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I. SUMMARY AND BACKGROUND

A. Purpose and Summary

The bill, H.R. 2, as amended, provides needed economic growth incentives and makes other necessary changes to the tax laws.

The bill provides net tax reductions of over $475 billion over fiscal years 2003-2008. This will provide needed income tax relief, stimulate the economy, and promote long-term economic growth.

The amount of the child credit is increased to $1,000 for 2003 through 2005. For 2003, the increased amount of the child credit will be paid in advance beginning in July 2003 on the basis of information on each taxpayer's 2002 return filed in 2003. Advance payments will be made in a similar manner to the advance payment checks issued by the Treasury in 2001 to reflect the creation of the 10-percent regular income tax rate bracket.

The bill accelerates the increase in the basic standard deduction amount for joint returns to twice the basic standard deduction amount for single returns effective for 2003, 2004, and 2005. Also, the bill accelerates the increase of the size of the 15-percent regular income tax rate bracket for joint returns to twice the width of the 15-percent regular income tax rate bracket for single returns effective for 2003, 2004, and 2005.

The bill accelerates the scheduled increase in the taxable income levels for the ten-percent rate bracket from 2008 to 2003, 2004, and 2005. Also, the bill accelerates the reductions in the regular income tax rates in excess of the 15-percent regular income tax rate that are scheduled for 2004 and 2006. The bill increases the AMT exemption amount for married taxpayers filing a joint return and surviving spouses to $64,000, and for unmarried taxpayers to $43,250, for taxable years beginning in 2003, 2004, and 2005.

The bill provides an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property. Qualified property is defined in the same manner as for purposes of the 30-percent additional first-year depreciation deduction provided by the Job Creation and Workers Assistance Act of 2002, except that the applicable time period for acquisition (or self construction) of the property is modified. In general, in order to qualify the property must be acquired after May 5, 2003, and before January 1, 2006, and no binding written contract for the acquisition is in effect before May 6, 2003. Property eligible for the 50-percent additional first year depreciation deduction is not eligible for the 30-percent additional first year depreciation deduction.

The bill provides that the maximum dollar amount that may be deducted under section 179 is increased to $100,000 for property placed in service in 2003 through 2007. In addition, the $200,000 amount is increased to $400,000 for property placed in service in 2003 through 2007. Both of these dollar limitations are indexed annually for inflation for taxable years beginning after 2003 and before 2008. The bill also includes off-the-shelf computer software placed in service beginning in 2003 through 2007, as qualifying property. With respect to a taxable year beginning after 2002 and before 2008, the bill permits taxpayers to make or revoke expensing elections on amended returns without the consent of the Commissioner.

The bill reduces the 10- and 20-percent rates on the adjusted net capital gain to five and 15 percent, respectively. These lower rates apply to both the regular tax and the alternative minimum tax. The lower rates apply to assets held more than one year. The bill applies to taxable years ending on or after May 6, 2003, and beginning before January 1, 2013.

Finally, under the bill, dividends received by an individual shareholder from domestic corporations are treated as net capital gain for purposes of applying the capital gain tax rates. This treatment applies for purposes of both the regular tax and the alternative minimum tax. Thus, under the proposal, dividends will be taxed at rates of five and 15 percent, the same rates applicable to net capital gain.

B. Background and Need for Legislation

The provisions of the bill reflect the need for an economic stimulus and growth package in a financially prudent manner. The provisions of the bill should serve to improve the economy. The bill also comports with the continuing goal to provide additional tax relief to the American people.

C. Legislative History

The House Committee on Ways and Means marked up the Jobs and Growth Reconciliation Tax Act of 2003 on May 6, 2003, and ordered the bill, as amended, favorably reported by a vote of 24 to 15.

II. EXPLANATION OF THE BILL

TITLE I – ACCELERATION OF CERTAIN PREVIOUSLY ENACTED TAX REDUCTIONS

A. Accelerate the Increase in the Child Tax Credit (sec. 101 of the bill and sec. 24 of the Code)

Present Law

In general

For 2003, an individual may claim a $600 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 descendent of either), stepson or stepdaughter (or descendent of either), or eligible foster child.

The child tax credit is scheduled to increase to $1,000, phased in over several years.

Table 1, below, shows the scheduled increases of the child tax credit as provided under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA").

Table 1.–Scheduled Increase of the Child Tax Credit

Taxable Year	Credit Amount Per Child
2003-2004	$600
2005-2008	$700
2009	$800
2010[1]	$1,000

[1] The credit reverts to $500 in taxable years beginning after December 31, 2010, under the sunset provision of EGTRRA.

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 adjusted gross income 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.[1] 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

[1] Modified adjusted gross income 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)).

child is between $75,000 and $85,000 of modified adjusted gross income. The phase-out range for a single individual with two qualifying children is between $75,000 and $95,000.

The amount of the tax credit and the phase-out ranges are not adjusted annually for inflation.

Refundability

For 2003, the child credit is refundable to the extent of 10 percent of the taxpayer's earned income in excess of $10,500.[2] The percentage is increased to 15 percent for taxable years beginning in 2005 and thereafter. Families with three or more children are allowed a refundable credit for the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit, if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of $10,500 (for 2003). The refundable portion of the child credit does not constitute income and is not treated as resources for purposes of determining eligibility or the amount or nature of benefits or assistance under any Federal program or any State or local program financed with Federal funds. For taxable years beginning after December 31, 2010, the sunset provision of EGTRRA applies to the rules allowing refundable child credits.

Alternative minimum tax liability

The child credit is allowed against the individual's regular income tax and alternative minimum tax. For taxable years beginning after December 31, 2010, the sunset provision of EGTRRA applies to the rules allowing the child credit against alternative minimum tax.

Reasons for Change

This provision accelerates the increase in the child tax credit in order to provide additional tax relief to families to help offset the significant costs of raising a child. Further, the bill provides immediate tax relief to American taxpayers in the form of the advance payment of the increased amount of the child credit. The Committee believes that such immediate tax relief may encourage short-term growth in the economy by providing individuals with additional cash to spend.

Explanation of Provision

The amount of the child credit is increased to $1,000 for 2003 through 2005. After 2005, the child credit will revert to the levels provided under present law. For 2003, the increased amount of the child credit will be paid in advance beginning in July, 2003, on the basis of information on each taxpayer's 2002 return filed in 2003. Such payments will be made in a manner similar to the advance payment checks issued by the Treasury in 2001 to reflect the creation of the 10-percent regular income tax rate bracket.[3]

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[2] The $10,500 amount is indexed for inflation.

[3] The increase in refundability to 15 percent of the taxpayer's earned income, scheduled for calendar years 2005 and thereafter, is not accelerated under the provision.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002, and before January 1, 2006.

B. Accelerate Marriage Penalty Relief
(secs. 102 and 103 of the bill and secs. 1 and 63 of the Code)

1. Standard deduction marriage penalty relief

Present Law

Marriage 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 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 (and additional standard deductions, if applicable),[4] 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 adjusted annually for inflation.[5] For 2003, the basic standard deduction for married couples filing a joint return is 167 percent of the basic standard deduction for single filers. (Alternatively, 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.

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") increased 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.[6] The increase in the

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

[5] For 2003 the basic standard deduction amounts are: (1) $4,750 for unmarried individuals; (2) $7,950 for married individuals filing a joint return; (3) $7,000 for heads of households; and (4) $3,975 for married individuals filing separately.

[6] The basic standard deduction for a married taxpayer filing separately will continue 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 will be the same after the phase-in period.

standard deduction for married taxpayers filing a joint return is scheduled to be phased-in over five years beginning in 2005 and will be fully phased-in for 2009 and thereafter. Table 2, below, shows the standard deduction for married couples filing a joint return as a percentage of the standard deduction for single individuals during the phase-in period.

Table 2.–Scheduled Phase-In of Increase of the Basic Standard Deduction for Married Couples Filing Joint Returns

Taxable Year	Standard Deduction for Married Couples Filing Joint Returns as Percentage of Standard Deduction for Unmarried Individual Returns
2005	174
2006	184
2007	187
2008	190
2009 and 2010[1]	200

[1] The basic standard deduction increases are repealed for taxable years beginning after December 31, 2010, under the sunset provision of EGTRRA.

Reasons for Change

The Committee remains 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 Committee believes that the acceleration of the increase in the standard deduction for married couples filing a joint return is a responsible reduction of the marriage tax penalty.

Explanation of Provision

The bill accelerates the increase in the basic standard deduction amount for joint returns to twice the basic standard deduction amount for single returns effective for 2003, 2004, and 2005. For taxable years beginning after 2005, the applicable percentages will revert to those allowed under present law, as described above.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002, and before January 1, 2006.

2. Accelerate the 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.

In general, the bracket breakpoints for single individuals are approximately 60 percent of the rate bracket breakpoints for married couples filing joint returns.[7] 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.

15-percent regular income tax rate bracket

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") increased 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 a single individual filing a single return. The increase is phased-in over four years, beginning in 2005. Therefore, this provision is fully effective (i.e., the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return is twice the size of the 15-percent regular income tax rate bracket for an unmarried individual filing a single return) for taxable years beginning after

[7] Under present law, the rate bracket breakpoint for the 38.6 percent marginal tax rate is the same for single individuals and married couples filing joint returns. Present-law rate changes do not alter this breakpoint.

December 31, 2007. Table 3, below, shows the increase in the size of the 15-percent bracket during the phase-in period.

Table 3.–Scheduled Increase in Size of the 15-Percent Rate Bracket for Married Couples Filing Joint Returns

Taxable year	End Point of 15-Percent Rate Bracket for Married Couples Filing Joint Returns as Percentage of End Point of 15-Percent Rate Bracket for Unmarried Individuals
2005	180
2006	187
2007	193
2008 through 2010[1]	200

[1] The increases in the 15-percent rate bracket for married couples filing a joint return are repealed for taxable years beginning after December 31, 2010, under the sunset of EGTRRA.

Reasons for Change

The Committee believes that accelerating the expansion of the 15-percent rate bracket for married couples filing joint returns, in conjunction with the expansion of the standard deduction amount for joint filers, will alleviate the effects of the present-law marriage tax penalty. These provisions significantly reduce the most widely applicable marriage penalties.

Explanation of Provision

The bill accelerates the increase of the size of the 15-percent regular income tax rate bracket for joint returns to twice the width of the 15-percent regular income tax rate bracket for single returns for taxable years beginning in 2003, 2004, and 2005. For taxable years beginning after 2005, the applicable percentages will revert to those allowed under present law, as described above.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002, and before January 1, 2006.

C. Accelerate Reductions in Individual Income Tax Rates (secs. 104, 105, and 106 of the bill and secs. 1 and 55 of the Code)

Present Law

In general

Under the Federal individual income tax system, an individual who is a citizen or a 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. This tax liability is then 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 2003, the regular income tax rate schedules for individuals are shown in Table 4, below. 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 4.–Individual Regular Income Tax Rates for 2003

If taxable income is over:	But not over:	Then regular income tax equals:
		Single Individuals
$0	$6,000	10% of taxable income
$6,000	$28,400	$600, plus 15% of the amount over $6,000
$28,400	$68,800	$3,960, plus 27% of the amount over $28,400
$68,800	$143,500	$14,868, plus 30% of the amount over $68,800
$143,500	$311,950	$37,278, plus 35% of the amount over $143,500
Over $311,950		$96,235.50, plus 38.6% of the amount over $311,950

Head of Households

$0	$10,000	10% of taxable income
$10,000	$38,050	$1,000, plus 15% of the amount over $10,000
$38,050	$98,250	$5,207.50, plus 27% of the amount over $38,050
$98,250	$159,100	$21,461.50, plus 30% of the amount over $98,250
$159,100	$311,950	$39,716.50, plus 35% of the amount over $159,100
Over 311,950..........................		$93,214, plus 38.6% of the amount over $311,950

Married Individuals Filing Joint Returns

$0	$12,000	10% of taxable income
$12,000	$47,450	$1,200, plus 15% of the amount over $12,000
$47,450	$114,650	$6,517.50, plus 27% of the amount over $47,450
$114,650	$174,700	$24,661.50, plus 30% of the amount over $114,650
$174,700	$311,950	$42,676.50, plus 35% of the amount over $174,700
Over 311,950..........................		$90,714, plus 38.6% of the amount over $311,950

<u>Ten-percent regular income tax rate</u>

Under present law, the 10-percent rate applies to the first $6,000 of taxable income for single individuals, $10,000 of taxable income for heads of households, and $12,000 for married couples filing joint returns. Effective beginning in 2008, the $6,000 amount will increase to $7,000 and the $12,000 amount will increase to $14,000.

The taxable income levels for the 10-percent rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2008. The bracket for single individuals and married individuals filing separately is one-half for joint returns (after adjustment of that bracket for inflation).

The 10-percent rate bracket will expire for taxable years beginning after December 31, 2010, the sunset provision of EGTRRA.

<u>Reduction of other regular income tax rates</u>

Prior to EGTRRA the regular income tax rates were 15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent.[8] EGTRRA added the 10-percent regular income tax rate, described

[8] The regular income tax rates will revert to these percentages for taxable years beginning after December 31, 2010 under the sunset provision of EGTRRA.

above, and retained the 15-percent regular income tax rate. Also, the 15-percent regular income tax bracket was modified to begin at the end of the 10-percent regular income tax bracket. EGTRRA also made other changes to the 15-percent regular income tax bracket.[9]

Also, under EGTRRA, the 28 percent, 31 percent, 36 percent, and 39.6 percent rates are phased down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001. The taxable income levels for the rates above the 15-percent rate in all taxable years are the same as the taxable income levels that apply under the prior-law rates.

Table 5, below, shows the schedule of regular income tax rate reductions.

Table 5.–Scheduled Regular Income Tax Rate Reductions

Calendar Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001[1]-2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 thru 2010[2]	25%	28%	33%	35.0%

[1] Effective July 1, 2001.

[2] The reductions in the regular income tax rates are repealed for taxable years beginning after December 31, 2010, under the sunset of EGTRRA.

Alternative minimum tax

The alternative minimum tax is the amount by which the tentative minimum tax exceeds the regular income tax. An individual's tentative minimum tax is an amount equal to (1) 26 percent of the first $175,000 ($87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income ("AMTI") in excess of a phased-out exemption amount and (2) 28 percent of the remaining AMTI. The maximum tax rates on net capital gain used in computing the tentative minimum tax are the same as under the regular tax. AMTI is the individual's taxable income adjusted to take account of specified preferences and adjustments. The exemption amounts are: (1) $49,000 ($45,000 in taxable years beginning after 2004) in the case of married individuals filing joint returns and surviving spouses; (2) $35,750 ($33,750 in taxable years beginning after 2004) in the case of other unmarried individuals; (3) $24,500 ($22,500 in taxable years beginning after 2004) in the case of married individuals filing a separate return; and (4) $22,500 in the case of an estate or trust. The exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) $150,000 in the case of married individuals filing joint returns and surviving spouses, (2) $112,500 in the case of other unmarried individuals, and (3) $75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

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[9] See the discussion of the provision regarding marriage penalty relief in the 15-percent regular income tax bracket, above.

Reasons for Change

The Committee believes that high marginal individual income tax rates reduce incentives for taxpayers to work, to save, and to invest and, thereby, have a negative effect on the long-term health of the economy. The higher that marginal tax rates are, the greater is the disincentive for individuals to increase their work effort. Lower marginal tax rates provide greater incentives to taxpayers to be entrepreneurial risk takers; the Committee believes that the high marginal tax rates of prior-law discourage success. The Committee believes that this tax cut will lead to increased investment by these businesses, promoting long-term growth and stability in the economy and rewarding the businessmen and women who provide a foundation for our country's success.

In addition, lower marginal tax rates help remove the barriers that lower-income families face as they try to enter the middle class. The lower the marginal tax rates for lower-income families, the greater is the incentive to work. The expanded 10-percent rate bracket provides an incentive for these taxpayers to increase their work effort.

Finally, there are signs that the economy is not growing as fast as desirable. The Committee believes that immediate tax relief could encourage growth in the economy by providing individuals with additional tax relief.

Explanation of Provision

10-percent regular income tax rate

The bill accelerates the increase in the taxable income levels for the 10-percent rate bracket now scheduled for 2008 to be effective in 2003, 2004, and 2005. Specifically, for 2003, 2004, and 2005, the proposal increases the taxable income level for the 10-percent regular income tax rate brackets for unmarried individuals from $6,000 to $7,000 and for married individuals filing jointly from $12,000 to $14,000. The taxable income levels for the 10-percent regular income tax rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2003.

For taxable years beginning after December 31, 2005, the taxable income levels for the 10-percent rate bracket will revert to the levels allowed under present law. Therefore, for 2006 and 2007, the levels will revert to $6,000 for unmarried individuals and $12,000 for married individuals filing jointly. In 2008, the taxable income levels for the 10-percent regular income tax rate brackets will be $7,000 for unmarried individuals and $12,000 for married individuals filing jointly. The taxable income levels for the 10-percent rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2008.

Reduction of other regular income tax rates

The bill accelerates the reductions in the regular income tax rates in excess of the 15-percent regular income tax rate that are scheduled for 2004 and 2006. Therefore, for 2003 and thereafter, the regular income tax rates in excess of 15 percent under the proposal are 25 percent, 28 percent, 33 percent, and 35 percent.

Alternative minimum tax exemption amounts

The bill increases the AMT exemption amount for married taxpayers filing joint returns and surviving spouses to $64,000, and for unmarried taxpayers to $43,250, for taxable years beginning in 2003, 2004, and 2005.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002 and before January 1, 2006.

TITLE II – GROWTH INCENTIVES FOR BUSINESS

A. Special Depreciation Allowance for Certain Property (sec. 201 of the bill and sec. 168 of the Code)

Present Law

In general

A taxpayer is allowed to recover, through annual depreciation deductions, the cost of certain property used in a trade or business or for the production of income. The amount of the depreciation deduction allowed with respect to tangible property for a taxable year is determined under the modified accelerated cost recovery system ("MACRS"). Under MACRS, different types of property generally are assigned applicable recovery periods and depreciation methods. The recovery periods applicable to most tangible personal property (generally tangible property other than residential rental property and nonresidential real property) range from 3 to 25 years. The depreciation methods generally applicable to tangible personal property are the 200-percent and 150-percent declining balance methods, switching to the straight-line method for the taxable year in which the depreciation deduction would be maximized.

Section 280F limits the annual depreciation deductions with respect to passenger automobiles to specified dollar amounts, indexed for inflation.

Section 167(f)(1) provides that capitalized computer software costs, other than computer software to which section 197 applies, are recovered ratably over 36 months.

In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment generally may elect to deduct up to $25,000 of the cost of qualifying property placed in service for the taxable year (sec. 179). In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business.

Additional first year depreciation deduction

The Job Creation and Worker Assistance Act of 2002[10] ("JCWAA") allows an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified property.[11] The amount of the additional first-year depreciation deduction is not affected by a short taxable year. The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service.[12] The basis of the property and the depreciation allowances in the year of purchase and

[10] Pub. Law No. 107-147, sec. 101 (2002).

[11] The additional first-year depreciation deduction is subject to the general rules regarding whether an item is deductible under section 162 or subject to capitalization under section 263 or section 263A.

later years are appropriately adjusted to reflect the additional first-year depreciation deduction. In addition, there are no adjustments to the allowable amount of depreciation for purposes of computing a taxpayer's alternative minimum taxable income with respect to property to which the provision applies. A taxpayer is allowed to elect out of the additional first-year depreciation for any class of property for any taxable year.

In order for property to qualify for the additional first-year depreciation deduction it must meet all of the following requirements. First, the property must be property (1) to which MACRS applies with an applicable recovery period of 20 years or less, (2) water utility property (as defined in section 168(e)(5)), (3) computer software other than computer software covered by section 197, or (4) qualified leasehold improvement property (as defined in section 168(k)(3)).[13] Second, the original use[14] of the property must commence with the taxpayer on or after September 11, 2001.[15] Third, the taxpayer must purchase the property within the applicable time period. Finally, the property must be placed in service before January 1, 2005. An extension of the placed in service date of one year (i.e., January 1, 2006) is provided for certain property with a recovery period of ten years or longer and certain transportation property.[16] Transportation

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[12] However, the additional first-year depreciation deduction is not allowed for purposes of computing earnings and profits.

[13] A special rule precludes the additional first-year depreciation deduction for any property that is required to be depreciated under the alternative depreciation system of MACRS.

[14] The term "original use" means the first use to which the property is put, whether or not such use corresponds to the use of such property by the taxpayer.

If in the normal course of its business a taxpayer sells fractional interests in property to unrelated third parties, then the original use of such property begins with the first user of each fractional interest (i.e., each fractional owner is considered the original user of its proportionate share of the property).

[15] A special rule applies in the case of certain leased property. In the case of any property that is originally placed in service by a person and that is sold to the taxpayer and leased back to such person by the taxpayer within three months after the date that the property was placed in service, the property would be treated as originally placed in service by the taxpayer not earlier than the date that the property is used under the leaseback.

If property is originally placed in service by a lessor (including by operation of section 168(k)(2)(D)(i)), such property is sold within three months after the date that the property was placed in service, and the user of such property does not change, then the property is treated as originally placed in service by the taxpayer not earlier than the date of such sale. A technical correction may be needed so the statute reflects this intent.

[16] In order for property to qualify for the extended placed in service date, the property is required to have a production period exceeding two years or an estimated production period exceeding one year and a cost exceeding $1 million.

property is defined as tangible personal property used in the trade or business of transporting persons or property.

The applicable time period for acquired property is (1) after September 10, 2001 and before September 11, 2004, but only if no binding written contract for the acquisition is in effect before September 11, 2001, or (2) pursuant to a binding written contract which was entered into after September 10, 2001, and before September 11, 2004.[17] With respect to property that is manufactured, constructed, or produced by the taxpayer for use by the taxpayer, the taxpayer must begin the manufacture, construction, or production of the property after September 10, 2001, and before September 11, 2004. Property that is manufactured, constructed, or produced for the taxpayer by another person under a contract that is entered into prior to the manufacture, construction, or production of the property is considered to be manufactured, constructed, or produced by the taxpayer. For property eligible for the extended placed in service date, a special rule limits the amount of costs eligible for the additional first year depreciation. With respect to such property, only the portion of the basis that is properly attributable to the costs incurred before September 11, 2004 ("progress expenditures") is eligible for the additional first-year depreciation.[18]

Property does not qualify for the additional first-year depreciation deduction when the user of such property (or a related party) would not have been eligible for the additional first-year depreciation deduction if the user (or a related party) were treated as the owner.[19] For example, if a taxpayer sells to a related party property that was under construction prior to September 11, 2001, the property does not qualify for the additional first-year depreciation deduction. Similarly, if a taxpayer sells to a related party property that was subject to a binding written contract prior to September 11, 2001, the property does not qualify for the additional first-year depreciation deduction. As a further example, if a taxpayer (the lessee) sells property in a sale-leaseback arrangement, and the property otherwise would not have qualified for the additional first-year depreciation deduction if it were owned by the taxpayer-lessee, then the lessor is not entitled to the additional first-year depreciation deduction.

The limitation on the amount of depreciation deductions allowed with respect to certain passenger automobiles (sec. 280F) is increased in the first year by $4,600 for automobiles that qualify (and do not elect out of the increased first year deduction). The $4,600 increase is not indexed for inflation.

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[17] Property does not fail to qualify for the additional first-year depreciation merely because a binding written contract to acquire a component of the property is in effect prior to September 11, 2001.

[18] For purposes of determining the amount of eligible progress expenditures, it is intended that rules similar to sec. 46(d)(3) as in effect prior to the Tax Reform Act of 1986 shall apply.

[19] A technical correction may be needed so that the statute reflects this intent.

Reasons for Change

The Committee believes that increasing and extending the additional first-year depreciation will accelerate purchases of equipment, promote capital investment, modernization, and growth, and will help to spur an economic recovery. As businesses accelerate their purchases of equipment current employment will increase to produce that equipment. Current business expansion also will increase employment opportunities in the years ahead.

Explanation of Provision

The provision provides an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property.[20] Qualified property is defined in the same manner as for purposes of the 30-percent additional first-year depreciation deduction provided by the JCWAA except that the applicable time period for acquisition (or self construction) of the property is modified. In addition, property must be placed in service before January 1, 2006 to qualify.[21] Property eligible for the 50-percent additional first year depreciation deduction is not eligible for the 30-percent additional first year depreciation deduction.

Under the provision, in order to qualify the property must be acquired after May 5, 2003 and before January 1, 2006, and no binding written contract for the acquisition is in effect before May 6, 2003.[22] With respect to property that is manufactured, constructed, or produced by the taxpayer for use by the taxpayer, the taxpayer must begin the manufacture, construction, or production of the property after May 5, 2003. For property eligible for the extended placed in service date (i.e., certain property with a recovery period of ten years or longer and certain transportation property), a special rule limits the amount of costs eligible for the additional first year depreciation. With respect to such property, only progress expenditures properly attributable to the costs incurred before January 1, 2006 shall be eligible for the additional first year depreciation.[23]

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[20] A taxpayer is permitted to elect out of the additional first-year depreciation deduction for any class of property for any taxable year.

[21] An extension of the placed in service date of one year (i.e., January 1, 2007) is provided for certain property with a recovery period of ten years or longer and certain transportation property as defined for purposes of the JCWAA.

[22] Property does not fail to qualify for the additional first-year depreciation merely because a binding written contract to acquire a component of the property is in effect prior to May 6, 2003. However, no additional first-year depreciation is permitted on any such component. No inference is intended as to the proper treatment of components placed in service under the 30% additional first-year depreciation provided by the JCWAA.

[23] For purposes of determining the amount of eligible progress expenditures, it is intended that rules similar to sec. 46(d)(3) as in effect prior to the Tax Reform Act of 1986 shall apply.

The Committee wishes to clarify that the adjusted basis of qualified property acquired by a taxpayer in a like kind exchange or an involuntary conversion is eligible for the additional first year depreciation deduction.

The provision also increases the limitation on the amount of depreciation deductions allowed with respect to certain passenger automobiles (sec. 280F of the Code) in the first year by $9,200 (in lieu of the $4,600 provided under the JCWAA) for automobiles that qualify (and do not elect out of the increased first year deduction). The $9,200 increase is not indexed for inflation.

For property eligible for the present law 30-percent additional first year depreciation, the provision extends the date of the placed in service requirement to property placed in service prior to January 1, 2006 (from January 1, 2005). Thus, property otherwise qualifying for the 30-percent additional first year depreciation deduction will now qualify if placed in service prior to January 1, 2006. The provision also extends the placed in service date requirement for certain property with a recovery period of ten years or longer and certain transportation property to property placed in service prior to January 1, 2007 (instead of January 1, 2006). In addition, progress expenditures eligible for the 30-percent additional first year depreciation is extended to include costs incurred prior to January 1, 2006 (instead of September 11, 2004).

Effective Date

The provision applies to property placed in service after May 5, 2003.

B. Increase Section 179 Expensing (sec. 202 of the bill and sec. 179 of the Code)

Present Law

Present law provides that, in lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to $25,000 (for taxable years beginning in 2003 and thereafter) of the cost of qualifying property placed in service for the taxable year (sec. 179).[24] In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. The $25,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $200,000. An election to expense these items generally is made on the taxpayer's original return for the taxable year to which the election relates, and may be revoked only with the consent of the Commissioner.[25] In general, taxpayers may not elect to expense off-the-shelf computer software.[26]

The amount eligible to be expensed for a taxable year may not exceed the taxable income for a taxable year that is derived from the active conduct of a trade or business (determined without regard to this provision). Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding taxable years (subject to similar limitations). No general business credit under section 38 is allowed with respect to any amount for which a deduction is allowed under section 179.

Reasons for Change

The Committee believes that section 179 expensing provides two important benefits for small businesses. First, it lowers the cost of capital for tangible property used in a trade or business. With a lower cost of capital, the Committee believes small business will invest in more equipment and employ more workers. Second, it eliminates depreciation recordkeeping requirements with respect to expensed property. In order to increase the value of these benefits and to increase the number of taxpayers eligible, the Committee bill increases the amount allowed to be expensed under section 179 and increases the amount of the phase-out threshold, as well as indexing these amounts.

The Committee also believes that purchased computer software should be included in the section 179 expensing provision so that it is not disadvantaged relative to developed software. In addition, the Committee believes that the process of making and revoking section 179 elections

[24] Additional section 179 incentives are provided with respect to a qualified property used by a business in the New York Liberty Zone (sec. 1400(f)) or an empowerment zone (sec. 1397A).

[25] Section 179(c)(2).

[26] Section 179(d)(1) requires that property be tangible to be eligible for expensing; in general, computer software is intangible property.

should be made simpler and more efficient for taxpayers by eliminating the requirement of the consent of the Commissioner.

Explanation of Provision

The provision provides that the maximum dollar amount that may be deducted under section 179 is increased to $100,000 for property placed in service in taxable years beginning in 2003, 2004, 2005, 2006, and 2007. In addition, the $200,000 amount is increased to $400,000 for property placed in service in taxable years beginning in 2003, 2004, 2005, 2006 and 2007. The dollar limitations are indexed annually for inflation for taxable years beginning after 2003 and before 2008. The provision also includes off-the-shelf computer software placed in service in a taxable year beginning in 2003, 2004, 2005, 2006, or 2007, as qualifying property. With respect to a taxable year beginning after 2002 and before 2008, the provision permits taxpayers to make or revoke expensing elections on amended returns without the consent of the Commissioner.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002.

C. Five-Year Carryback of Net Operating Losses (sec. 203 of the bill and secs. 172 and 56 of the Code)

Present Law

A net operating loss ("NOL") is, generally, the amount by which a taxpayer's allowable deductions exceed the taxpayer's gross income. A carryback of an NOL generally results in the refund of Federal income tax for the carryback year. A carryforward of an NOL reduces Federal income tax for the carryforward year.

In general, an NOL may be carried back two years and carried forward 20 years to offset taxable income in such years.[27] Different rules apply with respect to NOLs arising in certain circumstances. For example, a three-year carryback applies with respect to NOLs (1) arising from casualty or theft losses of individuals, or (2) attributable to Presidentially declared disasters for taxpayers engaged in a farming business or a small business. A five-year carryback period applies to NOLs from a farming loss (regardless of whether the loss was incurred in a Presidentially declared disaster area). Special rules also apply to real estate investment trusts (no carryback), specified liability losses (10-year carryback), and excess interest losses (no carryback to any year preceding a corporate equity reduction transaction).

The alternative minimum tax rules provide that a taxpayer's NOL deduction cannot reduce the taxpayer's alternative minimum taxable income ("AMTI") by more than 90 percent of the AMTI (determined without regard to the NOL deduction).

Section 202 of the Job Creation and Worker Assistance Act of 2002[28] ("JCWAA") provided a temporary extension of the general NOL carryback period to five years (from two years) for NOLs arising in taxable years ending in 2001 and 2002. In addition, the five-year carryback period applies to NOLs from these years that qualify under present law for a three-year carryback period (i.e., NOLs arising from casualty or theft losses of individuals or attributable to certain Presidentially declared disaster areas).

A taxpayer can elect to forgo the five-year carryback period. The election to forgo the five-year carryback period is made in the manner prescribed by the Secretary of the Treasury and must be made by the due date of the return (including extensions) for the year of the loss. The election is irrevocable. If a taxpayer elects to forgo the five-year carryback period, then the losses are subject to the rules that otherwise would apply under section 172 absent the provision.[29]

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[27] Sec. 172.

[28] Pub. Law No. 107-147.

[29] Because JCWAA was enacted after some taxpayers had filed tax returns for years affected by the provision, a technical correction is needed to provide for a period of time in which prior decisions regarding the NOL carryback may be reviewed. Similarly, a technical correction is needed to modify the carryback adjustment procedures of sec. 6411 for NOLs

JCWAA also provided that an NOL deduction attributable to NOL carrybacks arising in taxable years ending in 2001 and 2002, as well as NOL carryforwards to these taxable years, may offset 100 percent of a taxpayer's AMTI.[30]

Reasons for Change

The NOL carryback and carryover rules are designed to allow taxpayers to smooth out swings in business income (and Federal income taxes thereon) that result from business cycle fluctuations and unexpected financial losses. The uncertain economic conditions that resulted in the enactment of the five-year carryback of NOLs as part of the JCWAA have continued with many taxpayers continuing to incur unexpected financial losses. A temporary extension of the five-year NOL carryback period provides taxpayers in all sectors of the economy who are experiencing such losses the ability to increase their cash flow through the refund of income taxes paid in prior years. This increased cash flow can be used for employing workers and for capital investments that will provide stimulus to the economy.

Explanation of Provision

The provision extends the provisions of the five-year carryback of NOLs enacted in JCWAA to NOLs arising in taxable years ending in 2003, 2004, and 2005.[31]

The provision also allows an NOL deduction attributable to NOL carrybacks arising in taxable years ending in 2003, 2004, and 2005, as well as NOL carryforwards to these taxable years, to offset 100 percent of a taxpayer's AMTI.

Effective Date

The five-year carryback provision is effective for net operating losses generated in taxable years ending in 2003, 2004 and 2005.

The provision relating to AMTI is effective for NOL carrybacks arising in, and NOL carryforwards to, taxable years ending in 2003, 2004 and 2005.

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arising in 2001 and 2002. These issues were addressed in a letter dated April 15, 2002, sent by the Chairmen and Ranking Members of the House Ways and Means Committee and Senate Finance Committee, as well as in guidance issued by the IRS pursuant to the Congressional letter (Rev. Proc. 2002-40, 2002-23 I.R.B. 1096, June 10, 2002).

[30] Section 172(b)(2) should be appropriately applied in computing AMTI to take proper account of the order that the NOL carryovers and carrybacks are used as a result of this provision. *See* section 56(d)(1)(B)(ii).

[31] Because certain taxpayers may have already filed tax returns (or be in the process of filing tax returns) for taxable years ending in 2003, the proposal contains special rules to provide until November 1, 2003 in which prior decisions regarding the NOL carryback may be reviewed by taxpayers.

TITLE III – DIVIDENDS AND CAPITAL GAINS

A. Reduce Individual Capital Gains Rates (sec. 301 of the bill and sec. 1(h) of the Code)

Present Law

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income. Any net capital gain of an individual is taxed at maximum rates lower than the rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year.

Capital losses generally are deductible in full against capital gains. In addition, individual taxpayers may deduct capital losses against up to $3,000 of ordinary income in each year. Any remaining unused capital losses may be carried forward indefinitely to another taxable year.

A capital asset generally means any property except (1) inventory, stock in trade, or property held primarily for sale to customers in the ordinary course of the taxpayer's trade or business, (2) depreciable or real property used in the taxpayer's trade or business, (3) specified literary or artistic property, (4) business accounts or notes receivable, (5) certain U.S. publications, (6) certain commodity derivative financial instruments, (7) hedging transactions, and (8) business supplies. In addition, the net gain from the disposition of certain property used in the taxpayer's trade or business is treated as long-term capital gain. Gain from the disposition of depreciable personal property is not treated as capital gain to the extent of all previous depreciation allowances. Gain from the disposition of depreciable real property is generally not treated as capital gain to the extent of the depreciation allowances in excess of the allowances that would have been available under the straight-line method of depreciation.

The maximum rate of tax on the adjusted net capital gain of an individual is 20 percent. In addition, any adjusted net capital gain which otherwise would be taxed at a 15-percent rate is taxed at a 10-percent rate. These rates apply for purposes of both the regular tax and the alternative minimum tax.

The "adjusted net capital gain" of an individual is the net capital gain reduced (but not below zero) by the sum of the 28-percent rate gain and the unrecaptured section 1250 gain. The net capital gain is reduced by the amount of gain that the individual treats as investment income for purposes of determining the investment interest limitation under section 163(d).

The term "28-percent rate gain" means the amount of net gain attributable to long-term capital gains and losses from the sale or exchange of collectibles (as defined in section 408(m) without regard to paragraph (3) thereof), an amount of gain equal to the amount of gain excluded from gross income under section 1202 (relating to certain small business stock),[32] the net short-term capital loss for the taxable year, and any long-term capital loss carryover to the taxable year.

"Unrecaptured section 1250 gain" means any long-term capital gain from the sale or exchange of section 1250 property (i.e., depreciable real estate) held more than one year to the extent of the gain that would have been treated as ordinary income if section 1250 applied to all depreciation, reduced by the net loss (if any) attributable to the items taken into account in computing 28-percent rate gain. The amount of unrecaptured section 1250 gain (before the reduction for the net loss) attributable to the disposition of property to which section 1231 applies shall not exceed the net section 1231 gain for the year.

The unrecaptured section 1250 gain is taxed at a maximum rate of 25 percent, and the 28-percent rate gain is taxed at a maximum rate of 28 percent. Any amount of unrecaptured section 1250 gain or 28-percent rate gain otherwise taxed at a 15-percent rate is taxed at the 15-percent rate.

Any gain from the sale or exchange of property held more than five years that would otherwise be taxed at the 10-percent rate is taxed at an 8-percent rate. Any gain from the sale or exchange of property held more than five years and the holding period for which begins after December 31, 2000, which would otherwise be taxed at a 20-percent rate is taxed at an 18-percent rate.

Reasons for Change

The Committee believes it is important that tax policy be conducive to economic growth. The Committee believes that reducing the capital gains tax lowers the cost of capital and will lead to economic growth and the creation of jobs. Economic growth cannot occur without savings, investment, and the willingness of individuals to take risks. The greater the pool of savings, the greater will be the monies available for business investment. It is through such investment that the United States' economy can increase output, productivity, and employment. It is through increases in productivity that workers earn higher real wages. Increases in investment create more employment opportunities. Hence, a greater saving rate is necessary for all Americans to benefit from a higher standard of living.

The Committee believes that, by reducing the effective tax rates on capital gains, American households will respond by increasing savings. The Committee believes it is important to encourage risk-taking and believes a reduction in the taxation of capital gains will have that effect. The Committee also believes that a reduction in the taxation of capital gains will improve the efficiency of the markets, because the taxation of capital gains upon realization

[32] This results in a maximum effective regular tax rate on qualified gain from small business stock of 14 percent.

encourages investors who have accrued past gains to keep their monies “locked in” to such investments even when better investment opportunities present themselves. A reduction in the taxation of capital gains should reduce this “lock in” effect.

Explanation of Provision

The provision reduces the 10- and 20 percent rates on the adjusted net capital gain to five and 15 percent, respectively. These lower rates apply to both the regular tax and the alternative minimum tax. The lower rates apply to assets held more than one year.

Effective Date

The provision applies to taxable years ending on or after May 6, 2003,and beginning before January 1, 2013.

For taxable years that include May 6, 2003, the lower rates apply to amounts properly taken into account for the portion of the year on or after that date. This generally has the effect of applying the lower rates to capital assets sold or exchanged (and installment payments received) on or after May 6, 2003. In the case of gain and loss taken into account by a pass-through entity, the date taken into account by the entity is the appropriate date for applying this rule.

B. Dividend Income of Individuals Taxed at Capital Gain Rates (sec. 302 of the bill and sec. 1(h) of the Code)

Present Law

Under present law, dividends received by an individual are included in gross income and taxed as ordinary income at rates up to 38.6 percent.[33]

The rate of tax on the net capital gain of an individual generally is 20 percent (10 percent[34] with respect to income which would otherwise be taxed at the 10- or 15-percent rate).[35] Net capital gain means net gain from the sale or exchange of capital assets held for more than one year in excess of net loss from the sale or exchange of capital assets held not more than one year.

Reasons for Change

The Committee believes it is important that tax policy be conducive to economic growth. The Committee believes that reducing the individual tax on dividends lowers the cost of capital and will lead to economic growth and the creation of jobs. Economic growth is impeded by tax-induced distortions in the capital markets. Mitigating these distortions will improve the efficiency of the capital markets. In addition, reducing the aggregate tax burden on investments made by corporations will lower the cost of capital needed to finance new investments and lead to increases in aggregate national investment and increases in private sector employment. It is through such investment that the United States' economy can increase output, employment, and productivity. It is through increases in productivity that workers earn higher real wages and all Americans benefit from a higher standard of living.

The Committee observes that present law imposes different total tax burdens on income from different investments. The Committee believes that, by placing different tax burdens on different investments, the present system results in economic distortions. The Committee observes that present law distorts individual and corporate financial decisions. The Committee observes that because interest payments on the debt are deductible, present law encourages corporations to finance using debt rather than equity. The Committee believes that the increase in corporate leverage, while beneficial to each corporation from a tax perspective, may place the economy at risk of more bankruptcies during an economic downturn. In addition, the Committee finds that present law, by taxing dividend income at a higher rate than income from capital gains, encourages corporations to retain earnings rather than to distribute them as taxable dividends. If dividends are discouraged, shareholders may prefer that corporate management retain and reinvest earnings rather than pay out dividends, even if the shareholder might have an alternative use for the funds that could offer a higher rate of return than that earned on the retained earnings.

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[33] Section 105 of the bill reduces the maximum rate to 35 percent.

[34] An eight percent rate applies to property held more than five years.

[35] Section 301 of the bill reduces the capital gain rates to five and 15 percent, respectively.

This is another source of inefficiency as the opportunity to earn higher pre-tax returns is by-passed in favor of lower pre-tax returns.

Explanation of Provision

Under the provision, dividends received by an individual shareholder from domestic corporations are taxed at the same rates that apply to net capital gain. This treatment applies for purposes of both the regular tax and the alternative minimum tax. Thus, under the provision, dividends will be taxed at rates of five and 15 percent.[36]

If a shareholder does not hold a share of stock for more than 45 days during the 90-day period beginning 45 days before the ex-dividend date (as measured under section 246(c)),[37] dividends received on the stock are not eligible for the reduced rates. Also, the reduced rates are not available for dividends to the extent that the taxpayer is obligated to make related payments with respect to positions in substantially similar or related property.

If an individual receives an extraordinary dividend (within the meaning of section 1059(c)) eligible for the reduced rates with respect to any share of stock, any loss on the sale of the stock is treated as a long-term capital loss to the extent of the dividend.

A dividend is treated as investment income for purposes of determining the amount of deductible investment interest only if the taxpayer elects to treat the dividend as not eligible for the reduced rates.

The amount of dividends qualifying for reduced rates that may be paid by a regulated investment company or real estate investment trust, for any taxable year that the aggregate qualifying dividends received by the company or trust are less than 95 percent of its gross income (as specially computed), may not exceed the amount of the aggregate qualifying dividends received by the company or trust.

The reduced rates do not apply to dividends received from an organization that was exempt from tax under section 501 or was a tax-exempt farmers' cooperative in either the taxable year of the distribution or the preceding taxable year; dividends received from a mutual savings bank that received a deduction under section 591; or deductible dividends paid on employer securities.

The tax rate for the accumulated earnings tax (sec. 531) and the personal holding company tax (sec. 541) is reduced to 15 percent.

Amounts treated as ordinary income on the disposition of certain preferred stock (sec. 306) are treated as dividends for purposes of applying the reduced rates.

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[36] Payments in lieu of dividends are not eligible for the lower rates. See section 6045(d) relating to statements required to be furnished by brokers regarding these payments.

[37] In the case of preferred stock, the periods are doubled.

The collapsible corporation rules (sec. 341) are repealed.

Effective Date

The provision is effective for taxable years beginning after December 31, 2002, and beginning before January 1, 2013.

TITLE IV – MODIFICATION TO CORPORATE ESTIMATED TAX REQUIREMENTS
(sec. 401 of the bill)

Present Law

In general, corporations are required to make quarterly estimated tax payments of their income tax liability (section 6655). For a corporation whose taxable year is a calendar year, these estimated tax payments must be made by April 15, June 15, September 15, and December 15.

Reasons for Change

The Committee believes that it is appropriate to modify these corporate estimated tax requirements.

Explanation of Provision

With respect to corporate estimated tax payments due on September 15, 2003, 52 percent is required to be paid by October 1, 2003.

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. 2.

MOTION TO REPORT THE BILL

The bill, H.R. 2, as amended, was ordered favorably reported by a roll call vote of 24 yeas to 15 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................	Ö			Mr. Rangel..............		Ö	
Mr. Crane....................	Ö			Mr. Stark.................		Ö	
Mr. Shaw....................	Ö			Mr. Matsui..............		Ö	
Mrs. Johnson..............	Ö			Mr. Levin................		Ö	
Mr. Houghton.............	Ö			Mr. Cardin..............		Ö	
Mr. Herger..................	Ö			Mr. McDermott.......		Ö	
Mr. McCrery...............	Ö			Mr. Kleczka............		Ö	
Mr. Camp....................	Ö			Mr. Lewis (GA).......		Ö	
Mr. Ramstad...............	Ö			Mr. Neal..................		Ö	
Mr. Nussle..................	Ö			Mr. McNulty...........		Ö	
Mr. Johnson................	Ö			Mr. Jefferson...........			
Ms. Dunn....................	Ö			Mr. Tanner..............			
Mr. Collins..................	Ö			Mr. Becerra.............		Ö	
Mr. Portman................	Ö			Mr. Doggett............		Ö	
Mr. English.................	Ö			Mr. Pomeroy...........		Ö	
Mr. Hayworth.............	Ö			Mr. Sandlin………..		Ö	
Mr. Weller..................	Ö			Ms. Tubbs Jones….		Ö	
Mr. Hulshof................	Ö						
Mr. McInnis................	Ö						
Mr. Lewis (KY)..........	Ö						
Mr. Foley....................	Ö						
Mr. Brady...................	Ö						
Mr. Ryan....................	Ö						
Mr. Cantor…………..	Ö						

VOTES ON AMENDMENTS

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

An amendment by Mr. Stark to suspend the rate reductions on capital gains and dividend income until the director of OMB certifies that the federal budget is in surplus, was defeated by a roll call vote of 14 yeas to 24 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................		Ö		Mr. Rangel..............	Ö		
Mr. Crane....................		Ö		Mr. Stark.................	Ö		
Mr. Shaw....................		Ö		Mr. Matsui..............			
Mrs. Johnson.............		Ö		Mr. Levin................	Ö		
Mr. Houghton............		Ö		Mr. Cardin..............	Ö		
Mr. Herger..................		Ö		Mr. McDermott.......	Ö		
Mr. McCrery...............		Ö		Mr. Kleczka............	Ö		
Mr. Camp....................		Ö		Mr. Lewis (GA).......	Ö		
Mr. Ramstad..............		Ö		Mr. Neal..................	Ö		
Mr. Nussle..................		Ö		Mr. McNulty...........			
Mr. Johnson...............		Ö		Mr. Jefferson..........	Ö		
Ms. Dunn....................		Ö		Mr. Tanner..............			
Mr. Collins.................		Ö		Mr. Becerra.............	Ö		
Mr. Portman................		Ö		Mr. Doggett............	Ö		
Mr. English.................		Ö		Mr. Pomeroy...........	Ö		
Mr. Hayworth............		Ö		Mr. Sandlin………..	Ö		
Mr. Weller.................		Ö		Ms. Tubbs Jones….	Ö		
Mr. Hulshof...............		Ö					
Mr. McInnis...............		Ö					
Mr. Lewis (KY)..........		Ö					
Mr. Foley....................		Ö					
Mr. Brady..................		Ö					
Mr. Ryan....................		Ö					
Mr. Cantor…………..		Ö					

An amendment by Mr. Cardin to have amendments in Title III of the bill take effect only if the Secretary of the Treasurer certifies, in consultation with the Secretary of Labor, that the Temporary Extended Unemployment Compensation Act of 2002 has been extended and modified in the manner proposed by the bill, H.R. 1652 (108th Congress), was defeated by a roll call vote of 14 yeas to 23 nays.

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................		Ö		Mr. Rangel..............	Ö		
Mr. Crane....................		Ö		Mr. Stark.................	Ö		
Mr. Shaw...................		Ö		Mr. Matsui..............			
Mrs. Johnson.............		Ö		Mr. Levin................	Ö		
Mr. Houghton............		Ö		Mr. Cardin..............	Ö		
Mr. Herger..................		Ö		Mr. McDermott.......	Ö		
Mr. McCrery...............		Ö		Mr. Kleczka............	Ö		
Mr. Camp....................				Mr. Lewis (GA).......	Ö		
Mr. Ramstad..............		Ö		Mr. Neal..................	Ö		
Mr. Nussle..................		Ö		Mr. McNulty...........			
Mr. Johnson...............		Ö		Mr. Jefferson..........	Ö		
Ms. Dunn...................		Ö		Mr. Tanner..............			
Mr. Collins.................		Ö		Mr. Becerra.............	Ö		
Mr. Portman...............		Ö		Mr. Doggett............	Ö		
Mr. English................		Ö		Mr. Pomeroy...........	Ö		
Mr. Hayworth............		Ö		Mr. Sandlin………..	Ö		
Mr. Weller.................		Ö		Ms. Tubbs Jones….	Ö		
Mr. Hulshof...............		Ö					
Mr. McInnis...............		Ö					
Mr. Lewis (KY)..........		Ö					
Mr. Foley...................		Ö					
Mr. Brady..................		Ö					
Mr. Ryan...................		Ö					
Mr. Cantor…………..		Ö					

An amendment by Mr. McDermott, which would provide to individuals, a refundable tax credit equal to the amount of payroll taxes paid on the first $20,000 of wages, was defeated by a roll call vote of 13 yeas to 24 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................		Ö		Mr. Rangel..............	Ö		
Mr. Crane....................		Ö		Mr. Stark.................	Ö		
Mr. Shaw....................		Ö		Mr. Matsui..............			
Mrs. Johnson..............		Ö		Mr. Levin................	Ö		
Mr. Houghton............		Ö		Mr. Cardin..............	Ö		
Mr. Herger..................		Ö		Mr. McDermott.......	Ö		
Mr. McCrery...............		Ö		Mr. Kleczka............	Ö		
Mr. Camp....................		Ö		Mr. Lewis (GA).......	Ö		
Mr. Ramstad...............		Ö		Mr. Neal..................	Ö		
Mr. Nussle..................		Ö		Mr. McNulty...........			
Mr. Johnson................		Ö		Mr. Jefferson..........	Ö		
Ms. Dunn....................		Ö		Mr. Tanner..............			
Mr. Collins..................		Ö		Mr. Becerra.............	Ö		
Mr. Portman................		Ö		Mr. Doggett............	Ö		
Mr. English.................		Ö		Mr. Pomeroy...........		Ö	
Mr. Hayworth............		Ö		Mr. Sandlin………..	Ö		
Mr. Weller..................		Ö		Ms. Tubbs Jones….	Ö		
Mr. Hulshof................		Ö					
Mr. McInnis................							
Mr. Lewis (KY)..........		Ö					
Mr. Foley....................		Ö					
Mr. Brady...................		Ö					
Mr. Ryan....................		Ö					
Mr. Cantor…………..		Ö					

An amendment by Mr. Becerra, which would accelerate the earned income credit phase-out amount increase under current law for joint filers to $3000, effective in taxable years beginning after December 31, 2002, and reduces the capital gains rate reductions in the bill by the appropriate amount to offset the revenue reduction caused by this acceleration, was defeated by a roll call vote of 15 yeas to 22 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................		Ö		Mr. Rangel..............	Ö		
Mr. Crane....................		Ö		Mr. Stark.................	Ö		
Mr. Shaw....................		Ö		Mr. Matsui..............			
Mrs. Johnson.............		Ö		Mr. Levin................	Ö		
Mr. Houghton............		Ö		Mr. Cardin..............	Ö		
Mr. Herger..................		Ö		Mr. McDermott.......	Ö		
Mr. McCrery...............		Ö		Mr. Kleczka............	Ö		
Mr. Camp....................		Ö		Mr. Lewis (GA).......	Ö		
Mr. Ramstad...............		Ö		Mr. Neal..................	Ö		
Mr. Nussle..................		Ö		Mr. McNulty...........	Ö		
Mr. Johnson................		Ö		Mr. Jefferson..........	Ö		
Ms. Dunn....................		Ö		Mr. Tanner..............			
Mr. Collins..................		Ö		Mr. Becerra.............	Ö		
Mr. Portman................		Ö		Mr. Doggett............	Ö		
Mr. English.................		Ö		Mr. Pomeroy...........	Ö		
Mr. Hayworth.............		Ö		Mr. Sandlin………..	Ö		
Mr. Weller..................				Ms. Tubbs Jones….	Ö		
Mr. Hulshof................		Ö					
Mr. McInnis................							
Mr. Lewis (KY)..........		Ö					
Mr. Foley....................		Ö					
Mr. Brady...................		Ö					
Mr. Ryan....................		Ö					
Mr. Cantor…………..		Ö					

An amendment by Mr. Neal to raise the AMT exclusion to $64,000 for married couples, and indexes it for inflation through the end of the decade, and strikes Title III, was defeated by a roll call vote of 15 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas................		Ö		Mr. Rangel..............	Ö		
Mr. Crane....................		Ö		Mr. Stark.................	Ö		
Mr. Shaw...................		Ö		Mr. Matsui..............			
Mrs. Johnson..............		Ö		Mr. Levin................	Ö		
Mr. Houghton............		Ö		Mr. Cardin..............	Ö		
Mr. Herger.................		Ö		Mr. McDermott.......	Ö		
Mr. McCrery..............		Ö		Mr. Kleczka............	Ö		
Mr. Camp...................		Ö		Mr. Lewis (GA).......	Ö		
Mr. Ramstad..............		Ö		Mr. Neal..................	Ö		
Mr. Nussle.................		Ö		Mr. McNulty...........	Ö		
Mr. Johnson...............		Ö		Mr. Jefferson..........	Ö		
Ms. Dunn...................		Ö		Mr. Tanner..............			
Mr. Collins.................		Ö		Mr. Becerra.............	Ö		
Mr. Portman...............		Ö		Mr. Doggett............	Ö		
Mr. English................		Ö		Mr. Pomeroy...........	Ö		
Mr. Hayworth............		Ö		Mr. Sandlin………..	Ö		
Mr. Weller.................		Ö		Ms. Tubbs Jones….	Ö		
Mr. Hulshof...............		Ö					
Mr. McInnis...............		Ö					
Mr. Lewis (KY)..........		Ö					
Mr. Foley...................							
Mr. Brady..................		Ö					
Mr. Ryan...................		Ö					
Mr. Cantor…………..		Ö					

IV. BUDGET EFECTS 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. 2 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2003-2008:

ESTIMATED BUDGET EFFECTS OF H.R. 2,
THE "JOBS AND GROWTH RECONCILIATION TAX ACT OF 2003,"
AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

Fiscal Years 2003 - 2008

[Millions of Dollars]

Provision	Effective	2003	2004	2005	2006	2007	2008	2003-08
I. Acceleration of Certain Previously Enacted Tax Reductions								
1. Expand the child credit to $1,000 for 2003 through 2005; revert to present-law phase in for 2006 [1]	tyba 12/31/02	-13,711	-5,820	-15,468	-10,046	---	---	-45,045
2. Accelerate the expansion of the 15% individual income tax rate bracket and the increase in the standard deduction for married taxpayers filing joint returns; revert to present-law phase in for 2006	tyba 12/31/02	-4,936	-24,904	-11,045	-2,491	---	---	-43,376
3. Accelerate the expansion of the 10% bracket; revert to present-law phase in for 2006	tyba 12/31/02	-1,549	-8,445	-6,596	-2,007	---	---	-18,597
4. Accelerate the 2006 rate schedule	tyba 12/31/02	-9,531	-38,809	-19,811	-5,864	---	---	-74,015
5. Increase individual AMT exemption amount by $7,500 single and $15,000 joint for 2003 and 2004, maintain level for 2005	tyba 12/31/02	-1,540	-13,496	-20,045	-17,900	---	---	-52,981
Total of Title I. ……………………………………………………………………………..………		**-31,267**	**-91,474**	**-72,965**	**-38,308**	**---**	**---**	**-234,014**
II. Depreciation and Expensing Provisions								
1. Increase bonus depreciation to 50% and extend through 12/31/05	ppisa 5/5/03 [2]	-9,467	-23,733	-62,552	-21,729	19,121	19,847	-78,512
2. Increase section 179 expensing - increase the amount that can be expensed from $25,000 to $100,000 and increase the phaseout threshold amount from $200,000 to $400,000; include software in section 179 property; and index both the deduction limit and the phaseout threshold after 2003 (sunset after 2007)	tyba 12/31/02	-1,602	-2,657	-1,983	-3,673	-4,930	392	-14,454
3. Extend 5-year NOL carryback from 2002 bill for 2003 through 2005 and waive the AMT 90% limitation on the allowance of losses (including losses carried forward into tax years ending in 2003 through 2005 (sunset after 2005)	NOLs gi tyea 12/31/02	-711	-20,202	-10,915	-10,217	8,618	6,407	-27,021
Total of Title II. ……………………………………………………………………………..………		**-11,780**	**-46,592**	**-75,450**	**-35,619**	**22,809**	**26,646**	**-119,987**

Provision	Effective	2003	2004	2005	2006	2007	2008	2003-08
III. Dividends and Capital Gains								
1. Tax dividends with an 15%/5% rate structure; sunset 12/31/12 [3]	dri tyba 12/31/02	-4,315	-17,773	-19,507	-20,387	-21,587	-22,983	-106,552
2. Tax capital gains with an 15%/5% rate structure; sunset 12/31/12	so/a doi	-62	-928	-1,335	-3,042	-4,454	-4,660	-14,481
Total of Title III.		**-4,377**	**-18,701**	**-20,842**	**-23,429**	**-26,041**	**-27,643**	**-121,033**
IV. Special Estimated Tax Rules for Certain 2003 Corporate Estimated Tax Payments	**DOE**	**-12,826**	**12,826**	**---**	**---**	**---**	**---**	**---**
NET TOTAL [4] [5]		**-60,250**	**-143,941**	**-169,257**	**-97,356**	**-3,232**	**-997**	**-475,034**

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column:

DOE = date of enactment
doi = date of introduction
dri = dividends received in
gi = generated in
NOLs = net operating losses
ppisa = property placed in service after

[1] Advance payment of 2003 child credit paid by rebate with safe harbor.

[2] Does not apply to any property with binding contract in place before May 6, 2003.

[3] The estimate assumes that any dividend from a foreign corporation or any dividend described in Internal Revenue Code section 404(k) would be taxed at ordinary rates. RIC and REIT shareholders receive tax relief to the extent that dividends paid by the RIC or REIT are qualified dividends received by the RIC or REIT. Also, we have assumed that the proposal would exclude qualified dividends from investment income for the purpose of Internal Revenue Code Section 163(d). We have assumed that certain anti-abuse rules, including the imposition of a 45-day holding period, would be adopted.

	2003	2004	2005	2006	2007	2008	2003-08
[4] Includes the following outlay effects	3,618	1,042	4,653	4,244	45	44	13,646

[5] Returns with AMT liability (millions):	2003	2004	2005	2006	2007	2008
Present law	2.2	3.7	9.7	14.9	19.2	23.8
Change due to proposal	-0.7	-1.9	-7.3	---	---	---

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 no new or increased budget authority. 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.

[Insert CBO letter (to be supplied)]

D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the macroeconomic impact analysis required under such rule will be printed in the Congressional Record before consideration of the bill.

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 American taxpayers that the Committee concluded that it is appropriate and timely to enact the revenue provision 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.

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas Holtz-Eakin, Director

May 8, 2003

Honorable William "Bill" M. Thomas
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Chairman:

The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2, the Jobs and Growth Tax Act of 2003.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Annie Bartsch, who may be reached at 226-2680.

Sincerely,

Douglas Holtz-Eakin

Enclosure

cc: Honorable Charles B. Rangel
Ranking Minority Member

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 8, 2003

H.R. 2

Jobs and Growth Tax Act of 2003

As ordered reported by the House Committee on Ways and Means on May 6, 2003

SUMMARY

The Jobs and Growth Tax Act of 2003 would amend numerous provisions of existing tax law. The bill would accelerate to 2003 the income tax rate reductions scheduled for 2004 and 2006. The bill would also accelerate previously enacted tax changes to increase the child tax credit and expand the 10- and 15-percent tax brackets. Those changes would revert to tax law currently scheduled for 2006. In addition, H.R. 2 would increase the exemption amount for the individual alternative minimum tax (AMT), decrease the tax rates for income from dividends and capital gains, modify tax law relating to bonus depreciation and expensing, and allow certain 2003 corporate estimated tax payments to be shifted into 2004.

The Joint Committee on Taxation (JCT) estimates that enacting the bill would decrease governmental receipts by about $57 billion in 2003, by about $461 billion over the 2003-2008 period, and by about $536 billion over the 2003-2013 period. JCT estimates enacting the bill also would increase outlays by about $3.6 billion in 2003, by about $13.6 billion over the 2003-2008 period, and by about $13.8 billion over the 2003-2013 period.

JCT has determined that H.R. 2 contains no private-sector or intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the H.R. 2 is shown in the following table. Most of the budgetary effects of the legislation are reductions in revenues. However, the bill also would increase outlays by making various changes to the income tax brackets and rates of taxation.

By reducing the amount of taxes owed, those changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. The act also would increase the child credit, which is refundable under the tax code and counted as outlays in the budget to the extent that it results in "refunds" of income taxes not actually paid. The spending effects of this legislation would fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES AND OUTLAYS FROM REFUNDABLE TAX PROVISIONS						
Title I: Acceleration of Previously Enacted Tax Reductions [a]	-31,267	-91,474	-72,965	-38,308	0	0
Title II: Growth Incentives for Businesses	-11,780	-46,592	-75,450	-35,619	22,809	26,646
Title III: Reductions in Taxes on Dividends and Capital Gains [a]	-4,377	-18,701	-20,842	-23,429	-26,041	-27,643
Title IV: Modification to Corporate Estimated Tax Payments for 2003	-12,826	12,826	0	0	0	0
Total Effect on Revenues and Outlays	-60,250	-143,941	-169,257	-97,356	-3,232	-997
Outlays for Refundable Tax Credits [a]	3,618	1,042	4,653	4,244	45	44
Total Changes in Revenues [a]	-56,632	-142,899	-164,604	-93,112	-3,187	-953
CHANGES IN DIRECT SPENDING						
Outlays for Refundable Tax Credits [a]	3,618	1,042	4,653	4,244	45	44
TOTAL CHANGES						
Net Increase in Budget Deficits	-60,250	-143,941	-169,257	-97,356	-3,232	-997

SOURCE: The Joint Committee on Taxation.

NOTE: Components may not sum to totals because of rounding.

a. The Joint Committee on Taxation has determined that certain revenue provisions in Titles I and III have direct spending effects from the refundable tax credits. Separate estimates of the effect of each proposal on revenues and outlays are not available.

BASIS OF ESTIMATE

Revenues

All the estimates for the revenue provisions were provided by JCT. H.R. 2 contains numerous provisions altering existing individual and corporate tax law. JCT estimates that, together, the provisions contained in the bill would decrease federal revenues by about $57 billion in 2003, by about $461 billion over the 2003-2008 period, and by about $536 billion over the 2003-2013 period.

Title I: Acceleration of Certain Previously Enacted Tax Reductions. Provisions contained in this title would:

- Accelerate to 2003 the cuts in individual income tax rates currently scheduled to take place in 2004 and 2006;
- Expand the child credit to $1,000 for 2003 through 2005 and include an advance payment mechanism (rebate) for 2003;
- Accelerate the expansion of the 15 percent tax bracket and increase in the standard deduction for married taxpayers filing a joint return to 2003, and revert to present law in 2006;
- Accelerate the expansion of the 10 percent tax bracket for all taxpayers to 2003, and revert to present law in 2006; and
- Increase the exemption amount for the individual AMT for 2003 through 2005.

JCT estimates that these provisions would decrease governmental receipts and increase refundable outlays by about $31 billion in 2003 and by about $234 billion over the 2003-2006 period.

The provision for a child credit rebate in 2003 is proposed in such a way that some of what is classified as reduced revenue in this estimate could have instead been classified as increased outlays. The bill would provide for 2003 taxpayers to receive a higher child credit of $1,000 per qualifying child instead of the $600 allowed under current law. Qualifying taxpayers who filed tax returns for tax year 2002 would receive an advance payment (rebate) of the increased credit during 2003. For some taxpayers, the amounts they would receive as advance payments based on their 2002 tax returns would exceed allowable amounts based on their 2003 circumstances because they had insufficient tax liabilities in 2003. Such taxpayers would not be required by law to repay the excess. That excess might properly be considered an outlay because the amount could not be construed as a refund of 2003 taxes (the taxpayer did not owe this amount as 2003 liability) and the provision does not stipulate that any advance payments exceeding the 2003 allowed credit for such a taxpayer are to be deemed as refunds of prior years' taxes. In this cost estimate, however, those excesses are considered reductions in revenues based on the final budget treatment for an analogous rebate provision enacted in 2001.

Title II: Growth Incentives for Businesses. The provisions contained in this title would:

- Increase bonus depreciation to 50 percent and extend it through 2005;
- Extend the five-year period for carryback refunds to losses incurred in 2003 through 2005, and waive the limitation on losses for the alternative minimum tax; and
- Increase the amounts and types of investment that qualify for immediate deductibility ("expensing") under section 179 of the Internal Revenue Code.

JCT estimates that these provisions would decrease governmental receipts by about $12 billion in 2003, by about $120 billion over the 2003-2008 period, and by about $39 billion over the 2003-2013 period.

Title III: Reductions in Taxes on Dividends and Capital Gains. Title III would apply tax rates of 15 percent and 5 percent for income from dividends and long-term capital gains through 2012. JCT estimates that these rate changes would decrease governmental receipts and increase refundable outlays by $4 billion in 2003, by about $121 billion over the 2003-2008 period, and by about $277 billion over the 2003-2013 period.

Title IV: Modification to Corporate Estimated Tax Payments for 2003. Title IV would allow certain 2003 corporate estimated tax payments to be paid in 2004, which JCT estimates would decrease federal revenues by about $13 billion in 2003, but then increase revenues by the same amount in 2004.

Direct Spending

JCT provided the outlay effects resulting from the refundable tax credits contained in titles I and III of the bill. JCT estimates that enacting those provisions would increase outlays by about \$3.6 billion in 2003, by about \$13.6 billion over the 2003-2008 period, and by about \$13.8 billion over the 2003-2013 period.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effects of the bill on revenues and direct spending over the 2003-2013 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-56,632	-142,899	-164,604	-93,112	-3,187	-953	-2,245	-10,134	-18,757	-26,622	-16,572
Changes in outlays	3,618	1,042	4,653	4,244	45	44	45	52	65	9	8

SOURCE: The Joint Committee on Taxation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that H.R. 2 contains no private-sector or intergovernmental mandates as defined by UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY: Annie Bartsch (226-2680)

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

May 6, 2003. Property eligible for the 50-percent additional first-year depreciation deduction is not eligible for the 30-percent additional first-year depreciation deduction.

IRS and Treasury Comments:

- The increase and extension of additional first-year depreciation would have no significant impact on Form 4562 or any other tax forms. The instructions for Form 4562 and other instructions and publications would be expanded to explain and implement the new rules. No new forms would be required.
- No programming changes would be required by this provision.

Reduced Individual Capital Gains Rates

Provision:

The 10 and 20 percent rates on the adjusted net capital gain are reduced to 5 and 15 percent, respectively, effective in taxable years ending on or after May 6, 2003 and beginning before January 1, 2013.

For taxable years that include May 6, 2003, the lower rates apply to amounts properly taken into account for the portion of the year on or after that date. This generally has the effect of applying the lower rates to capital assets sold or exchanged (and installment payments received) on or after May 6, 2003.

IRS and Treasury Comments:

- The mid-year effective date of May 6, 2003, creates complexity and burden for taxpayers, and will likely result in a large number of errors (as occurred in 1997 when similar mid-year changes were made to the capital gains tax rate). A January 1, 2003 would greatly simplify matters in 2003.
- To figure the amount of gain taxed at 5% and 15% for 2003, 8 lines would be added to: Schedule D (Form 1040); the Schedule D Tax Worksheet; Form 6251 (alternative minimum tax); and Form 8801 (credit for prior year minimum tax).
- Column (g) of Schedule D would be revised to request information for amounts applicable to the portion of the tax year after May 5, 2003. Additional instructions and a 6-line worksheet would be added to figure 28% rate gain or loss, as that amount is currently figured in column (g).
- Rules would have to be developed and applied for 2003 to account for the limit on net section 1231 losses, capital loss carryforwards, carryforwards not allowed due to passive activity rules or at-risk rules, etc.

- The amount of net capital gain for the portion of the tax year after May 5, 2003, would have to be transcribed from the tax return and programming changes would be required to figure the amount of gain taxed at 5% and 15%.
- For 2003, Form 1099-DIV filers would be required to figure and report to recipients the amount of gain after May 5, 2003.
- Taxpayers whose only capital gains are capital gain distributions would not be able to use the shorter Capital Gain Tax Worksheet in the instructions for Form 1040 and Form 1040A, but instead would be required to file Form 1040 and attach Schedule D, to report the amount of their capital gain distributions properly taken into account after May 5, 2003, and figure their tax using the 5%, 10%, 15%, and 20% capital gains tax rates. This provision would therefore increase the number of taxpayers filing Schedule D by up to 6 million.
- For 2004, the 8 lines added for 2003 and 4 current lines (used to figure the 8% rate) would be removed from: Schedule D; the Schedule D Tax Worksheet; Form 6251; and Form 8801.
- The 8-line Qualified 5-Year Gain Worksheet in the Instructions for Schedule D would not be necessary after 2003.
- For 2006, when the 18% capital gains tax rate becomes effective for individuals, this provision would also prevent us from having to add 4 lines to Schedule D, the Schedule D Tax Worksheet, Form 6251, Form 8801, and the Qualified 5-Year Gain Worksheet.
- Form 1099-DIV filers would not be required to report qualified 5-year gain after 2003, and would not be required in 2005 to begin reporting qualified 5-year gain eligible for the 18% rate.

Dividend Income of Individuals

Provision:

Dividends received by an individual shareholder from domestic corporations are taxed at the rates for net capital gain (5 or 15 percent per the above reduction in the capital gains rate), effective for taxable years beginning after 2002 and before 2013.

If a shareholder does not hold a share of stock for more than 45 days during the 90-day period beginning 45 days before the ex-dividend date, dividends received on the stock are not eligible for the capital gain rates. Also, the capital gain rates are not available for dividends to the extent that the taxpayer is obligated to make related payments with respect to positions in substantially similar or related property. Other rules apply.

IRS and Treasury Comments:

- No new forms would be required as a result of the above-mentioned provision.

- A box to report qualified dividends would be added to Form 1099-DIV for 2004 through 2012.

- Subsequent to enactment, the IRS would have to issue a revised Form 1099-DIV for 2003 and advise taxpayers who make estimated tax payments for 2003 how they can adjust their estimated tax payments to reflect the new tax rates applicable to qualified dividends.

- Two lines would be added to Part IV of Schedule D (and the Schedule D Tax Worksheet) for 2003 through 2012 to increase net capital gain by the amount of qualified dividends.

- The new tax rates applicable to qualified dividends would be reflected in the instructions for Forms 1040 and 1040A for 2003 through 2012.

- Taxpayers who have qualified dividends would be required to report them on Schedule D and complete up to 19 lines (23 lines for 2003) in Part IV of Schedule D to figure their tax using the 15% and 5% capital gains tax rates, even if they did not otherwise have a net capital gain. For example, taxpayers whose only income was wages, interest, and dividends reported on Form 1040A would now be required to file Form 1040 and attach Schedule D to report the amount of qualified dividends and figure their tax.

- Supplemental programming changes would be required to reflect the new tax rates applicable to qualified dividends for 2003.

- Programming changes would be required to reflect the tax rates applicable to qualified dividends after 2012. 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.

- Technical guidance (regulations, revenue rulings, etc.) will probably be needed to implement the anti-abuse rules.

Effect of All Bill Provisions on AMT

Despite specific changes which tend to increase the number of AMT taxpayers, the bill's increases in the AMT exemption amounts for 2003-2005 would significantly reduce the number of AMT taxpayers in those years relative to current law.

Number of affected taxpayers

It is estimated that the provisions will affect approximately 27 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.

The IRS will need to add to the individual income tax forms package a new worksheet so that taxpayers can reconcile the amount of the check they receive from the Department of the Treasury with the credit they are allowed as an acceleration of the child tax credit for 2003. This worksheet should be relatively simple and many taxpayers will not need to fill it out completely because they will have received the full amount by check.

2. Expansion of the 15-percent rate bracket (sec. 102 of the bill)

Summary description of provision

The bill accelerates the increase of the size of the 15-percent regular income tax rate bracket for joint returns to twice the width of the 15-percent regular income tax rate bracket for unmarried individual returns effective for 2003, 2004, and 2005. For taxable years beginning after 2005, the end point of the 15-percent rate bracket for married couples filing joint returns as a percentage of the end point of the 15-percent rate bracket for unmarried individuals will revert to present-law levels (e.g., 187 percent of the end point of the 15-percent rate bracket for unmarried individuals for 2006).

Number of affected taxpayers

It is estimated that the provision will affect approximately 19 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. Standard deduction tax relief (sec. 103 of the bill)

Summary description of provision

The bill accelerates the increase in the basic standard deduction amount for joint returns to twice the basic standard deduction amount for unmarried individual returns effective for 2003, 2004, and 2005. For taxable years beginning after 2005, the applicable percentages will revert to present-law levels (e.g., 184 percent of the basic standard deduction for unmarried individuals for 2006).

Number of affected taxpayers

It is estimated that the provision will affect approximately 22 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 and a significant number of which will no longer 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.

4. Reduction in income tax rates for individuals (secs. 104 and 105 of the bill)

Summary description of provision

The bill accelerates the scheduled increase in the taxable income levels for the 10-percent rate bracket from 2008 to 2003, 2004, and 2005. Specifically, the bill increases the taxable income level for the 10-percent regular income tax rate brackets for unmarried individuals from $6,000 to $7,000 and for married individuals filing jointly from $12,000 to $14,000, respectively. The taxable income levels for the 10-percent regular income tax rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2003. For taxable years beginning after 2005, the amounts will revert to the levels provided in present-law (e.g., $7,000 for unmarried individuals and $12,000 for married couples filing jointly for 2006).

Also, the bill accelerates the reductions in the regular income tax rates in excess of the 15-percent regular income tax rate that are scheduled for 2004 and 2006. Therefore, the regular

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. Increase the child tax credit (sec. 101 of the bill)

<u>**Summary description of provision**</u>

The amount of the child credit is increased to $1,000 for 2003 through 2005. For 2003, the increased amount of the child credit will be paid in advance beginning in July 2003 on the basis of information on each taxpayer's 2002 return filed in 2003. Advance payments will be made in a similar manner to the advance payment checks issued by the Treasury in 2001 to reflect the creation of the 10-percent regular income tax rate bracket. After 2005 the child credit will revert to the levels provided in present law (e.g., $700 for 2006).

income tax rates in excess of 15 percent under the bill are 25 percent, 28 percent, 33 percent, and 35 percent for 2003 and thereafter.

Number of affected taxpayers

It is estimated that the provision will affect approximately 76 million individual tax returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. It 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 the tax preparation costs for most individuals. Reductions in the regular income tax as a result of these rate reductions as well as the expansion of the child credit, standard deduction, and 10-percent bracket, will cause some taxpayers to become subject to the alternative minimum tax.

The Secretary of the Treasury is expected to make appropriate revisions to the wage withholding tables to reflect the proposed rate reduction for calendar year 2003 as expeditiously as possible. To implement the effects of the additional amount of child tax credit for 2003, employers would be required to use a new (second) set of withholding rate tables to determine the correct withholding amounts for each employee. Switching to the new withholding rate tables during the year can be expected to result in a one-time additional burden for employers (or additional costs for employers that rely on a bookkeeping or payroll service).

5. Bonus depreciation (sec. 201 of the bill)

Summary description of provision

The bill provides an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property. Qualified property is defined in the same manner as for purposes of the 30-percent additional first-year depreciation deduction provided by the Job Creation and Workers Assistance Act of 2002, except that the applicable time period for acquisition (or self construction) of the property is modified. In general, in order to qualify the property must be acquired after May 5, 2003, and before January 1, 2006, and no binding written contract for the acquisition is in effect before May 6, 2003. Property eligible for the 50-percent additional first year depreciation deduction is not eligible for the 30-percent additional first year depreciation deduction.

Number of affected taxpayers

It is estimated that more than 10 percent of small businesses will be affected by the provision.

Discussion

It is not anticipated that small businesses will have to keep additional records due to this provision, nor will additional regulatory guidance be necessary to implement this provision. It is not anticipated that the provision will result in an increase in disputes between small businesses and the IRS. However, small businesses will have to perform additional analysis to determine whether property qualifies for the provision. In addition, for qualified property, small businesses will be required to perform additional calculations to determine the proper amount of allowable depreciation. Complexity may also be increased because the provision is temporary. For example, different tax treatment will apply for identical equipment based on the acquisition and placed in service date. Further, the Secretary of the Treasury is expected to have to make appropriate revisions to the applicable depreciation tax forms.

6. Capital gain rate reduction (sec. 301 of the bill)

Summary description of provision

The bill reduces the 10- and 20-percent rates on the adjusted net capital gain to five and 15 percent, respectively. These lower rates apply to both the regular tax and the alternative minimum tax. The lower rates apply to assets held more than one year. The bill applies to taxable years ending on or after May 6, 2003, and beginning before January 1, 2013.

For taxable years that include May 6, 2003, the lower rates apply to amounts properly taken into account for the portion of the year on or after that date. This generally has the effect of applying the lower rates to capital assets sold or exchanged (and installment payments received) on or after May 6, 2003. In the case of gain and loss taken into account by a pass-through entity, the date taken into account by the entity is the appropriate date for applying this rule.

Number of affected taxpayers

It is estimated that the provisions will affect over 15 million individual tax returns.

Discussion

The elimination of the five-year holding period means that taxpayers with gains on assets held for more than 5 years will no longer need to separately compute tax for such gain on schedule D of Form 1040. Additionally, the form will not need to be expanded beginning in 2006 to separate out gain of capital assets held more than five years that were purchased after 2000. This may reduce tax preparation costs. Mutual fund reporting on the Form 1099 will be made easier by the elimination of the five-year holding period.

For 2003, multiple rates will be in effect depending on whether gain was realized before or after May 6, 2003. This will make the schedule D more complicated for tax year 2003, and may increase tax preparation costs.

7. Dividend tax relief (sec. 302 of the bill)

Summary description of provision

Under the bill, qualified dividends received by an individual shareholder from domestic corporations are taxed at the rates that apply to net capital gain. This treatment applies for purposes of both the regular tax and the alternative minimum tax. Thus, under the bill, dividends will be taxed at rates of five and 15 percent, the same rates applicable to net capital gain.

If a shareholder does not hold a share of stock for more than 45 days during the 90-day period beginning 45 days before the ex-dividend date, dividends received on the stock are not eligible for the capital gain rates. Also, the capital gain rates are not available for dividends to the extent that the taxpayer is obligated to make related payments with respect to positions in substantially similar or related property.

Number of affected taxpayers

It is estimated that the provisions will affect over 20 million individual tax returns.

Discussion

Individuals computing their tax will need to add qualified dividends to net capital gain in computing their income tax using the tax computation portion of Schedule D of Form 1040 (or other tax computation forms or schedules as the Internal Revenue Service may prescribe). Additional individuals will need to use the tax computation schedule, which may increase tax preparation costs.

New Form 1099s will need to differentiate qualified from nonqualified dividends. Additional record keeping will be necessary with respect to compliance with the 45-day holding period rules. It is likely that there will be increased taxpayer errors with respect to the proper reporting of dividends as a result.

[insert IRS letter]

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

In compliance with clause 3(e) of rule XIII of the Rule 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 italics, existing law in which no change is proposed is shown in roman):

[TO BE SUPPLIED BY LEGISLATIVE COUNSEL'S OFFICE]

VII. DISSENTING VIEWS

To be supplied by Democratic staff.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

MAY 07 2003

May 7, 2003

MAY 07 2003

Ms. Mary Schmitt
Acting Chief of Staff
Joint Committee on Taxation
Washington, D.C. 20515

Dear Ms. Schmitt:

Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the seven provisions from the House Committee on Ways and Means markup of H.R. 2, the "Jobs and Growth Tax Act of 2003," that you identified for complexity analysis in your letter of May 7, 2003.

Our comments are based on the description of those provisions in your letter and JCX-40-03, the Joint Committee on Taxation's *Description of the Chairman's Amendment in the Nature of a Substitute to Jobs and Growth Tax Act of 2003*; and the statutory language for the Chairman's amendment published by the *Daily Tax Report* on May 7, 2003.

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. Our ability to implement any tax changes this year will, of course, depend upon timely enactment.

Sincerely,

Mark W. Everson

Enclosure

COMPLEXITY ANALYSIS OF THE
JOBS AND GROWTH TAX ACT OF 2003

Acceleration of the Increase In the Child Tax Credit

Provision:

The amount of the child tax credit is increased to $1,000 for 2003, 2004, and 2005. For 2003, the increased amount ($400) will be paid in advance beginning in July 2003 on the basis of information on each taxpayer's 2002 return. Advance payments are to be made in a similar manner to the advance payment checks issued by the Treasury in 2001 to reflect the creation of the 10-percent regular income tax rate bracket. After 2005 the child tax credit will revert to the levels provided in present law (e.g., $700 for 2006).

IRS and Treasury Comments:

- No new forms would be required as a result of the child tax credit provisions mentioned above.
- The increased amount of the child tax credit would be incorporated in the instructions for Forms 1040, 1040A, 1040NR, 1040-PR, and 1040-SS for 2003, 2004, and 2005.
- The applicable amount of the child tax credit for 2006 and later years would be incorporated in the instructions for Form 1040, 1040A, 1040NR, 1040-PR, and 1040-SS and on Form 1040-ES for 2006 and later years..
- Subsequent to enactment, the IRS would have to advise taxpayers who make estimated tax payments for 2003 how they can adjust their estimated tax payments for 2003 to reflect the increased child tax credit and required reduction for those who receive advance payments.
- Supplemental programming changes would be required to reflect the increased child tax credit for 2003 and the required reduction for those who receive advance payments.
- Programming changes would be required to reflect the applicable amount of the child tax credit for 2006 and later years. Currently, the IRS computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by the provision would be included during that process.

Advance Payment Feature

- An estimated 26 million checks will be mailed beginning in July 2003.

- It will take three weeks to mail checks to those taxpayers whose 2002 tax returns have already been filed and processed. Checks for taxpayers whose returns are filed and processed later in the year will be mailed weekly, through the end of December 2003.

- Some taxpayers may be entitled to more than their advance payment checks due to changes in financial or family status between 2002 and 2003. For example, IRS will not know if a taxpayer gives birth to a child or adopts a child in 2003 until the taxpayer files the 2003 tax return. If they are entitled to a larger increase in the child tax credit than they received in their advance payment checks, they will get the additional amounts as a credit on their 2003 tax returns.

- Notices will be sent to taxpayers informing them of the amount of their advance payment, the number of children used to compute the amount, if the amount was limited due to the phase-out range, tax liability, or earned income. The notices will also advise taxpayers that this amount will have to be taken into account in determining the amount of their child tax credit on the 2003 tax return.

- Two lines would be added to the Child Tax Credit Worksheet for 2003. One line would be added for the taxpayer to reduce the amount of child tax credit computed by the advance payment received. Based on experience with the 2001 rate reduction credit and advance payment, it is anticipated that a number of taxpayers will make errors in this computation on their 2003 tax returns.

The advance payment will require programming changes to compute the amount and resources to answer taxpayer questions, print and mail notices, and correct errors made on 2003 returns as a result of the advance payment

Acceleration of the Standard Deduction Tax Relief

Provision:

The basic standard deduction amount for joint returns is increased to twice the basic standard deduction amount for unmarried individual returns, effective for 2003, 2004, and 2005. After 2005, the applicable percentages will revert to present-law levels (e.g., 184 percent of the basic standard deduction for unmarried individuals for 2006).

IRS and Treasury Comments:

- The increased basic standard deduction for married taxpayers would be incorporated in the instructions for Forms 1040, 1040A, 1040EZ, and on Forms 1040, 1040A, and 1040EZ for 2003, 2004, and 2005. No new forms would be required.

- The amount of the basic standard deduction for married taxpayers after 2005 would be incorporated in the instructions for Forms 1040, 1040A, 1040EZ, and on Forms W-4, 1040, 1040A, 1040EZ, and 1040-ES for 2006 and later years.

- Subsequent to enactment, the IRS would have to advise taxpayers how they can adjust their estimated tax payment or Federal income tax withholding for 2003 to reflect the increased basic standard deduction.

- Supplemental programming changes would be required to reflect the increased basic standard deduction for 2003.

- Programming changes would be required to reflect the applicable amount of the standard deduction applicable for 2006 and later years. Currently, the IRS computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by the provision would be included during that process.

- The larger basic standard deduction would reduce the number of taxpayers who itemize their deductions.

- The larger standard deduction would reduce the number of taxpayers required to file tax returns.

- The provision would increase the number of AMT filers and would also cause additional taxpayers to perform AMT calculations to determine whether their liability is affected by the AMT.

- The provision would require new withholding rate tables and schedules to update the current Circular E for use by employers during the remainder of calendar year 2003.

Acceleration of the Expansion of the 15-Percent Rate Bracket

Provision:

The width of the 15-percent regular income tax rate bracket for joint returns is increased to twice the width of the 15-percent regular income tax rate bracket for unmarried individual returns, effective for 2003, 2004, and 2005. After 2005, the end point of the 15-percent rate bracket for married couples filing joint returns as a percentage of the end point of the 15-percent rate bracket for unmarried individuals will revert to present-law levels (e.g., 187 percent of the end point of the 15-percent rate bracket for unmarried individuals for 2006).

IRS and Treasury Comments:

- The expanded 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, and 1040NR for 2003, 2004, and 2005. No new forms would be required.

- The applicable width of the 15-percent rate bracket for married taxpayers after 2005 would be incorporated in the tax tables and tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, and 1040NR and on Form 1040-ES for 2006 and later years.

- The expanded 15-percent rate bracket would also be incorporated in the tax rate schedules shown on Form 1040-ES for 2004. Subsequent to enactment, the IRS would have to advise taxpayers who make estimated tax payments for 2003 how they can adjust their estimated tax payments for 2003 to reflect the expanded 15-percent rate bracket.

- Supplemental programming changes would be required to reflect the expanded 15-percent rate bracket for 2003.

- Programming changes would be required to reflect the applicable width of the 15-percent rate bracket for 2006 and later years. Currently, the IRS computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by the provision would be included during that process.

- New withholding rate tables and schedules to update the current Circular E for use by employers during the remainder of calendar year 2003 would be required.

- The provision would increase the number of AMT filers and would also cause additional taxpayers to perform AMT calculations to determine whether their liability is affected by the AMT.

Acceleration of the Reduction of Regular Individual Income Tax Rates

Provision:

Increases in the taxable income levels for the 10-percent rate bracket now scheduled for 2008 are accelerated to 2003, 2004, and 2005. Specifically, for 2003 the taxable income level for the 10-percent regular income tax rate brackets will increase for unmarried individuals from $6,000 to $7,000 and for married individuals filing jointly from $12,000 to $14,000, respectively. For taxable years beginning after 2003 the 10-percent regular income tax rate bracket will be adjusted annually for inflation. For taxable years beginning after 2005, the bracket will revert to the levels provided in present law (e.g., $7,000 for unmarried individuals and $12,000 for married couples filing jointly for 2006).

The reductions in the regular income tax rates in excess of the 15-percent regular income tax rate now scheduled for 2004 and 2006 are accelerated to 2003. Therefore, the regular income tax rates in excess of 15 percent under the bill will be 25 percent, 28 percent, 33 percent, and 35 percent for 2003 and thereafter.

IRS and Treasury Comments:

- No new forms would be required as a result of the above-mentioned provisions.
- The increased taxable income levels for the 10-percent rate bracket would be incorporated in the tax tables and tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ for 2003, 2004, and 2005.
- The reduced tax rates would be incorporated in the tax tables and tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, 1040NR-EZ, and 1041 for 2003 and later years.
- The taxable income levels for the 10-percent rate bracket applicable to tax years beginning after 2005 would be incorporated in the tax tables and tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ and on Form 1040-ES for 2006 and later years.
- The increased taxable income levels for the 10-percent rate bracket and the reduced tax rates would also be incorporated in the tax rate schedules shown on Form 1040-ES for 2004. Subsequent to enactment, the IRS would have to advise taxpayers who make estimated tax payments for 2003 how they can adjust their estimated tax payments for 2003 to reflect the increased taxable income levels for the 10-percent rate bracket and the reduced rates.
- The provision would require new withholding rate tables and schedules to update the current Circular E for use by employers during the remainder of calendar year 2003.

Special Depreciation Allowance for Certain Property

Provision:

The bill provides an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property. Qualified property is defined in the same manner as for purposes of the 30-percent additional first-year depreciation deduction provided by the Job Creation and Workers Assistance Act of 2002, except that the applicable time period for acquisition (or self construction) of the property is modified. In general, in order to qualify, the property must be acquired after May 5, 2003 and before January 1, 2006, and no binding written contract for the acquisition is in effect before

May 6, 2003. Property eligible for the 50-percent additional first-year depreciation deduction is not eligible for the 30-percent additional first-year depreciation deduction.

IRS and Treasury Comments:

- The increase and extension of additional first-year depreciation would have no significant impact on Form 4562 or any other tax forms. The instructions for Form 4562 and other instructions and publications would be expanded to explain and implement the new rules. No new forms would be required.
- No programming changes would be required by this provision.

Reduced Individual Capital Gains Rates

Provision:

The 10 and 20 percent rates on the adjusted net capital gain are reduced to 5 and 15 percent, respectively, effective in taxable years ending on or after May 6, 2003 and beginning before January 1, 2013.

For taxable years that include May 6, 2003, the lower rates apply to amounts properly taken into account for the portion of the year on or after that date. This generally has the effect of applying the lower rates to capital assets sold or exchanged (and installment payments received) on or after May 6, 2003.

IRS and Treasury Comments:

- The mid-year effective date of May 6, 2003, creates complexity and burden for taxpayers, and will likely result in a large number of errors (as occurred in 1997 when similar mid-year changes were made to the capital gains tax rate). A January 1, 2003 would greatly simplify matters in 2003.
- To figure the amount of gain taxed at 5% and 15% for 2003, 8 lines would be added to: Schedule D (Form 1040); the Schedule D Tax Worksheet; Form 6251 (alternative minimum tax); and Form 8801 (credit for prior year minimum tax).
- Column (g) of Schedule D would be revised to request information for amounts applicable to the portion of the tax year after May 5, 2003. Additional instructions and a 6-line worksheet would be added to figure 28% rate gain or loss, as that amount is currently figured in column (g).
- Rules would have to be developed and applied for 2003 to account for the limit on net section 1231 losses, capital loss carryforwards, carryforwards not allowed due to passive activity rules or at-risk rules, etc.

- The amount of net capital gain for the portion of the tax year after May 5, 2003, would have to be transcribed from the tax return and programming changes would be required to figure the amount of gain taxed at 5% and 15%.
- For 2003, Form 1099-DIV filers would be required to figure and report to recipients the amount of gain after May 5, 2003.
- Taxpayers whose only capital gains are capital gain distributions would not be able to use the shorter Capital Gain Tax Worksheet in the instructions for Form 1040 and Form 1040A, but instead would be required to file Form 1040 and attach Schedule D, to report the amount of their capital gain distributions properly taken into account after May 5, 2003, and figure their tax using the 5%, 10%, 15%, and 20% capital gains tax rates. This provision would therefore increase the number of taxpayers filing Schedule D by up to 6 million.
- For 2004, the 8 lines added for 2003 and 4 current lines (used to figure the 8% rate) would be removed from: Schedule D; the Schedule D Tax Worksheet; Form 6251; and Form 8801.
- The 8-line Qualified 5-Year Gain Worksheet in the Instructions for Schedule D would not be necessary after 2003.
- For 2006, when the 18% capital gains tax rate becomes effective for individuals, this provision would also prevent us from having to add 4 lines to Schedule D, the Schedule D Tax Worksheet, Form 6251, Form 8801, and the Qualified 5-Year Gain Worksheet.
- Form 1099-DIV filers would not be required to report qualified 5-year gain after 2003, and would not be required in 2005 to begin reporting qualified 5-year gain eligible for the 18% rate.

Dividend Income of Individuals

Provision:

Dividends received by an individual shareholder from domestic corporations are taxed at the rates for net capital gain (5 or 15 percent per the above reduction in the capital gains rate), effective for taxable years beginning after 2002 and before 2013.

If a shareholder does not hold a share of stock for more than 45 days during the 90-day period beginning 45 days before the ex-dividend date, dividends received on the stock are not eligible for the capital gain rates. Also, the capital gain rates are not available for dividends to the extent that the taxpayer is obligated to make related payments with respect to positions in substantially similar or related property. Other rules apply.

IRS and Treasury Comments:

- No new forms would be required as a result of the above-mentioned provision.

- A box to report qualified dividends would be added to Form 1099-DIV for 2004 through 2012.
- Subsequent to enactment, the IRS would have to issue a revised Form 1099-DIV for 2003 and advise taxpayers who make estimated tax payments for 2003 how they can adjust their estimated tax payments to reflect the new tax rates applicable to qualified dividends.
- Two lines would be added to Part IV of Schedule D (and the Schedule D Tax Worksheet) for 2003 through 2012 to increase net capital gain by the amount of qualified dividends.
- The new tax rates applicable to qualified dividends would be reflected in the instructions for Forms 1040 and 1040A for 2003 through 2012.
- Taxpayers who have qualified dividends would be required to report them on Schedule D and complete up to 19 lines (23 lines for 2003) in Part IV of Schedule D to figure their tax using the 15% and 5% capital gains tax rates, even if they did not otherwise have a net capital gain. For example, taxpayers whose only income was wages, interest, and dividends reported on Form 1040A would now be required to file Form 1040 and attach Schedule D to report the amount of qualified dividends and figure their tax.
- Supplemental programming changes would be required to reflect the new tax rates applicable to qualified dividends for 2003.
- Programming changes would be required to reflect the tax rates applicable to qualified dividends after 2012. 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.
- Technical guidance (regulations, revenue rulings, etc.) will probably be needed to implement the anti-abuse rules.

Effect of All Bill Provisions on AMT

Despite specific changes which tend to increase the number of AMT taxpayers, the bill's increases in the AMT exemption amounts for 2003-2005 would significantly reduce the number of AMT taxpayers in those years relative to current law.

Dissenting Views of the Democratic Members
Committee on Ways and Means
The Jobs and Growth Reconciliation Tax Act of 2003
May 6, 2003

We are united in our opposition to the committee bill. It is difficult to imagine a bill that could be more unfair and fiscally irresponsible than the one reported by the Committee. The Committee bill is as reckless as the President's proposal, it uses gimmicks to pretend to cut its cost. The Committee bill is even more unfair than the President's proposal.

The unfairness of the Committee bill is apparent on its face, no sophisticated distributional analysis is necessary. All of the benefits in the Committee bill that are targeted for low- and moderate-income individuals, such as expansion of the lowest income tax rate bracket, marriage penalty relief and child credit increase last only three years. In contrast, the new tax reduction for capital gains and dividends (totaling $276 billion), is sunsetted at the end of the budget window. Seventy percent of all capital gain and dividend income is enjoyed by the fortunate 2.5 % of taxpayers with annual incomes over $200,000. Those fortunate taxpayers will find that their Federal tax rate on that income will be one-half of the combined Federal income and payroll tax rate on wages earned by moderate income working families.

The Committee bill will result in persistent long-term deficits that could reduce economic growth in the future. Even Federal Reserve Chairman Alan Greenspan has cautioned against costly new tax reductions at a time when the Government is facing exploding deficits. The Committee bill is particularly irresponsible now that we are faced with the uncertain cost of continued occupation of Iraq and its reconstruction.

Normally in time of war, this country has a sense of shared sacrifice. Now the Administration and its congressional Republican allies are pursuing a course that calls for sacrifices from some, but rewards for others. Individuals in the military are being asked to risk their lives in Iraq. The elderly, poor and unemployed will see reductions in Medicare, Medicaid and other programs. The ability to meet our commitment to Social Security beneficiaries will be reduced by the irresponsible nature of the Committee bill. In contrast, upper income individuals will receive large tax reductions from the Committee bill. Households with annual income over $1 million will receive a $93,500 increase in their "take-home" income in 2003 and more in later years.

The individuals in the military who risked their lives in Iraq deserve more than a welcoming speech and a parade when they come back. They should receive educational and other benefits commensurate with those that we have provided to the veterans of prior conflicts. Their children should not face diminished opportunities for an education because the Congress and the President have failed to meet the bold promises they made in enacting the No Child Left Behind Act. Above all, the military returning from Iraq should not be presented with a bill for the party that was held in their absence and that provided little assistance to them or their families.

The President in his State of the Union Address earlier this year said that "...we will not pass along our problems to other Congresses, other Presidents, and other generations." The President's program and the Committee bill are totally inconsistent with that pledge. The Wall Street firm, Goldman Sachs, estimates that annual deficits over the next ten years could total $4 trillion. Notwithstanding the President's rhetoric, the problem of paying a very large bill will be passed on to our children.

The Committee bill arguably will be the third "economic stimulus" package recommended by the Bush Administration. Part of the sales pitch for the 2001, $1.35 trillion tax cut was its stimulative effect on the economy. When the economy continued to experience sluggish growth, another economic stimulus plan was enacted in March, 2002.

Now we are continuing to see slow economic growth. The Committee Republicans and the Bush Administration are using those economic conditions to justify proposals that will provide little short-term help to our economy, but advance their long-term agenda of reducing taxes on upper income individuals and eliminating all income taxes on investment income. Their ultimate goal is a tax system that only taxes wages and does so without progressive rates. The Committee bill is a step in a plan to reach that goal, a goal that we do not share.

The recent analysis by the Congressional Budget Office demonstrates that these proposals will do little to improve the economy and add jobs. CBO found that the President's proposals would probably reduce, not increase, investment. Even the Republican-appointed head of CBO concluded that the President's proposals would have little impact on the economy.

Following is an elaboration of some of the reasons why we oppose this bill.

Persistent Long-Term Deficits

All of the $5.6 trillion projected surpluses used in 2001 to defend the Bush position that we could afford a large tax cut and other priorities, such as a prescription drug benefit, now are all gone. Instead, we will have large budget deficits for the foreseeable future even without taking into account the cost of indefinite occupation of Iraq. The bipartisan commitment to preserve the Social Security and Medicare surpluses has been totally abandoned by the Bush Administration and its Congressional Republican allies.

Each new budget projection from the Congressional Budget Office brings increasingly bad news. The most recent report indicates that the deficit for the current fiscal year will be $47 billion greater than what CBO estimated only two months earlier. The 10-year budget picture has worsened by $446 billion, again compared to estimates made only two months earlier. Since that time, Congress appropriated approximately $80 billion for the short-term cost of the war in Iraq. In addition, income tax receipts from the April 15 filing season are substantially smaller than earlier estimated. The deficit for this fiscal year could easily set a record. Analysts at Citibank are now suggesting that this year's deficit could approach $500 billion. Already we have seen record levels of Federal borrowing in the first quarter of this year.

The current projections dramatically understate the long-term fiscal problems. They do not take into account any of the costs of indefinite occupation of Iraq or of its reconstruction. The projections do not take into account the costs of fixing the individual alternative minimum tax nor the cost of extending widely popular tax benefits. They also assume that the Congressional Republicans will not provide a significant Medicare prescription drug benefit.

The Administration has argued that deficits don't matter. Federal Reserve Chairman Alan Greenspan clearly does not agree. "There is no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative impact on the economy."

The Committee has attempted to hide the true cost of its bill through gimmicks, following the example of the 2001 tax cut legislation. In 2001, Congress used temporary provisions and the overall sunset to hide the cost of the bill. Now, we have legislation that temporarily accelerates the temporary provisions of the 2001 Act, gimmicks piled on top of gimmicks. The true cost of the Committee bill is far greater than the promised total of $550 billion because of the implicit promise to extend its tax benefits in the future. If all of its provisions were extended indefinitely, the cost would exceed $1 trillion over the next 10 years.

We can finance the cost of the irresponsible Committee bill only if foreign investors continue to be willing to lend us money. The value of our currency is a barometer of confidence in our fiscal policies and a strong dollar is necessary for continued foreign investment in this country. There has been a steady decline in the value of the dollar. The European currency has risen twenty-six percent against the dollar since the beginning 2002. If the recent declines in the value of the dollar continue, we could face dramatic interest rate increases in order to borrow the $1.5 billion a day that we need from foreign investors to fund our trade and budget deficits. Even officials at the International Monetary Fund have raised concerns over our fiscal policies.

State and Local Fiscal Crisis

State and local governments are grappling with unprecedented budget crises. Unlike the Federal government, those governments do not have the luxury of borrowing money to cover their deficits. The tax increases and spending cuts at the State and local level could offset totally any beneficial effect from Federal action. The Republicans refused to provide any significant assistance to assist States in meeting that crisis, even though previous excessive Republican tax cuts for the wealthy have contributed to those growing State deficits.

The Tax Cuts are Tremendously Skewed to the Affluent

The Committee bill is tremendously skewed to the affluent. Its capital-gains/dividend tax cut is even more skewed than the President's dividend tax cut. Capital gains are even more concentrated at the top than are dividends.

The middle-class oriented tax breaks (e.g., greater child credit, wider 10% tax-rate bracket, and marriage relief) expire after only three years, but not the tax breaks for dividends and capital gains, nor the cut in the top tax rate from 38.6% to 35%.

While the income and payroll tax rates on an extra dollar of ordinary wages earned by families with median income typically add to 30% (15% each), and stay that way under the Committee bill plan, the maximum tax rates on capital gains and dividends go down to only 15% – half as much. This is another big step on the road to changing the income tax into a tax on only wages, while continuing to "double tax" wages under both the income and the payroll taxes.

Famous investor Warren Buffett recently told Senators that getting rid of the tax on dividends, as the President proposed, would reduce his federal tax bill by $300 million a year. Mr. Buffett said that would mean he would pay proportionately less in taxes than his secretary. Mr. Buffet would get this tax break for doing nothing differently than he does already. House Republicans are forging ahead to give Mr. Buffett much of that dividends tax cut and a bigger capital gains tax cut.

A study by the Brookings/Urban Institutes' Tax Policy Center quantifies the skewed benefits of the Committee bill. According to that study –

- For tax-year 2003, $93,500 is the average tax cut for those with incomes of one million or more. $452 is the tax cut for households with incomes between $40,000 and $50,000. For the millionaires, this is like a "bonus" equal to 4.4% of their take-home income, almost four times as much as for the middle-class group that gets a 1.1% increase.

- A clear indication of what will happen later, after the middle-class relief expires, comes from looking at the capital-gains/dividends tax cut which persists.

- In tax year 2003, the capital-gains tax cut which only covers eight months of the year is worth $30,700 to millionaires, but only $42 to households with incomes between $40,000 and $50,000.

- 61% of the benefits from the capital-gains dividend tax cut go to the only 2% of households with incomes over $200,000.

• Only 21% of households within the $40,000-$50,000 income group get any thing at all, because so few even have capital-gains or dividend income.

The affluent benefit so much because they get most of the capital gains and dividend income in society, and because such a large share of their total income is from capital gains and dividends, which the Committee bill favors.

Households with incomes over $500,000 get 41% of their income from capital gains and dividends, which are favored by the Committee bill. Households with incomes between $40,000 and $75,000 get only 4% of their income from the sources favored by the Committee bill. (See graph.)

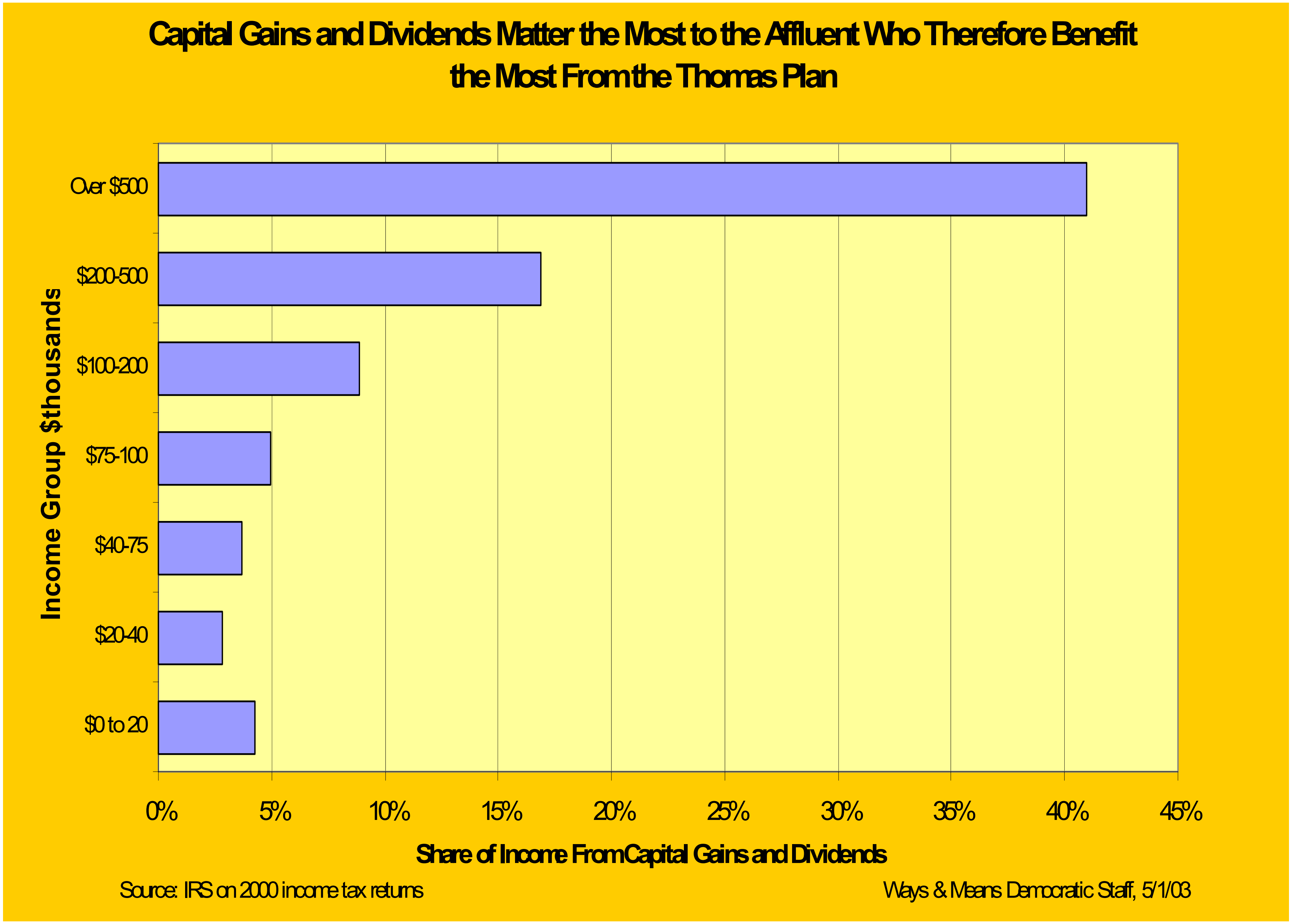
The very affluent have a large share of total capital gains and dividend income even though they are a small share of households. IRS data for 2000 show that those with incomes over $500,000 accounted for 57% of all capital gains and dividends, but comprised only 0.5% of taxpayers and accounted for only 17% of income from all sources. The opposite is true for taxpayers with incomes between $40,000 and $75,000. They comprised 21% of all taxpayers and accounted for 24% of all income, but only 7% of capital gains and dividends.

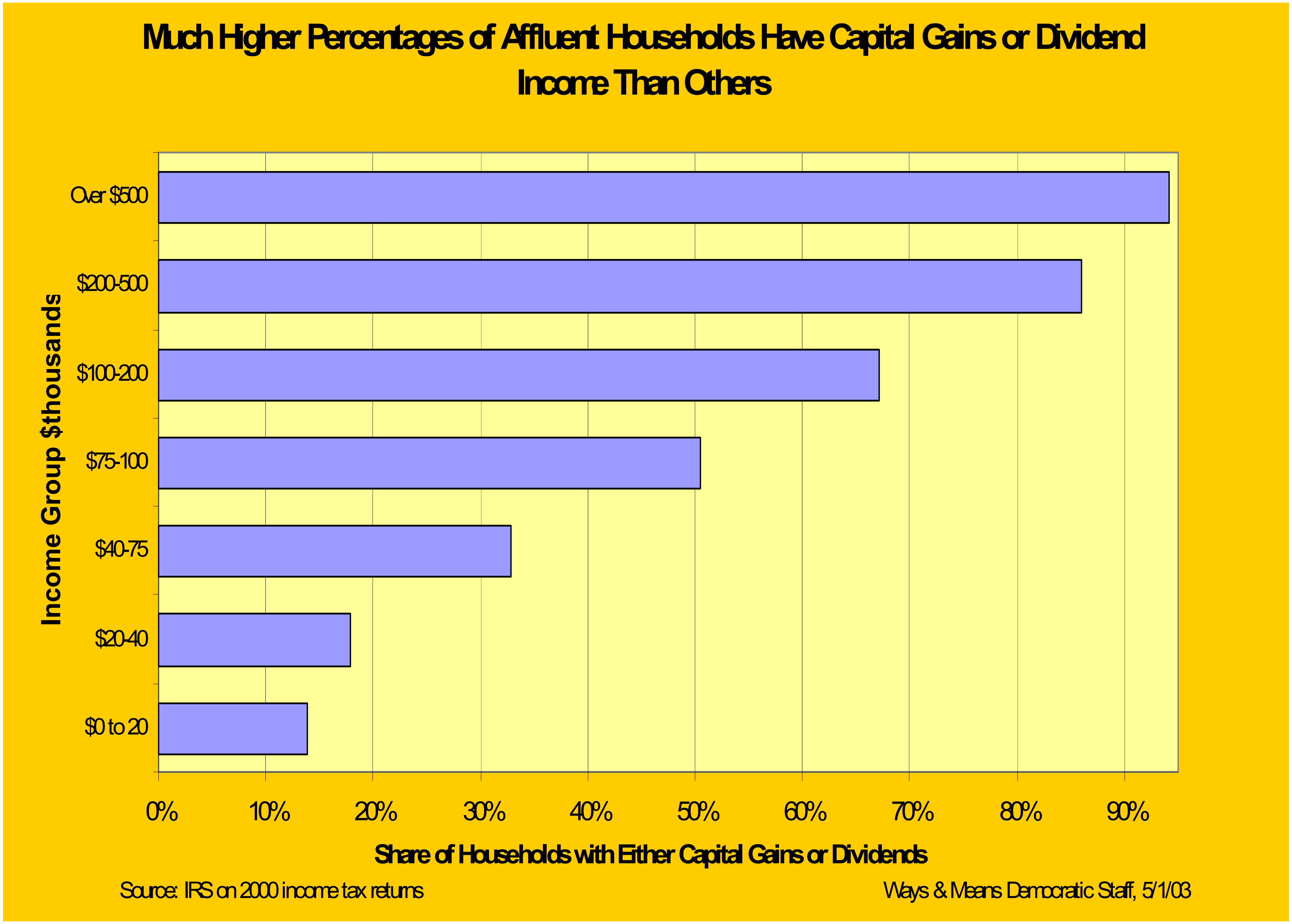
Income group year-2000	Share of capital gains and dividends	Share of total taxpayers	Share of Total Income (Adjusted Gross Income)
Over $500,000	57%	0.5%	17%
$200,000-500,000	13%	2%	10%
$100,000-200,000	12%	6%	17%
$75,000-100,000	5%	7%	11%
$40,000-75,000	7%	21%	24%
$20,000-40,000	3%	25%	14%
$1 to $20,000	3%	39%	8%

A very high percentage of affluent households have either capital gains or dividend income that is favored under the Committee plan. This is not true of middle-income households. For example, 94% of households with incomes over $500,000 have dividends or capital gains. Only 33% of households with incomes between $40,000 and $75,000 have dividends or capital gains. (See graph.)

Conclusion

Earlier this year, Mr. Rangel sent a "Dear Colleague" letter describing the President' tax cuts as being reckless and unfair. The Committee has produced a bill equally reckless, and even more unfair. It is easy to vote no.


Capital Gains and Dividends Matter the Most to the Affluent Who Therefore Benefit the Most From the Thomas Plan
Income Group $thousands
Over $500
$200-500
$100-200
$75-100
$40-75
$20-40
$0 to 20
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
Share of Income From Capital Gains and Dividends
Source: IRS on 2000 income tax returns
Ways & Means Democratic Staff, 5/1/03


Much Higher Percentages of Affluent Households Have Capital Gains or Dividend Income Than Others
Income Group $thousands
Over $500
$200-500
$100-200
$75-100
$40-75
$20-40
$0 to 20
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Share of Households with Either Capital Gains or Dividends
Source: IRS on 2000 income tax returns
Ways & Means Democratic Staff, 5/1/03

Dissenting Views
H.R. 2
Jobs and Growth Reconciliation Tax Act of 2003
May 6, 2003

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