’s alternative minimum tax.

B. BACKGROUND AND NEED FOR LEGISLATION

The provisions approved by the Committee reflect the need for marriage tax penalty and family tax relief for American families in a fiscally prudent matter. The provisions also should serve to improve the economy and return an appropriate amount of the projected budget surplus to the American taxpayer. The estimated revenue effects of the provisions comply with the most recent Congressional Budget Office revisions of budget surplus projections.

C. LEGISLATIVE HISTORY

COMMITTEE ACTION

The Committee on Ways and Means marked up the provisions of the bill on March 22, 2001, and reported the provisions, as amended, on March 22, 2001, by a roll call vote of 23 yeas and 16 nays, with a quorum present.

COMMITTEE HEARING

A full Committee hearing on the related provisions of the President’s individual income tax proposals was held on March 21, 2001.

II. EXPLANATION OF THE BILL

A. STANDARD DEDUCTION MARRIAGE TAX PENALTY RELIEF

PRESENT LAW

Marriage tax penalty

A married couple generally is treated as one tax unit that must pay tax on the couple's total taxable income. Although married couples may elect to file separate returns, the rate schedules and other provisions of the Federal tax laws are structured so that filing separate returns usually results in a higher tax than filing a joint return. Other rate schedules apply to single persons and to single heads of households.

A "marriage penalty" exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A "marriage bonus" exists when the combined tax liability of a married couple filing a joint return is less than the sum of the tax liabilities of each individual computed as if they were not married.

Basic standard deduction

Taxpayers who do not itemize deductions may choose the basic standard deduction,¹ which is subtracted from adjusted gross income ("AGI") in arriving at taxable income. The size of the basic standard deduction varies according to filing status and is indexed for inflation. For 2001, the size of the basic standard deduction for each filing status is shown in Table 1, below.

TABLE 1.—BASIC STANDARD DEDUCTION AMOUNTS

Filing status	Basic standard deduction
Married, joint return	\$7,600
Head of household return	6,650
Single return	4,550
Married, separate return	3,800

For 2001, the basic standard deduction amount for single filers is 60 percent of the basic standard deduction amount for married couples filing joint returns. Thus, two unmarried individuals have standard deductions whose sum exceeds the standard deduction for a married couple filing a joint return.

REASONS FOR CHANGE

The Committee is concerned about the inequity that arises when two working single individuals marry and experience a tax increase solely by reason of their marriage. Any attempt to address the marriage tax penalty involves the balancing of several competing principles, including equal tax treatment of married couples with equal incomes, the determination of equitable relative tax burdens of single individuals and married couples with equal incomes, and the goal of simplicity in compliance and administration. The Com-

¹ Additional standard deductions are also allowed with respect to any individual who is elderly (age 65 or over) or blind.

mittee believes that an increase in the standard deduction for married couples filing a joint return in conjunction with the other provisions of the bill is a responsible reduction of a marriage tax penalty. The increase in the standard deduction provides tax relief to approximately 23 million married couples filing joint returns in 2002. Further, approximately 2 million couples who currently itemize their deductions will realize the simplification benefits of using the larger basic standard deduction in 2002.

EXPLANATION OF PROVISION

The provision increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return. The basic standard deduction for a married taxpayer filing separately continues to equal one-half of the basic standard deduction for a married couple filing jointly; thus, the basic standard deduction for unmarried individuals filing a single return and for married couples filing separately is the same.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

B. EXPANSION OF THE 15-PERCENT RATE BRACKET FOR MARRIED COUPLES FILING JOINT RETURNS

PRESENT LAW

In general

Under the Federal individual income tax system, an individual who is a citizen or resident of the United States generally is subject to tax on worldwide taxable income. Taxable income is total gross income less certain exclusions, exemptions, and deductions. An individual may claim either a standard deduction or itemized deductions.

An individual's income tax liability is determined by computing his or her regular income tax liability and, if applicable, alternative minimum tax liability.

Regular income tax liability

Regular income tax liability is determined by applying the regular income tax rate schedules (or tax tables) to the individual's taxable income and then is reduced by any applicable tax credits. The regular income tax rate schedules are divided into several ranges of income, known as income brackets, and the marginal tax rate increases as the individual's income increases. The income bracket amounts are adjusted annually for inflation. Separate rate schedules apply based on filing status: single individuals (other than heads of households and surviving spouses), heads of households, married individuals filing joint returns (including surviving spouses), married individuals filing separate returns, and estates and trusts. Lower rates may apply to capital gains.

For 2001, the regular income tax rate schedules for individuals are shown in Table 2, below. The bracket breakpoints for single individuals are approximately 60 percent of the rate bracket

breakpoints for married couples filing joint returns.² The rate bracket breakpoints for married individuals filing separate returns are exactly one-half of the rate brackets for married individuals filing joint returns. A separate, compressed rate schedule applies to estates and trusts.

TABLE 2.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2001

If taxable income is	Then regular income tax equals
<i>Single individuals</i>	
\$0–\$27,050	15 percent of taxable income.
\$27,050–\$65,550	\$4,057.50, plus 28% of the amount over \$27,050.
\$65,550–\$136,750	\$14,837.50, plus 31% of the amount over \$65,550.
\$136,750–\$297,350	\$36,909.50, plus 36% of the amount over \$136,750.
Over \$297,350	\$94,725.50, plus 39.6% of the amount over \$297,350.
<i>Heads of households</i>	
\$0–\$36,250	15 percent of taxable income.
\$36,250–\$93,650	\$5,437.50, plus 28% of the amount over \$36,250.
\$93,650–\$151,650	\$21,509.50, plus 31% of the amount over \$93,650.
\$151,650–\$297,350	\$39,489.50, plus 36% of the amount over \$151,650.
Over \$297,350	\$91,941.50, plus 39.6% of the amount over \$297,350.
<i>Married individuals filing joint returns</i>	
\$0–\$45,200	15 percent of taxable income.
\$45,200–\$109,250	\$6,780.00, plus 28% of the amount over \$45,200.
\$109,250–\$166,500	\$24,714.50, plus 31% of the amount over \$109,250.
\$166,500–\$297,350	\$42,461.50, plus 36% of the amount over \$166,500.
Over \$297,350	\$89,567.50, plus 39.6% of the amount over \$297,350.

Alternative minimum tax liability

In general

An individual's alternative minimum tax equals the excess of the individual's tentative alternative minimum tax liability over his or her regular income tax liability. Tentative alternative minimum tax liability is determined by applying specified rates (shown in Table 3, below) to alternative minimum taxable income in excess of phased-out exemption amounts (\$45,000 for married couples filing joint returns and \$33,750 for unmarried individuals filing a single return). Alternative minimum taxable income generally is the individual's regular taxable income increased by certain preference items and other adjustments. The basic structure of the alternative minimum tax (such as exemption amounts and rate brackets) is not adjusted annually for inflation. The lower regular income tax rates on capital gains also apply under the alternative minimum tax.

TABLE 3.—INDIVIDUAL ALTERNATIVE MINIMUM TAX RATES

If alternative minimum taxable income in excess of the applicable exemption amount is	Then tentative alternative minimum tax equals
\$0–\$175,000	26 percent of alternative minimum taxable income in excess of the applicable exemption amount.
Over \$175,000	\$45,500, plus 28% of the amount over \$175,000.

Limitation on nonrefundable credits

Through 2001, an individual generally may reduce his or her tentative alternative minimum tax liability by nonrefundable personal

²The rate bracket breakpoint for the 39.6 percent marginal tax rate is the same for single individuals and married couples filing joint returns.

tax credits (such as the \$500 child tax credit and the adoption tax credit). For taxable years beginning after December 31, 2001, non-refundable personal tax credits may not reduce an individual's income tax liability below his or her tentative alternative minimum tax liability.

AMT offset of refundable tax credits

An individual's alternative minimum tax liability reduces the amount of the refundable earned income credit and, for taxable years beginning after December 31, 2001, the amount of the refundable child credit for families with three or more children.

REASONS FOR CHANGE

The Committee believes that the expansion of the 15-percent rate bracket for married couples filing joint returns, in conjunction with the other provisions of the bill, will further alleviate the effects of the present-law marriage tax penalty. These provisions significantly reduce the most widely applicable marriage penalties in present law. Also, the Committee believes that the AMT presents a looming threat to fair and simple taxation of America's taxpayers. While the AMT problem has its roots in legislation enacted by prior Congresses, this Committee intends to make positive strides to reduce the structural AMT problem. This provision is an important step in this ongoing effort. Finally, the Committee believes that families should be able to use the refundable credits without limitation by the minimum tax. In addition, eliminating the reduction of the refundable credits by the minimum tax will result in significant simplification.

EXPLANATION OF PROVISION

Increase in 15-percent regular income tax bracket

The provision increases the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. This increase is phased in over six years as shown in Table 4, below. Therefore, this provision is fully effective (i.e., the size of the lowest regular income tax rate bracket for a married couple filing a joint return is twice the size of the lowest regular income tax rate bracket for an unmarried individual filing a single return) for taxable years beginning after December 31, 2008.

TABLE 4.—INCREASE IN SIZE OF 15-PERCENT RATE BRACKET FOR MARRIED COUPLES FILING A JOINT RETURN

Taxable year	Size of 15-percent rate bracket for married couple filing joint return as percentage of rate bracket for unmarried individuals
2004	172
2005	178
2006	183
2007	189
2008	195
2009 and thereafter	200

AMT relief

The AMT exemption amount (\$45,000) for a married couple filing a joint return is increased by \$1,000 in 2005, by an additional \$500 in 2006, and by an additional \$500 in every other year thereafter (i.e., in 2008, 2010, etc.), but in no event can the exemption amount exceed twice the exemption amount for unmarried individuals filing single returns. The exemption amount for married individuals filing a separate return is one-half the exemption amount for a married couple filing a joint return.

The provision also repeals the present-law provision that offsets the refundable child credit and the earned income credit by the amount of the alternative minimum tax.

EFFECTIVE DATE

The increase in the size of the 15-percent rate bracket is effective for taxable years beginning after December 31, 2003. The increase in the AMT exemption is effective for taxable years beginning after December 31, 2004. Finally, the provision to repeal the AMT offset of the refundable child credit and the earned income credit is effective for taxable years after December 31, 2001.

C. MARRIAGE PENALTY RELIEF AND SIMPLIFICATION RELATING TO THE EARNED INCOME CREDIT

PRESENT LAW

Eligible low-income workers are able to claim a refundable earned income credit (“EIC”). The amount of the credit an eligible taxpayer may claim depends upon the taxpayer’s income and whether the taxpayer has one, more than one, or no qualifying children.

Definition of earned income

To claim the EIC, the taxpayer must have earned income. Earned income consists of wages, salaries, other employee compensation, and net earnings from self-employment. Employee compensation includes anything of value received by the taxpayer from the employer in return for services of the employee, including nontaxable earned income. Nontaxable forms of compensation treated as earned income for EIC purposes include the following: (1) elective deferrals under a cash or deferred arrangement or section 403(b) annuity (sec. 402(g)); (2) employer contributions for nontaxable fringe benefits, including contributions for accident and health insurance (sec. 106), dependent care (sec. 129), adoption assistance (sec. 137), educational assistance (sec. 127), and miscellaneous fringe benefits (sec. 132); (3) salary reduction contributions under a cafeteria plan (sec. 125); (4) meals and lodging provided for the convenience of the employer (sec. 119), and (5) housing allowance or rental value of a parsonage for the clergy (sec. 107). Some of these items are not required to be reported on the Wage and Tax Statement (Form W-2), making it difficult for the taxpayer to ascertain the correct amount of nontaxable earned income.

Calculation of the credit

The maximum EIC is phased in as an individual's earned income increases. The credit phases out for individuals with earned income (or if greater, modified AGI) over certain levels. In the case of a married individual who files a joint return, the EIC both for the phasein and phaseout is calculated based on the couples' combined income. The EIC is not available to married taxpayers filing separate returns.

The credit is determined by multiplying the credit rate by the taxpayer's earned income up to a specified earned income amount. The maximum amount of the credit is the product of the credit rate and the earned income amount. The maximum credit amount applies to taxpayers with (1) earnings at or above the earned income amount and (2) modified AGI³ (or earnings, if greater) at or below the phase-out threshold level.

For taxpayers with modified AGI (or earned income, if greater) in excess of the phase-out threshold, the credit amount is reduced by the phase-out rate multiplied by the amount of earned income (or modified AGI, if greater) in excess of the phase-out threshold. In other words, the credit amount is reduced, falling to \$0 at the "breakeven" income level, the point where a specified percentage of "excess" income above the phase-out threshold exactly offsets the maximum amount of the credit. The earned income amount and the phase-out threshold are indexed for inflation. Table 5., below, shows the EIC parameters for taxable year 2001.⁴

TABLE 5.—EARNED INCOME CREDIT PARAMETERS (2001)

	Two or more qualifying children	One qualifying child	No qualifying children
Credit rate (percent)	40.00%	34.00%	7.65%
Earned income amount	\$10,020	\$7,140	\$4,760
Maximum credit	\$4,008	\$2,428	\$364
Phase out begins	\$13,090	\$13,090	\$5,950
Phase out rate (percent)	21.06%	15.98%	7.65%
Phase out ends	\$32,121	\$28,281	\$10,710

REASONS FOR CHANGE

The Committee believes that the present-law earned income amount penalizes some individuals because they receive a smaller EIC when they marry than if they had not married. The Committee believes increasing the earned income amount for married taxpayers who file a joint return will help to alleviate this penalty.

The definition of earned income is a source of complexity insofar as it includes nontaxable forms of employee compensation. Present law requires both the IRS and taxpayers to keep track of non-

³"Modified AGI" means AGI determined without regard to certain losses and increased by certain amounts not includible in gross income. The losses disregarded are: (1) net capital losses (up to \$3,000); (2) net losses from estates and trusts; (3) net losses from nonbusiness rents and royalties; (4) 75 percent of the net losses from businesses, computed separately with respect to sole proprietorships (other than farming), farming sole proprietorships, and other businesses. For purposes of (4), amounts attributable to a business that consists of the performance of services by the taxpayer as an employee are not taken into account. The amounts added to AGI to arrive at modified AGI include: (1) tax-exempt interest; and (2) nontaxable distributions from pensions, annuities, and individual retirement plans (but not nontaxable rollover distributions or trustee-to-trustee transfers). Sec. 32(c)(5).

⁴The table is based on Rev. Proc. 2001-13.

taxable amounts for determining EIC eligibility even though such amounts are generally not necessary for other tax purposes. Further, not all forms of nontaxable earned income are reported on Form W-2. As a result, a taxpayer may not know the correct amount of nontaxable earned income received during the year. Further, the IRS cannot easily determine such amounts. The Committee believes that significant simplification would result from redefining earned income to exclude amounts not includable in gross income.

EXPLANATION OF PROVISION

For married taxpayers who file a joint return, the provision increases the earned income amount used to calculate the EIC to 110 percent of the earned income amount for all other taxpayers eligible for the EIC.

The provision also simplifies the definition of earned income by excluding nontaxable earned income amounts from the definition of earned income for EIC purposes. Thus, under the provision, earned income includes wages, salaries, tips, and other employee compensation, if includable in gross income for the taxable year, plus net earnings from self-employment.

The provision repeals the present-law provision that reduces the EIC by the amount of an individual's alternative minimum tax.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

D. INCREASE AND EXPANSION OF THE CHILD TAX CREDIT

PRESENT LAW

Under present law, an individual may claim a \$500 tax credit for each qualifying child under the age of 17. In general, a qualifying child is an individual for whom the taxpayer can claim a dependency exemption and who is the taxpayer's son or daughter (or descendant of either), stepson or stepdaughter, or eligible foster child.

The child tax credit is phased out for individuals with income over certain thresholds. Specifically, the otherwise allowable child tax credit is reduced by \$50 for each \$1,000 (or fraction thereof) of modified AGI over \$75,000 for single individuals or heads of households, \$110,000 for married individuals filing joint returns, and \$55,000 for married individuals filing separate returns. Modified AGI is the taxpayer's total gross income plus certain amounts excluded from gross income (i.e., excluded income of U.S. citizens or residents living abroad (sec. 911); residents of Guam, American Samoa, and the Northern Mariana Islands (sec. 931); and residents of Puerto Rico (sec. 933)). The length of the phase-out range depends on the number of qualifying children. For example, the phase-out range for a single individual with one qualifying child is between \$75,000 and \$85,000 of modified AGI. The phase-out range for a single individual with two qualifying children is between \$75,000 and \$95,000.

In general, the child tax credit is nonrefundable. However, for families with three or more qualifying children, the child tax credit is refundable up to the amount by which the taxpayer's employee

share of social security taxes (i.e., FICA and HI taxes)⁵ exceeds the taxpayer's EIC.

Through 2001, the child tax credit generally reduces the individual's regular income tax and alternative minimum tax. Starting with taxable years beginning after December 31, 2001, the non-refundable child tax credit is allowed only to the extent that the individual's regular income tax liability exceeds the individual's tentative alternative minimum tax, and the refundable child tax credit is reduced by the amount of the individual's alternative minimum tax.

REASONS FOR CHANGE

The Committee believes that a tax credit for families with children recognizes the importance of helping families raise children. This provision doubles the child tax credit in order to provide additional tax relief to families to help offset the significant costs of raising a child. The Committee also believes that all families (rather than only families with three or more children) should be allowed a refundable child credit regardless of the number of qualifying children. This will extend family tax relief to many families that otherwise would not benefit from the child credit. Finally, the Committee believes that the benefits of the child credit should not be denied to taxpayers who are subject to the AMT. It is estimated that approximately 25 million taxpayers with children will benefit from the increases in the child tax credit each year.

EXPLANATION OF PROVISION

The provision increases the child tax credit to \$1,000, phased in over six years, beginning in 2001. Table 6, below, shows the proposed increase in the amount of the child tax credit under the provision.

TABLE 6.—PROPOSED INCREASE OF THE CHILD TAX CREDIT

Taxable year	Credit amount per child 2001
2001	\$600
2002	600
2003	700
2004	800
2005	900
2006 and thereafter	1,000

In addition, the provision extends the present-law refundability of the child tax credit to families with fewer than three children.

The provision allows the child tax credit to the extent of the full amount of the individual's regular income tax and alternative minimum tax, and the refundable child tax credit will no longer be reduced by the amount of the alternative minimum tax.

EFFECTIVE DATE

The provision is generally effective for taxable years beginning after December 31, 2000.

⁵ In the case of self-employed individuals, the credit is refundable up to the amount by which one-half of the individual's self-employment taxes (i.e., SECA taxes) exceeds the taxpayer's EIC.

E. TRANSFER TO SOCIAL SECURITY AND MEDICARE TRUST FUNDS
PRESENT LAW

Under present law, the Federal income tax collected with respect to a portion of social security benefits included in gross income is transferred either to the Social Security trust fund or the Medicare trust fund.

REASONS FOR CHANGE

The Committee finds it appropriate to ensure that the solvency of the Social Security and Medicare Trust Funds is not negatively impacted by the provisions of the bill.

EXPLANATION OF PROVISION

Under the provision, the amounts transferred to the Social Security and Medicare Trust Funds are determined as if the other provisions in the bill were not enacted. Thus, there is no reduction in transfers to these funds as a result of these provisions.

EFFECTIVE DATE

The provision is effective on the date of enactment.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 6.

MOTION TO REPORT THE BILL

The bill, H.R. 6, as amended, was ordered favorably reported by a roll call vote of 23 yeas to 16 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas	X	.....	.....	Mr. Rangel .....	.....	X	.....
Mr. Crane	X	.....	.....	Mr. Stark .....	.....	X	.....
Mr. Shaw	X	.....	.....	Mr. Matsui .....	.....	X	.....
Mrs. Johnson	X	.....	.....	Mr. Coyne .....	.....	X	.....
Mr. Houghton	X	.....	.....	Mr. Levin .....	.....	X	.....
Mr. Herger	X	.....	.....	Mr. Cardin .....	.....	X	.....
Mr. McCrery	X	.....	.....	Mr. McDermott .....	.....	X	.....
Mr. Camp	X	.....	.....	Mr. Kleczka .....	.....	X	.....
Mr. Ramstad	X	.....	.....	Mr. Lewis (GA) .....	.....	X	.....
Mr. Nussle	X	.....	.....	Mr. Neal .....	.....	X	.....
Mr. Johnson	X	.....	.....	Mr. McNulty .....	.....	X	.....
Ms. Dunn	X	.....	.....	Mr. Jefferson .....	.....	X	.....
Mr. Collins	X	.....	.....	Mr. Tanner .....	.....	X	.....
Mr. Portman .....	.....	.....	.....	Mr. Becerra .....	.....	.....	.....
Mr. English	X	.....	.....	Mrs. Thurman .....	.....	X	.....
Mr. Watkins	X	.....	.....	Mr. Doggett .....	.....	X	.....
Mr. Hayworth	X	.....	.....	Mr. Pomeroy .....	.....	X	.....
Mr. Weller	X	.....	.....		
Mr. Hulshof	X	.....	.....		
Mr. McClinnis	X	.....	.....		
Mr. Lewis (KY)	X	.....	.....		
Mr. Foley	X	.....	.....		
Mr. Brady	X	.....	.....		
Mr. Ryan	X	.....	.....		

VOTES ON AMENDMENTS

A roll call vote was conducted on the following amendment to the Chairman’s amendment in the nature of a substitute.

A substitute amendment by Mr. Rangel, was defeated by a roll call vote of 13 yeas to 26 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Shaw		X		Mr. Matsui	X		
Mrs. Johnson		X		Mr. Coyne	X		
Mr. Houghton		X		Mr. Levin	X		
Mr. Herger		X		Mr. Cardin	X		
Mr. McCreery		X		Mr. McDermott	X		
Mr. Camp		X		Mr. Kleczka	X		
Mr. Ramstad		X		Mr. Lewis (GA)	X		
Mr. Nussle		X		Mr. Neal	X		
Mr. Johnson		X		Mr. McNulty	X		
Ms. Dunn		X		Mr. Jefferson	X		
Mr. Collins		X		Mr. Tanner		X	
Mr. Portman				Mr. Becerra			
Mr. English		X		Mrs. Thurman		X	
Mr. Watkins		X		Mr. Doggett		X	
Mr. Hayworth		X		Mr. Pomeroy	X		
Mr. Weller		X					
Mr. Hulshof		X					
Mr. McClinnis		X					
Mr. Lewis (KY)		X					
Mr. Foley		X					
Mr. Brady		X					
Mr. Ryan		X					

IV. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 6 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2001–2006:

ESTIMATED REVENUE EFFECTS OF H.R. 6, THE “MARRIAGE PENALTY AND FAMILY TAX RELIEF ACT OF 2001,” AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

[Fiscal years 2001–2006, in billions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2006	2001–06
1. Standard deduction set at 2 times single for married filing jointly.	tyba 12/31/01	.....	– 4.0	– 6.0	– 6.2	– 6.1	– 6.3	– 28.6
2. 15% rate bracket set at 2 times single for married filing jointly beginning in 2004; 6-year phasein, repeal AMT offset of refundable credits; increase in AMT exemption amount (\$1,000 in 2005, and \$500 in 2006 and every other year thereafter).	tyba 12/31/01 & tyba 12/31/04	.....	– 0.1	– 0.3	– 3.2	– 7.9	– 13.1	– 24.5

ESTIMATED REVENUE EFFECTS OF H.R. 6, THE "MARRIAGE PENALTY AND FAMILY TAX RELIEF ACT OF 2001," AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS—Continued

[Fiscal years 2001–2006, in billions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2006	2001–06
3. Increase the earned income limit for purposes of the EIC for married filing joint returns by 10%; simplified computation of earned income.	tyba 12/31/01	.....	(¹)	-1.4	-1.5	-1.5	-1.5	-5.9
4. Increase the child tax credit to \$600 in 2001 and 2002, \$700 in 2003, \$800 in 2004, \$900 in 2005, and \$1,000 in 2006; apply large family refundability rule to all families; allow credits fully against the AMT.	tyba 12/31/00	(¹)	-5.8	-6.4	-10.6	-15.1	-19.5	-57.4
5. Transfer to Social Security and Medicare Trust Funds.	DOE							No Revenue Effect
Net total ²		(¹)	-9.9	-14.1	-21.5	-30.6	-40.4	-116.4

¹ Loss of less than \$50 million.

² Estimate includes the following effects on fiscal year outlays—2001: (3); 2002: 1.5; 2003: 3.0; 2004: 3.7; 2005: 4.4; 2006: 5.1; 2001–06: 17.7.

³ Less than \$50 million.

Legend for "Effective" column: DOE=date of enactment; tyba=taxable years beginning after.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX EXPENDITURES BUDGET AUTHORITY

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves new or increased budget authority (as detailed in the statement by the Congressional Budget Office ("CBO"); see Part IV.C., below). The Committee further states that the revenue reducing income tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET OFFICE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 26, 2001.

Hon. BILL THOMAS,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 6, the Marriage Penalty and Family Tax Relief Act of 2001.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Erin Whitaker.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

H.R. 6—Marriage Penalty and Family Tax Relief Act of 2001

Summary: The Marriage Penalty and Family Tax Relief Act of 2001 would increase the basic standard deduction for a married couple filing a joint return to twice that of a taxpayer filing a single return. Also, starting in 2004, the bill would expand gradually the 15-percent regular income tax rate bracket for a married couple filing a joint return so that the bracket becomes twice the size of the rate bracket of a taxpayer filing a single return in 2009 and thereafter. In addition, the bill would increase the alternative minimum tax (AMT) exemption amount for a married couple filing a joint return by \$1,000 in 2005, by an additional \$500 in 2006, and by an additional \$500 every other year thereafter.

H.R. 6 also would repeal the provision in current law that offsets the refundable child credit and earned income credit by the amount of the AMT. For married taxpayers who file a joint return, the bill would increase the amount of earned income used to calculate the earned income credit (EIC) to 110 percent of the amount used by all other taxpayers eligible for the EIC. In addition, starting in 2001, the bill would gradually increase the child tax credit, which would reach \$1,000 per qualifying child in 2006 and remain at that level thereafter. The bill would also make refundable a portion of the child tax credit for all families, not just those with three or more children as under current law. Unless otherwise noted, provisions in the bill would be effective on January 1, 2002.

The Joint Committee on Taxation (JCT) estimates that the bill would decrease revenues by \$4 million in 2001, by \$98.9 billion over the 2001–2006 period, and by \$354.4 billion over the 2001–2011 period. In addition, JCT estimates that the bill would increase direct spending by about \$1 million in 2001, by \$17.6 billion over the 2001–2006 period, and by \$44.9 billion over the 2001–2011 period. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 6 is shown in the following table. JCT provided at revenue and outlay estimates of provisions for the bill.

	By fiscal year, in millions of dollars—					
	2001	2002	2003	2004	2005	2006
CHANGES IN REVENUES						
Estimated Revenues	-4	-8,456	-11,199	-17,843	-26,182	-35,255
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	1	1,463	2,950	3,673	4,368	5,101
Estimated Outlays	1	1,463	2,950	3,673	4,368	5,101

Source: Revenues and outlays are estimated by the Joint Committee on Taxation. Budget authority is estimated by the Congressional Budget Office.

Most of the budgetary effects of H.R. 6 are reductions in revenues. However, H.R. 6 also would increase outlays by increasing the child tax credit and making it refundable for taxpayers with one or two children, and by increasing the earned income amount used by married taxpayers to calculate the EIC. Those changes would increase child and earned income tax credits, both of which are refundable under the tax code and counted in the budget as

outlays to the extent that taxpayers receive net payments. In addition, H.R. 6 would reduce the amount of taxes owed by increasing the standard deduction and expanding the 15-percent tax bracket, among other changes, resulting in a large portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2001	2002	2003	2004	2005	2006	2007	2008	0009	2010	2011
Changes in receipts	-4	-8,456	-11,199	-17,843	-26,182	-35,244	-42,516	-47,645	-52,324	-54,947	-58,002
Changes in outlays ..	1	1,463	2,950	3,673	4,368	5,101	5,772	5,650	5,449	5,303	5,149

Intergovernmental and private-sector impact: JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in UMRA.

Estimate prepared by: Erin Whitker.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis. Robert A. Sunshine, Assistant Director for Budget Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. STATEMENT OF GENERAL PERFORMANCE GOALS AND OBJECTIVES

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. CONSTITUTIONAL AUTHORITY STATEMENT

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises . . ."), and from the 16th Amendment to the Constitution.

D. INFORMATION RELATING TO UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104-4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

E. APPLICABILITY OF HOUSE RULE XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that “A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present.” The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. TAX COMPLEXITY ANALYSIS

The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service (“IRS”) and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and the Treasury Department regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

1. Standard deduction tax relief (sec. 2 of the bill)

Summary description of provision

The bill increases the basic standard deduction for married taxpayers filing a joint return to twice the basic standard deduction for an unmarried individual for taxable years beginning after December 31, 2001.

Number of affected taxpayers

It is estimated that the provision will affect approximately 23 million individual returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. The higher basic standard deduction should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision. In addition, the provision should not increase individuals' tax preparation costs.

Some taxpayers who currently itemize deductions may respond to the provision by claiming the increased standard deduction in lieu of itemizing. According to estimates by the staff of the Joint Committee on Taxation, approximately three million individual tax returns will realize greater tax savings from the increased standard deduction than from itemizing their deductions. In addition to the tax savings, such taxpayers will no longer have to file Schedule A to Form 1040 or need to engage in the record keeping inherent in itemizing below-the-line deductions. Moreover, by claiming the standard deduction, such taxpayers may qualify to use simpler versions of the Form 1040 (i.e., Form 1040EZ or Form 1040A) that are not available to individuals who itemize their deductions. These forms simplify the return preparation process by eliminating from the Form 1040 those items that do not apply to particular taxpayers.

This reduction in complexity and record keeping also may result in a decline in the number of individuals using a tax preparation service or a decline in the cost of using such a service. Furthermore, if the provision results in a taxpayer qualifying to use one of the simpler versions of the Form 1040, the taxpayer may be eligible to file a paperless Federal tax return by telephone. The provision also should reduce the number of disputes between taxpayers and the IRS regarding substantiation of itemized deductions.

2. Expansion of the 15-percent rate bracket (sec. 3 of the bill)

Summary description of provision

The provision increases the size of the 15-percent regular income tax rate bracket for married individuals filing a joint return to twice the size of the corresponding rate bracket for unmarried individuals. This increase is phased in over six years, starting with taxable years beginning after December 31, 2003. It is fully effective for taxable years beginning after December 31, 2008.

Number of affected taxpayers

It is estimated that the provision will affect approximately 20 million individual tax returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. The increased size of the 15-percent regular income tax rate bracket for married individuals filing joint returns should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision.

3. Increase the child tax credit (sec. 5 of the bill)

Summary description of provision

The provision increases the child tax credit from \$500 to \$1,000, phased in over a six-year period beginning in 2001, extends refundability of the credit to families with fewer than three children, allows the credit to the extent of the full regular tax and alternative minimum tax, and repeals the provision that reduces the refundable child credit by the individual's alternative minimum tax.

Number of affected taxpayers

It is estimated that the provisions will affect approximately 25 million individual tax returns.

Discussion

Individuals should not have to keep additional records due to this provision, nor will additional regulatory guidance be necessary to implement this provision. More taxpayers will have to perform the additional calculations necessary to determine eligibility for the refundable child credit but this should not lead to an increase in disputes with the IRS. For taxpayer's with less than two children, however, the provision can be expected to increase tax preparation costs and the number of individuals using a tax preparation service. (See, also, the discussion of the interactive effect of the child credit and the individual alternative minimum tax, below.)

4. The effect of the alternative minimum tax rules

The provisions relating to the increased standard deduction, the expanded 15-percent rate bracket, and the increased child tax credit are affected by the alternative minimum tax rules. Although the bill provides relief from the alternative minimum tax, additional individuals will need to make the necessary calculations to determine the applicability of the alternative minimum tax rules. It is estimated that for the year 2010, two million additional individual income tax returns that will benefit from the increased standard deduction, expanded 15-percent rate bracket, and increased child tax credit would be affected by the alternative minimum tax. For these taxpayers, it could be expected that the interaction of the provisions with the alternative minimum tax rules would result in an increase in tax preparation costs and in the number of individuals using a tax preparation service.

The bill also provides that the alternative minimum tax exemption amount for married individuals filing a joint return is increased. This should reduce complexity for affected taxpayers. It is estimated that, for the year 2010, the provision increasing the alternative minimum tax exemption amount will apply to fifteen million individual income tax returns. Some of these taxpayers will no longer be affected by the alternative minimum tax.

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, March 26, 2001.

Ms. LINDY L. PAULL,
Chief of Staff, Joint Committee on Taxation,
Washington, DC

DEAR MS. PAULL: Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the provisions from the House Committee on Ways and Means markup of the "Marriage Penalty and Family Tax Relief Act of 2001" that you identified for complexity analysis in your letter of March 21, 2001. Our comments are based on the description of those provisions in JCX-16-01, Joint Committee on Taxation, Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 6, March 21, 2001.

Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provisions.

Sincerely,

CHARLES O. ROSSOTTI.

Enclosure.

COMPLEXITY ANALYSIS OF MARRIAGE PENALTY AND FAMILY
TAX RELIEF ACT OF 2001

STANDARD DEDUCTION

Provision

Increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return, effective for tax years beginning after December 31, 2001.

IRS and Treasury comments

- The increase in the basic standard deduction for married taxpayers would be incorporated in the instructions for Forms 1040, 1040A, 1040EZ, and on Forms 1040, 1040A, 1040EZ, and 1040-ES for 2002. No new forms would be required.

- Programming changes would be required to reflect the increased standard deduction for married taxpayers. Currently, IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.

- Compared with current law, the larger standard deduction would reduce the number of taxpayers who itemize deductions by 3.1 million in 2006 and by 2.9 million in 2011.

- As a result of this provision, the number of taxpayers affected by the alternative minimum tax (AMT) would change, as explained in the separate discussion of the AMT at the end of this analysis.

15-PERCENT RATE BRACKET

Provision

Increase the width of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the width of the corresponding rate bracket for an unmarried individual filing a single return. The increase is phased in over 6 years (2004–2009) and is fully effective in 2009.

IRS and Treasury comments

- The increase in the width of the 15-percent rate bracket for married taxpayers would be incorporated in the tax tables and the tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, 1040NR–EZ, and on Form 1040–ES for each year during the phase-in period (2004–2009). No new forms would be required.
- Programming changes would be required to reflect the expanded 15-percent rate bracket. Currently, the IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by the provision would be included during that process.
- As a result of this provision, the number of taxpayers affected by the AMT would change, as explained in the separate discussion of the AMT at the end of this analysis.

AMT EXEMPTION

Provision

Increase the AMT exemption amount for a married couple filing a joint return by: (a) \$1,000 in 2005, (b) an additional \$500 in 2006, and (c) an additional \$500 in every other year thereafter (i.e., 2008, 2010, etc.) until the exemption amount is twice the AMT exemption amount for an unmarried individual filing a single return.

IRS and Treasury comments

- The increase in the AMT exemption amount for married taxpayers would be incorporated on Forms 6251 and 1040–ES and in the instructions for Form 6251, 1040, 1040A, and 1040NR for 2005 and later years. The increase would also be reflected on Form 8801 for 2006 and later years. No new forms would be required.
- Programming changes would be required to reflect the increased exemption amount. Currently, the IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.
- The increase in the AMT exemption amount, by itself, would reduce the number of AMT filers and the number of taxpayers who would have to make AMT calculations only to find that they do not have any AMT liability. See the separate discussion at the end of this analysis for the im-

pact of this bill on the number of taxpayers whose tax liability would be affected by the AMT.

CHILD TAX CREDIT

Provision

Increase the amount of the child tax credit to \$1,000 for each qualifying child. The higher level of the credit is phased in over 6 years beginning in 2001 as follows: (a) \$600 in 2001 and 2002, (b) \$700 in 2003, (c) \$800 in 2004, (d) \$900 in 2005, and (e) \$1,000 in 2006 and thereafter.

Extend the present-law refundable child tax credit to families with fewer than three children, allow the child tax credit to the extent of the full amount of the individual's regular income tax and AMT, repeal the present-law provision (scheduled to first take effect in 2002) that reduces the refundable credits by the amount of the AMT. Effective generally for tax years beginning after December 31, 2001.

IRS and Treasury comments

- No new forms would be required as a result of any of the above child tax credit provisions.
- The increase in the amount of the child tax credit would be incorporated in the instructions for Forms 1040, 1040A, and 1040NR for 2001 and later years. This increase also affects the amount of the refundable child tax credit for residents of Puerto Rico and would be reflected in the instructions for Forms 1040-PR and 1040-SS for 2001 and later years.
- The extension of the refundable child tax credit to families with fewer than three qualifying children would be incorporated in the instructions for Forms 1040, 1040A, 1040NR, 1040-PR, 1040-SS, and 8812 for 2001.
- The increase in the amount of the credit would also be incorporated on Form 1040-ES for 2003 and later years. The IRS would have to advise taxpayers who made estimated tax payments for 2001 how they can adjust subsequent estimated tax payments for 2001 to reflect the increased credit.
- Because the proposal to allow the child tax credit to the extent of the full amount of the individual's regular income tax and AMT merely extends the law in effect for 2000 and 2001, implementing the proposal would require no changes to IRS forms, publications or programming. Failure to enact this proposal would significantly increase burden for all taxpayers in determining the amount, if any, of their child tax credit for 2002 and thereafter. See the separate discussion at the end of this analysis for the impact of this bill on the number of taxpayers with tax liability affected by the AMT.
- Because the present-law AMT reduction of the refundable child tax credit is not scheduled to take effect until 2002 (i.e., there is no reduction for 2001), the proposal to repeal the reduction would have little or no impact on IRS forms, publications or programming. Failure to enact this

proposal would require the addition of two lines on Form 8812 for 2002.

- Programming changes would be required to reflect the increased credit amount and the extension of the refundable credit to families with fewer than three children. Currently, the IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.

IMPACT OF THE BILL’S PROVISIONS ON THE AMT

- Compared to current law, for tax years 2002 through 2007 the provisions of the bill would reduce the number of taxpayers whose liability is affected by the AMT. However, beginning in 2008, the provisions of the bill would increase the number of taxpayers whose liability is affected by the AMT.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

* * * * *

Subtitle A—Income Taxes

* * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter A—Determination of Tax Liability

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PART I—TAX ON INDIVIDUALS

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SECTION 1. TAX IMPOSED.

(a) * * *

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(f) *PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET; ADJUSTMENTS IN TAX TABLES SO THAT INFLATION WILL NOT RESULT IN TAX INCREASES.*—

(1) * * *

(2) **METHOD OF PRESCRIBING TABLES.**—The table which under paragraph (1) is to apply in lieu of the table contained in sub-

section (a), (b), (c), (d), or (e), as the case may be, with respect to taxable years beginning in any calendar year shall be prescribed—

(A) *except as provided in paragraph (8)*, by increasing the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed under such table by the cost-of-living adjustment for such calendar year,

* * * * *
 (6) ROUNDING.—
 (A) * * *

(B) TABLE FOR MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a married individual filing a separate return, subparagraph (A) [(other than with respect to subsection (c)(4) of section 63 (as it applies to subsections (c)(5)(A) and (f) of such section) and section 151(d)(4)(A)) shall be applied] (other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied by substituting “\$25” for “\$50” each place it appears.

* * * * *
 (8) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—

(A) IN GENERAL.—With respect to taxable years beginning after December 31, 2003, in prescribing the tables under paragraph (1)—

- (i) the maximum taxable income in the lowest rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be the applicable percentage of the maximum taxable income in the lowest rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and
- (ii) the comparable taxable income amounts in the table contained in subsection (d) shall be 1/2 of the amounts determined under clause (i).

(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in calendar year—	The applicable percentage is—
2004	172
2005	178
2006	183
2007	189
2008	195
2009 and thereafter	200.

(C) ROUNDING.—If any amount determined under subparagraph (A)(i) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

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PART IV—CREDITS AGAINST TAX
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Subpart A—Nonrefundable Personal Credits

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SEC. 23. ADOPTION EXPENSES.

(a) * * *

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(c) **CARRYFORWARDS OF UNUSED CREDIT.**—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section [and section 1400C] and sections 24 and 1400C), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year. No credit may be carried forward under this subsection to any taxable year following the fifth taxable year after the taxable year in which the credit arose. For purposes of the preceding sentence, credits shall be treated as used on a first-in first-out basis.

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SEC. 24. CHILD TAX CREDIT.

[(a) **ALLOWANCE OF CREDIT.**—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to \$500 (\$400 in the case of taxable years beginning in 1998).]

(a) **ALLOWANCE OF CREDIT.**—

(1) **IN GENERAL.**—*There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to the per child amount.*

(2) **PER CHILD AMOUNT.**—*For purposes of paragraph (1), the per child amount shall be determined as follows:*

<i>In the case of any taxable year beginning in—</i>	<i>The per child amount is—</i>
2001 and 2002	\$ 600
2003	700
2004	800
2005	900
2006 or thereafter	1,000.

(b) **[LIMITATION BASED ON ADJUSTED GROSS INCOME.—] LIMITATIONS.**—

(1) **[IN GENERAL.—] LIMITATION BASED ON ADJUSTED GROSS INCOME.**—The amount of the credit allowable under subsection (a) shall be reduced (but not below zero) by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer’s modified adjusted gross income exceeds the threshold amount. For purposes of the preceding sentence, the term “modified adjusted gross income” means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

* * * * *

(3) **LIMITATION BASED ON AMOUNT OF TAX.**—*The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—*

(A) *the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over*

(B) the sum of the credits allowable under this subpart (other than this section) and section 27 for the taxable year.

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(d) ADDITIONAL CREDIT FOR FAMILIES [WITH 3 OR MORE CHILDREN] PAYING SOCIAL SECURITY TAXES.—

(1) IN GENERAL.—[In the case of a taxpayer with three or more qualifying children for any taxable year, the] The aggregate credits allowed under subpart C shall be increased by the lesser of—

(A) the credit which would be allowed under this section without regard to this subsection and the limitation under [section 26(a)] subsection (b)(3); or

(B) the amount by which the [aggregate amount of credits allowed by this subpart] amount of credit allowed by this section (without regard to this subsection) would increase if the limitation imposed by [section 26(a)] subsection (b)(3) were increased by the excess (if any) of—

(i) the taxpayer's Social Security taxes for the taxable year, over

(ii) the credit allowed under section 32 (determined without regard to subsection (n)) for the taxable year.

The amount of the credit allowed under this subsection shall not be treated as a credit allowed under this subpart and shall reduce the amount of credit otherwise allowable under subsection (a) without regard to [section 26(a)] subsection (b)(3).

[(2) REDUCTION OF CREDIT TO TAXPAYER SUBJECT TO ALTERNATIVE MINIMUM TAX.—For taxable years beginning after December 31, 2001, the credit determined under this subsection for the taxable year shall be reduced by the excess (if any) of—

[(A) the amount of tax imposed by section 55 (relating to alternative minimum tax) with respect to such taxpayer for such taxable year, over

[(B) the amount of the reduction under section 32(h) with respect to such taxpayer for such taxable year.]

[(3)] (2) SOCIAL SECURITY TAXES.—For purposes of paragraph (1)—

(A) * * *

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SEC. 25. INTEREST ON CERTAIN HOME MORTGAGES.

(a) * * *

* * * * *

(e) SPECIAL RULES AND DEFINITIONS.—For purposes of this section—

(1) CARRYFORWARD OF UNUSED CREDIT.—

(A) * * *

* * * * *

(C) Applicable tax limit.—For purposes of this paragraph, the term “applicable tax limit” means the limitation imposed by section 26(a) for the taxable year reduced by the sum of the credits allowable under this subpart (other than this section and sections 23, 24, and 1400C) .

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SEC. 26. LIMITATION BASED ON TAX LIABILITY; DEFINITION OF TAX LIABILITY.

- (a) LIMITATION BASED ON AMOUNT OF TAX.—
 - (1) IN GENERAL.—The aggregate amount of credits allowed by this subpart (*other than section 24*) for the taxable year shall not exceed the excess (if any) of—
 - (A) * * *

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Subpart C—Refundable Credits

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SEC. 32. EARNED INCOME.

- (a) * * *
- (b) PERCENTAGES AND AMOUNTS.—For purposes of subsection (a)—
 - (1) * * *
 - (2) [AMOUNTS.—The earned] AMOUNTS.—
 - (A) IN GENERAL.—Subject to subparagraph (B), the earned income amount and the phaseout amount shall be determined as follows:

In the case of an eligible individual with:	The earned income amount is:	The phase- out amount is:
1 qualifying child	\$6,330	\$11,610
2 or more qualifying children	\$8,890	\$11,610
No qualifying children	\$4,220	\$ 5,280

(B) JOINT RETURNS.—In the case of a joint return, the earned income amount determined under subparagraph (A) shall be 110 percent of the otherwise applicable amount. If any amount determined under the preceding sentence is not a multiple of \$10, such amount shall be rounded to the nearest multiple of \$10.

- (c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—
 - (1) * * *
 - (2) EARNED INCOME.—
 - (A) The term “earned income” means—
 - (i) wages, salaries, tips, and other employee compensation, *but only if such amounts are includible in gross income for the taxable year*, plus

* * * * *

[(h) REDUCTION OF CREDIT TO TAXPAYERS SUBJECT TO ALTERNATIVE MINIMUM TAX.—The credit allowed under this section for the taxable year shall be reduced by the amount of tax imposed by section 55 (relating to alternative minimum tax) with respect to such taxpayer for such taxable year.]

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PART VI—ALTERNATIVE MINIMUM TAX

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SEC. 55. ALTERNATIVE MINIMUM TAX IMPOSED.

(a) * * *

* * * * *

(d) EXEMPTION AMOUNT.—For purposes of this section—

(1) EXEMPTION AMOUNT FOR TAXPAYERS OTHER THAN CORPORATIONS.—In the case of a taxpayer other than a corporation, the term “exemption amount” means—

(A) * * *

(B) \$33,750 in the case of an individual who—

- (i) is not a married individual, and
-
- (ii) is not a surviving spouse, [and]

[(C) \$22,500 in the case of—

[(i) a married individual who files a separate return,
or

[(ii) an estate or trust.]

*(C) 50 percent of the dollar amount applicable under paragraph (1)(A) in the case of a married individual who files a separate return, and**(D) \$22,500 in the case of an estate or trust.*

For purposes of this paragraph, the term “surviving spouse” has the meaning given to such term by section 2(a), and marital status shall be determined under section 7703.

* * * * *

(3) PHASE-OUT OF EXEMPTION AMOUNT.—The exemption amount of any taxpayer shall be reduced (but not below zero) by an amount equal to 25 percent of the amount by which the alternative minimum taxable income of the taxpayer exceeds—

(A) * * *

* * * * *

(C) \$75,000 in the case of a taxpayer described in [paragraph (1)(C)] *subparagraph (C) or (D) of paragraph (1).*In the case of a taxpayer described in paragraph (1)(C)[(i)], alternative minimum taxable income shall be increased by the lesser of (i) 25 percent of the excess of alternative minimum taxable income (determined without regard to this sentence) over [\$165,000 or (ii) \$22,500] *the minimum amount of such income (as so determined) for which the exemption amount under paragraph (1)(C) is zero, or (ii) such exemption amount (determined without regard to this paragraph).*

(4) ADJUSTMENT OF EXEMPTION AMOUNT FOR JOINT RETURNS.—

(A) IN GENERAL.—*The dollar amount applicable under paragraph (1)(A) for 2008 and each even-numbered calendar year thereafter—**(i) shall be \$500 greater than the dollar amount applicable under paragraph (1)(A) for the prior even-numbered calendar year, and**(ii) shall apply to taxable years beginning in such even-numbered calendar year and in the succeeding calendar year.**In no event shall the dollar amount applicable under paragraph (1)(A) exceed twice the dollar amount applicable under paragraph (1)(B).*

(B) EXEMPTION AMOUNTS FOR 2005, 2006, AND 2007.—The dollar amount applicable under paragraph (1)(A) shall be—

- (i) \$46,000 for taxable years beginning in 2005, and
- (ii) \$46,500 for taxable years beginning in 2006 or 2007.

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Subchapter B—Computation of Taxable Income

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PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

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SEC. 63. TAXABLE INCOME DEFINED.

(a) * * *

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(c) STANDARD DEDUCTION.—For purposes of this subtitle—

(1) * * *

(2) BASIC STANDARD DEDUCTION.—For purposes of paragraph

(1), the basic standard deduction is—

(A) **[\$5,000]** 200 percent of the dollar amount in effect under subparagraph (C) for the taxable year in the case of—

(i) a joint return, or

(ii) a surviving spouse (as defined in section 2(a)),

(B) \$4,400 in the case of a head of household (as defined in section 2(b)), or

(C) \$3,000 **[**in the case of an individual who is not married and who is not a surviving spouse or head of household, or**]** in any other case.

[(D) \$2,500 in the case of a married individual filing a separate return.]

* * * * *

(4) ADJUSTMENTS FOR INFLATION.—In the case of any taxable year beginning in a calendar year after 1988, each dollar amount contained in paragraph (2) or (5) or subsection (f) shall be increased by an amount equal to—

(A) * * *

* * * * *

The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).

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Subchapter N—Tax Based on Income From Sources Within or Without the United States

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PART III—INCOME FROM SOURCES WITHOUT THE UNITED STATES

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Subpart A—Foreign Tax Credit

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SEC. 904. LIMITATION ON CREDIT.

(a) * * *

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(h) **COORDINATION WITH NONREFUNDABLE PERSONAL CREDITS.**—In the case of an individual, for purposes of subsection (a), the tax against which the credit is taken is such tax reduced by the sum of the credits allowable under subpart A of part IV of subchapter A of this chapter (*other than section 24*). This subsection shall not apply to taxable years beginning during 2000 or 2001.

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Subchapter W—District of Columbia Enterprise Zone

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SEC. 1400C. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT OF COLUMBIA.

(a) * * *

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(d) **CARRYOVER OF CREDIT.**—If the credit allowable under subsection (a) exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under subpart A of part IV of subchapter A (other than this section *and section 24*), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

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VII. DISSENTING VIEWS

The Democratic Members of the Committee on Ways and Means strongly support marriage penalty relief and tax benefits for families with children. Our Democratic substitute provides them tax benefits and it provides them in the context of an overall tax plan that is fiscally responsible, fair, and honest. It also provides tax benefits in the context of an overall budget framework that ensures sufficient resources for many bipartisan priorities such as prescription drug benefits for older Americans.

The bill reported by the Republican Members of the Committee is the second installment of an excessive overall tax plan that does not meet any of the standards that we believe are necessary for tax relief. The fact that the Republicans have chosen to pursue their tax program in separate installments is evidence that even they are troubled by its overall size and unfairness. Rather than deal with these problems directly by changing their plan, they seek to hide them by enacting the plan in installments. We continue to resist that strategy.

Our dissenting views to H.R. 3, the first installment of the Republican tax reduction, clearly set out our priorities. We do not intend to repeat that entire discussion here, but want to comment on several specifics of this installment of the overall plan.

Fiscal responsibility

The House Republicans have responded to our demand for a budget framework by proposing a bad framework which deliberately understates the funding that will be required for a Medicare prescription drug benefit, education, debt reduction, defense, agriculture, veterans and other priorities. The House Republican budget framework was not designed with a desire to determine realistically the funding priorities of the American people. It was designed with the single purpose of accommodating President Bush's \$1.6 trillion tax reduction plan.

An example of the hypocrisy of the House budget resolution can be seen from Attorney General Ashcroft's comments following the March 22, 2001 school shooting in El Cajon, California. He was asked on national television what the Federal government can do to prevent such shootings. He pointed out that the Federal COPS Program provided funding to the locality in which the school was located and that the program may have made possible the prompt police action. The COPS program has been targeted for elimination by the Republicans in their budget resolution.

As we mentioned in our prior dissenting views, the budget resolution is based on highly uncertain budget projections. Recent events in the economy and reports of growing medical cost inflation makes those budget projections even more suspect than they were in January. We should not risk our economy or our ability to pro-

tect Medicare and Social Security based on those uncertain projections.

On Monday of this week the Trustees of the Social Security and Medicare Trust Funds released a report on the solvency of those funds. In that report, they used economic assumptions far less optimistic than the economic assumptions underlying President Bush's tax reduction plan. The Republican's are following the strategy of using conservative economic assumptions to support their drive to deny guaranteed benefits under the Social Security and Medicare systems. At the same time, they are using very optimistic assumptions to justify their drive to provide enormous tax reductions to the wealthiest segment of our society.

Fairness

We commend Chairman Thomas for the proposals in his bill that would expand the Earned Income Tax Credit and that would eliminate some of the more egregious provisions of President Bush's child credit proposal. We are particularly pleased with his recognition of the important role of the EITC in providing work incentives. It is a refreshing change after six years of unrelenting Republican hostility to the program. We are hopeful that his bill marks the end of partisan disputes on this issue and will lead to further attempts to improve the program on a bipartisan basis.

However, the improvements made by the Chairman to the Bush proposals do little to change the overall unfairness of the Republican tax plan. This legislation is one of several that will be combined to create excessive tax cuts which will provide a disproportionate amount of benefits to the wealthiest of our society.

Honesty

The rhetoric surrounding the Committee bill promises far larger tax relief than the amount which actually would be delivered under the small print of the bill. In this respect H.R. 6, the second installment of the Bush tax program, is no different from the first installment that already has been passed by the House.

The chairman has emphasized the fact that his bill provides partial refundability of the family credit. He does not mention the fact that the partial refundability provision is extraordinarily complicated and will not benefit low income families because of its interaction with the Earned Income Tax Credit. Families with two children will receive no benefit from the partial refundability provision until their income exceeds \$27,000. One assumes that refundability will assist most low-income families. That is not the case with the Republican bill.

The rhetoric surrounding the Committee bill promises a \$1,000 family credit but does mention the fact that the credit increase is not fully effective until 2006. Many families with children will never see the full family credit because their children will be over 16 years old in 2006. Those families will face the unhappy news that the Chairman's bill does not continue the current law waiver of the alternative minimum tax limitations on the credits for college expenses. They could lose \$1,500 of tax savings for each child in college benefits available currently because of this failure.

The rhetoric promises marriage penalty relief for families that do not itemize deductions on their tax returns. Again, the rhetoric fails to mention that no part of that relief is effective until 2004 and the relief is not fully effective until 2009. The rhetoric also fails to mention that the alternative minimum tax will deny much of that promised marriage penalty relief if the family happens to reside in a State with income taxes.

Process

During the Committee markup, the Administration spokesperson was asked whether the Administration supported the Committee bill even though it made fairly significant changes to President Bush's proposals. He responded that the Administration supports the Committee bill because it advances the process. His failure to endorse the substance of the bill is indicated by the following table that shows that the Congressional Republican tax plans can not fit within the President's \$1.6 trillion 10-year-cost cap. The following list shows how Republican tax-cut initiatives add up to much more than is prudent.

The following list shows how Republican tax-cut initiatives add up to much more than is prudent.

	<i>10-year cost in billions</i>
Individual Income Tax Rate Reductions (H.R. 3 as passed by House)	\$958
Committee bill with child credit increase and marriage penalty relief (to be considered on Floor this week)	399
Phase-out of estate and gift taxes, as proposed in Bush budget	267
Bush proposal for tax incentives for charitable contributions (allowing charitable deduction to non-itemizers, allowing withdrawals from IRAs for charitable purposes, and increasing limitation on corporate charitable contributions)	56
Bush education IRAs	6
Pension/IRA liberalizations passed by House last year.	64
Bush proposal for permanent extension of research credit.	50
Permanent extension of other expiring tax provisions, including work opportunity tax credit and treatment of foreign financial services businesses.	43
Bush proposal for health-related tax benefits.	123
Small business tax provisions as passed by the House last year.	36
Minimal fix to alternative minimum tax required as a result of Republican rate reductions.	292
Capital gains tax cut	103
Total tax reductions	2,397
Debt service cost	556
Total budget effect	2,953

The Bush Administration seems intent on reversing many of the policies of the Clinton Administration. The Bush Administration already has weakened worker's safety and environmental protections. The Bush Administration also seems insistent on abandoning the fiscal discipline that was an important part of the Clinton economic program. The recent turmoil in the financial markets would lead one to question the wisdom of that policy change. We are hopeful that the Republican Members of Congress are willing to reexamine the Bush program and attempt to reach bipartisan consensus of tax relief.

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