Congressional Research Service

Report RL30801

Tax Activity in the 106th Congress

Jane G. Gravelle and Steven Maguire, Government and Finance Division

February 27, 2001

Abstract. This paper discussed the main topics of legislative activity in the tax area in the 106th Congress.

Order Code RL30801

CRS Report for Congress

Received through the CRS Web

Tax Activity in the 106th Congress

Updated February 27, 2001

Jane G. Gravelle
Senior Specialist in Economic Policy
Government and Finance Division

Tax Activity in the 106th Congress

Summary

A general tax cut (H.R. 2488), costing $792 billion over 10 years, was vetoed in September 1999. The general tax cut proposal included across-the-board tax cuts, benefits for married couples, phase-out of the alternative minimum tax, a reduction in capital gains taxes, a phase-out of the estate tax and provisions relating to education and health. A more narrowly focused bill (H.R. 1180), largely focused on extending certain expiring provisions, was passed and signed by the President adopted in December, 1999.

Several tax proposals, primarily reflecting individuals provisions of H.R. 2488, were considered in 2000. The largest of these was marriage penalty legislation. Other important proposals included estate and gift tax reductions, Individual Retirement Account (IRA) and pension provisions, and deductions for health care insurance. At the end of 2000, another limited tax bill was adopted, which included distressed communities legislation and an extension of medical savings accounts. Two smaller bills, a revision of the foreign sales corporation provision and a repeal of the installment sales restriction included in the 1999 extenders bill were also adopted.

This report is an overview of legislative activity in the 106th Congress and will not be updated.
.

Contents

Tax Activity in the 106th Congress

The 106th Congress was characterized by a number of tax bills that saw some action, including several that were vetoed. In 1999, a general tax bill, H.R. 2488, which contained a variety of tax provisions, including across-the-board tax cuts, was adopted. This bill, with a 10-year revenue cost of $792 billion (the on-budget surplus projected at that time) was vetoed on September 23, 1999. A much smaller bill, H.R. 1180, primarily extending expiring tax provisions, was enacted and signed by the President in December 1999.

During 2000, however, a number of stand-alone tax bills, often identical to individual sections of H.R. 2488, were considered by Congress. In several cases, bills were passed and then vetoed. In a post-election session, Congress passed and the President signed three smaller tax bills: (1) H.R. 5662, which provided community renewal provisions and an extension of medical savings accounts, (2) H. R. 4896, revising the foreign sales corporation (FSC) rules, and (3) H.R. 3594, restoring installment accounting methods that were restricted in H.R. 1180.

Statements made after the election by President-Elect Bush and congressional leaders suggest that tax cuts will be a high priority in the 107th Congress. Some of the proposals considered may reflect legislation considered but ultimately not enacted during the 106th Congress.

House leaders initially indicated they would consider three proposals early in 2000: marriage penalty legislation, extending education savings accounts, and providing tax benefits for distressed communities. Several additional tax-related bills were subsequently identified for consideration: Internet taxes, repealing the telephone tax elimination, the estate and gift tax, and expanding Individual Retirement Accounts (IRAs). Most, although not all, of those proposals had been elements of H.R. 2488.

On March 24, the House passed a budget agreeing to $150 billion in tax cuts over five years with a possibility of additional cuts if certain conditions were met. The Senate agreed on a similar tax cut in its budget resolution that passed April 7. The final budget resolution provided for $150 billion of tax cuts and passed both houses on April 13.

The following sections of this paper discuss the main topics of legislative activity in the tax area. The first sections discuss tax proposals considered but not finally enacted in 2000, including miscellaneous tax legislation, the marriage penalty, estate and gift taxes, education tax incentives, the health tax provisions in the patient protection act, and provisions relating to small business, including IRAs and pensions, that were associated with the minimum wage and bankruptcy bills at various points. The final enacted bills are then summarized. The next sections discuss tax activity in

1999, including the enacted extenders bill, H.R. 1180 and the comprehensive tax bill H.R. 2488 that was not enacted.

Miscellaneous Tax Legislation, 2000

High gasoline prices led to some consideration of a temporary cut in gasoline taxes. Such a tax cut (S. 2285) was considered in the Senate, but put on hold April 11 after a failure to invoke cloture; the Senate rejected this measure as an amendment to the estate tax bill, H.R. 8 . Concerns were raised about the effect of such a tax cut on funds for highway construction.

The House marked the tax-filing week of April 10 with: H.R. 4163 (keeping taxpayer records confidential, which passed on April 11); H.R. 4199 (a commission to rewrite the tax code and sunset current regulations in 2005, passed April 13), and H. J. Res. 94, a constitutional amendment requiring a two-thirds majority vote in the House to pass tax legislation (fell short of the required two thirds majority on April 12).

On May 10, the House approved H.R. 3709 to extend the moratorium on Internet access taxes by five years and eliminate existing access taxes in 10 states. On May 25, the House approved H.R. 3916, a phase-out of communications taxes costing $19 billion over five years (immediate repeal would have cost over $50 billion).

On July 25, the House approved H.R. 4923, the bipartisan community renewal bill that would provide tax benefits for distressed areas. On July 27, the House approved H.R. 4865, a bill to eliminate income taxation of Social Security benefits. On that same day, the Ways and Means Committee approved H.R. 4986, revising the tax treatment of multinationals in a way designed to deal with the foreign sales corporations (FSC) provisions that have been found to be illegal by the World Trade Organization (WTO).

During the August recesss, Speaker Hastert proposed that minimum wage legislation, with a smaller set of tax cuts (dropping estate and gift tax and pension and IRA provisions) be considered when the House returned in September. While the estate tax provisions were dropped, the IRA and pension provisions were kept in the bill (as discussed below).

Marriage Tax Penalty Legislation

H.R. 2488 included provisions addressing the marriage penalty. The original House bill included only an increase in the standard deduction for joint returns to twice the size of the those of single returns; most of the reductions in the bill were across-the-board rate cuts. The Senate opted for optional separate filing. The final bill approved by both houses would have increased the standard deduction for married couples to an amount equal to twice the standard deduction for singles, and would also have increased the width of the 15% rate bracket for joint returns to twice that of single returns. The bill would also raise the income phase-out limit in the earned income tax credit by $2,000 for joint returns.

These provisions were incorporated H.R. 6, a stand-alone marriage penalty reduction bill, which was passed by the House in February, 2000 and cost $182.3 billion over 10 years. The Senate approved a $247.8 billion marriage penalty reduction proposal similar to that in H.R. 6, S. 2346, although it broadened the 28% bracket as well as the 15% bracket. It also added a provision that allowed personal tax credits to be offset against the AMT; without such a change some families would be pushed on to the AMT by the marriage penalty legislation. Cloture motions on S. 2346 failed in the Senate: on July 18, the Senate approved a reconciliation bill containing these provisions. Because of procedural rules, these changes sunsetted in 2004. The House approved a reconciliation bill, H.R. 4810, containing their marriage penalty provisions on July12. On July 20 and 21 the House and Senate approved conference versions. The bill was vetoed August 7. The final bill included the personal credit provision, but not expansion of the 28% bracket.

There was some criticism of these bills by Democrats, including considering the bill in isolation from other tax provisions and before the budget resolution was developed, and providing tax cuts to couples with marriage bonuses. In the House, Democrats proposed to increase the standard deduction, but not the rate bracket, which would target lower income couples. It would also adjust the Alternative Minimum Tax (AMT)to allow the full benefits of the tax cut, and allow an eventual $2,500 increase in the phase-out of the earned income tax credit. Democrats have also proposed optional separate filing.

Estate and Gift Taxes

On June 9, 2000, the House approved H.R.8, a bill to repeal the estate and gift tax by 2010. This bill would cost $28 billion over the next five years, but the cost would rise rapidly. H.R. 8 was approved by the Senate on July 19. The President indicated that he would veto H.R. 8 (and did so on August 31) but said he might support a less expensive relief provision; the veto was sustained in the House on September 7.

The estate and gift tax bill (H.R. 8) would have converted the unified credit into an exemption in 2001, and repeal tax rates in excess of 53% and the 5% surtax. In 2002 all rates in excess of 50% would be repealed. All rates would be reduced by one percentage point a year from 2003-2006, by 1.5 percentage points per year in 2007, and by 2 percentage points in 2009 and 2009. The tax would be repealed entirely in 2010. State death tax credits would be reduced in proportion to the estate and gift tax reductions from 2003-2009. This proposal would cost $28.3 billion over five years, but the Treasury Department estimated that the annual cost would be $50 billion by 2010.

A Democratic alternative would have reduced estate and gift tax rates across the board by 20%, created a $2 million exclusion for farms and closely held businesses and allowed any portion not used in the estate of one spouse to be allowed in the estate of the second spouse, and increased the exemption equivalent of the unified credit to $1.1 million immediately and to $1.2 million in 2006.

Education Tax Provisions

S. 1134, which passed the Senate on March 2, 2000, would have increased the annual contribution limit to tax favored savings accounts from $500 to $2,000 and allowed accounts to be used for elementary and secondary education (including private and home schooling), extended the exclusion for employer provided education assistance, allowed taxpayers to use both the education savings account and the Hope credit, allowed tax-free distributions from state-sponsored prepaid tuition plans and expanded these plans to include private schools, eliminated the 60-month limit on the deductibility of student loan interest, and increased the limit on the amount of school bonds that may be issued without being subject to arbitrage requirements. These provisions would cost $21.3 billion over the next 10 years. The House Ways and Means Committee approved H.R. 7, which was similar to the Senate bill; H.R. 7 would cost $11.6 billion over the next 10 years.

Patient Protection Legislation

The House and Senate both included a number of tax provisions relating to health care in their 2000 patient protection legislation (H.R. 2990 and S. 1344), including deductions for health insurance and an expansion of medical savings accounts (MSAs). Agreement between the Senate and House was not reached. Final tax legislation at the end of the 106th Congress (the Community Renewal Tax Relief Act of 2000, H.R. 5662, incorporated into H.R. 4577) included a 2-year extension of eligibility for new medical savings accounts. Deductions for health care were considered in other bills (see next section).

Minimum Wage Bill, Pension, IRA and Small Business Provisions

The minimum wage bill (H.R. 3081) contained a number of tax provisions costing $45.7 billion over five years. Some of these tax changes were targeted at small businesses. More than half of the cost ($26.9 billion) was for estate and gift tax reductions, including a phased in reduction of the top rate from 55% to 50% by 2002, and an additional one percentage point reduction in all rates in each of the following 2 years. There were also provisions for pension reforms (costing $6.1 billion), and a variety of provisions such as acceleration of the full deduction for health insurance for the self employed, increases in the share of business meals that can be deducted (from 50% to 60%) and the limit on equipment that can be expensed from $19,000 to $30,000. The bill would also have reinstated the installment sales treatment that was disallowed in last year's extender bill. There were also some provisions for distressed communities and increases in the low income housing tax credit. The Ways and Means Committee had earlier marked up certain provisions on November 9th, 1999 with a resultant $30.2 billion cost. Also on November 9th, 1999 the Senate attached the minimum wage bill including $75 billion of tax cuts (of a similar nature) over 10 years to the bankruptcy reform bill, H.R. 833, formerly S. 625. The President indicated he would veto the minimum wage legislation if it threatened "fiscal discipline" because of tax cuts.

Provisions of H.R. 3081, the minimum wage proposal that included $45.7 billion of tax cuts ($122.7 billion over 10 years), were adopted in the House on March 9, 2000; the tax provisions and minimum wage were in separate bills (H.R. 3832 and H.R. 3846) which were then be combined into H.R. 3081. This legislation included a rollback of the installment sales provision that was included in the smaller extenders bill, H.R. 1180, passed in 1999. House Speaker Hastert has proposed to drop some of the tax provisions (estate and gift and pension) of this bill as a compromise with the President.

The Ways and Means Committee subsequently approved H. R. 4843, to expand contribution limits to Individual Retirement Accounts (IRAs) and to liberalize pension treatment; IRA provisions would have cost $10 billion over five years and $35 billion over 10 years; pension provisions would have cost $6 billion over five years and $19 billion over 10 years. This proposal was folded into H.R. 1102 and passed by the House on July 19, 2000.

The most recent of the bills containing these provisions was the Tax Relief Act of 2000, originally H.R. 5542, but attached to H.R. 2614; it was passed by the House on October 26, 2000. The bill would have cost $240 billion over 10 years. It included a variety of provisions. Among them were deductions for individual purchase of health insurance; increases in the benefits for pensions and IRAs, including an increase in the limit on IRA contributions to $5,000; a number of tax benefits for small businesses (increased deductions for business meals, allowing installment accounting methods, increased limits on the amount of equipment that can be expensed for tax purposes); revision of the FSC provision; and repeal of some excise taxes on alcoholic beverages. Most of these provisions had been under consideration in other bills. The President indicated he would veto this bill and it was not considered by the Senate in the post-election session..

Enacted Legislation 2000: Community Renewal, Medical Savings Accounts, FSC and Installment Sales

Returning to its post-election session in December, Congress instead passed and the President signed, more limited tax cut bills. The largest of these in revenue terms, costing $31.5 billion over 10 years, was attached to H.R. 4577, an omnibus appropriations measure. It was subsequently separated into a separate tax bill, H.R. 5662, which included several provisions aimed at community renewal, and a two-year extension of medical savings accounts provisions. The bill is estimated to reduce revenue by $31.5 billion over 10 years. Congress also passed (and the President signed) two other bills, H.R. 4686, to revise FSC and H.R. 3594 to alter installment accounting methods.

Community renewal provisions included tax provisions for up to 40 renewal communities; the tax benefits included wage credits, rapid depreciation of certain assets, and forgiveness of capital gains taxes. The bill also extended and expanded tax benefits for empowerment zones, allowed a new markets tax credit for certain equity investments, increased the low-income housing tax credit cap, increased volume limits on private activity bonds, extended expensing for brownfield expenditures, extended the D.C. home buyer tax credit and extended the D.C. enterprise zone designation. The bill also extended medical savings accounts for two years, and made a number of technical changes.

Foreign sales corporation revisions, costing $1.5 billion over five years, were a response to a complaint about the existing tax law brought by countries of the European Union (EU) with the World Trade Organization (WTO).

The installment sales provision was designed to reinstate the ability to use installment sales treatment that was changed in the 1999 tax extenders bill, which had resulted in complaints by small businesses.

Enacted Legislation 1999: Extenders Bill

The Ways and Means Committee approved H.R. 2923, a bill to extend expiring tax provisions contained in the tax cut proposal (research and experimentation credit, welfare-to-work credit, work opportunity credit, and exemption from Subpart F for certain financing income). The periods of extension varied across the provisions, with a number extended through 2004. The bill would have made permanent a provision allowing nonrefundable tax credits to count against the alternative minimum tax. This proposal was estimated to cost $23 billion over the next five years. On October 29, the Senate approved the Finance Committee version of the extenders bill, which would extend provisions through 2000 and cost $8.5 billion over 10 years. It would also extend certain environmental subsidies and tax exclusions for employer provided educational assistance. On November 18, the House approved tax extenders as part of a conference report on H.R. 1180, extending the R&E credit through 2004 and other provisions through 2001 (allowing personal credits to count against the AMT, the work opportunity credit, the exclusion for education assistant, zone academy bonds, tax deductions for brownfields, the Subpart F exemption for finance income, the $5,000 DC tax credit for first time homebuyers, and the closed loop biomass tax credit.) A number of provisions for revenue offsets were included. The bill passed the Senate on November 19, 1999 and was signed by the President on December 17.

Overview of the 1999 General Tax Cut (H.R. 2488)

Both House Ways and Means Chairman Archer and Senate Finance Chairman Roth proposed major tax packages in 1999. The House plan, originally estimated to cost $864 billion over 10 years, was scaled down to $792 billion, the same as the cost of the Senate plan. The House approved the bill on a largely party-line vote on July 22; the Senate bill was approved by a 57 to 43 vote on July 30. The conference committee completed consideration on H.R. 2488 on August 3; the House and Senate approved the bill on August 5 (the Senate by a one-vote margin, the House along party lines). The President vetoed the bill on September 23.

The conference committee compromised between the House rate cut (a 10% across-the-board cut) and the Senate rate reduction (a reduction in the 15% rate to 14% in the lowest rate bracket and an expansion of the new 14% bracket) by reducing taxes one percentage point across all tax rates. However, this tax cut would have sunsetted after 2008. In the case of the marriage penalty, they included the increase in standard deduction for joint returns in the House bill, and also increased the width of the new 14% bracket for joint returns; the latter provision also sunsetted in 2008. Several other provisions would also have sunsetted before the end of the budget window.

Chairman Archer's original proposal was passed by the Ways and Means Committee on July 15th. A concern that the $864 billion cost was not in compliance with the budget resolution resulted in a proposal to cut back the provisions as part of the rule. There had been some uncertainty about whether a tax cut of this size wouldl pass the House, given reservations by some Republicans, and a trigger provision was added to delay the across-the-board tax cuts if interest on the public debt rose. There were also some concerns by other Republican members that the bill did not fully address the marriage penalty.

Senator Roth's proposal, the Taxpayer Refund Act of 1999, S. 1429, was approved on July 21 by the Finance Committee with minor amendments, among them a permanent extension of the R&D tax credit. The Senate passed the plan as their version of H. R. 2488 on July 30, with some amendments, most of them minor. One amendment would, however, allow a deduction for the first $1,000 of capital gains. As the result of a procedural vote relating to budget rules, the Senate tax cut would expire in 2009.

House Democrats had offered a smaller plan and the President indicated a willingness to support a $250 billion cut; the Treasury had projected that the cost of the Ways and Means Committee bill would explode in the second 10 years. Senate Finance Committee Democrats proposed a tax cut of $290 billion (which was defeated). A bi-partisan plan costing $500 billion (Senators Breaux, Kerrey, Chafee, Jeffords, and others) was withdrawn: this proposal would allocate $283 billion to an increase in the standard deduction (eliminating the marriage penalty for taxpayers with lower and moderate incomes). A plan by Senators Gramm, Lott and others which was similar to the House bill failed to gain the 60 votes needed to set aside a budgetary point of order. Several other proposals were also defeated on procedural votes.

The House and Senate plans differed in some fundamental ways. The largest elements in both bills were the rate cuts. The general rate reductions in the House bill cost more than in the Senate bill and by the year 2009 the annual cost would have been twice as large as that in the Senate bill ($112 billion versus $47 billion) if the expansion of the 14% rate for joint returns is included and $112 billion versus $27 billion if the expansion of the bracket is excluded; the Senate version targeted a larger share of its benefits to middle income taxpayers and to married couples. Including rate changes for all marriage penalty relief, the House bill would have cost $117 billion in 2009 while the Senate bill would have cost $96 billion. Revenue estimates do not allow these distinctions for the Conference agreement, but in 2008, before the sunset, there would have been a $57 billion revenue loss from the percentage point rate reduction plus an increase in the 14% bracket for non-joint returns that accounted for about $13 billion of the total. Increases in the standard deduction and the size of the first bracket for joint returns to make them twice the size of singles would have added $28 billion, for a total of $85 billion. The Conference agreement would have been subject to sunset provisions which automatically sunset in 2009 due to a procedural budget rule; in addition a number of provisions are terminated in 2008, which is not a budget rule requirement. There was also a trigger similar to that in the House bill.

All revenue effects reported below are for fiscal years 1999-2009 and are based on the Joint Tax Committee's estimates.

Conference Report

- Percentage point rate reductions (including the alternative minimum tax, or AMT) and increasing the width of the 14% bracket, with greater increases for married couples, and increases in the standard deduction for joint returns would cost $399 billion; marriage penalty relief for the earned income credit would cost $4 billion.

- The dependent care credit would be increased ($5 billion).

- The individual AMT would be modified to allow immediately the use of personal credits, and would be phased out ($103 billion), but sunset would occur in 2008.

- Savings incentives include a reduction in long term capital gains tax rates from 20% and 10% to 18% and 8%, and prospective inflation indexing after 2009; this prospective indexing led to behavioral responses causing a $15 billion temporary revenue gain in 2001, for a net cost of $32 billion. Sunset would occur in 2008. Individual retirement contributions were increased gradually to $5,000, with sunset in 2008, for a cost of $27 billion. Other increases led to a total of $67 billion for savings provisions. Pension plan revisions would cost $15 billion.

- Education provisions include expansion of education savings accounts, increases in student loan deductions, extension of employer provided education assistance, and tax-exempt bond provisions, for an $11 billion total.

- Health care provisions include a deduction for health insurance ($31 billion), long term care insurance in cafeteria plans ($7 billion), more dependency deductions for caretakers of elderly family members ($3 billion) and other provisions (total of $43 billion), with $3 billion for expansion of the self-employed deduction.

- The estate tax rates would be gradually eliminated, for a cost of $65 billion.

- Business tax revisions: corporate AMT ($8 billion); increasing equipment expensing to $30,000 ($2.5 billion), increasing business meals deductions to 60% ($4 billion), multinationals, mostly interest allocation ($31 billion).

- There are also provisions for special areas including benefits for tax exempt organizations at $2 billion, for real estate at $7 billion, with $4 billion of that amount an extension of the low income housing credit.

- Expiring tax credit provisions will be extended at a cost of $21 billion.

There are also some revenue offset provisions amounting to $6 billion.

House Plan

Almost half of the revenue cost ($373 billion) would come from an across-the-board 10% reduction in tax rates, which would be gradually phased in. There are several more targeted provisions. The plan included the following provisions:

- Marriage penalty provisions would increase the standard deduction, eliminating the marriage penalty for certain taxpayers (and increasing marriage bonuses for others), at a cost of $45 billion. Income limits for student loan deductions and Roth IRAs would be increased for married couples ($2 billion and $1 billion respectively).

- The individual Alternative Minimum Tax (AMT) would be modified to allow immediately the use of personal credits, and would be phased out ($64 billion).

- Maximum capital gains tax rates would be cut from 20% to 15% and taxpayers in the 15% bracket would see their capital gains tax rates cut from 10% to 7.5%; this revision would cost $52 billion over 10 years. Another tax benefit for capital income is a phased in exclusion of $400 ($200 for single taxpayers) of dividends and interest ($20 billion). Some smaller provisions relating to capital gains on settlement funds and owner occupied housing and other provisions bring the total for these provisions to $73 billion. A series of pension revisions would cost $14 billion.

- Education provisions include tax breaks to assist with higher education, expanding tax-favored savings accounts to cover primary and secondary education, and changes in federal tax-exempt bond rules ($7 billion).

- Health and long term care provisions include a phased-in 100% deduction for health insurance where the taxpayer pays at least half the cost ($34 billion) and deductions for long term care insurance ($8 billion): an additional deduction for taxpayers caring for elderly relatives ($3 billion); inclusion of long-term care insurance in employee benefits plans; an expansion of medical savings accounts; and provisions relating to orphan drug tax credits and vaccine insurance, for a total of $51 billion. The 100% deduction for health insurance for self-employed individuals would be accelerated, at a cost of $3 billion.

- The estate and gift tax would be phased out over 10 years ($65 billion); a small amount ($85 million) of this total relates to generation skipping trusts.

- Several business tax reductions are included. For corporations in general, capital gains taxes would be reduced ($7 billion) and the corporate alternative minimum tax would be revised and eventually repealed ($10 billion). Small businesses would receive an increase in the limits for expensing equipment investment ($2.5 billion). The deduction for 80% of business meals and entertainment would be restored ($8 billion.) There are a series of tax provisions for multinational corporations amounting to $35 billion, the most important of which is a change in the formula for allocating interest deductions worldwide ($25 billion).

- There are also provisions that involve smaller costs. The low income tax credit would be increased at a cost of $3.8 billion, and there are relatively small costs relating to tax -exempt organizations (less than $200 million) and other real estate ($670 million). A variety of miscellaneous provisions totals to $6 billion; almost half of this total is due to accelerated increases in private activity tax exempt bond caps.

- Expiring tax provisions would be extended ($20 billion).

There were about $5 billion of revenue offsets, the most important one being an adjustment in installment sales.

The final proposal was almost the same as the original proposal by Chairman Archer. The proposal was modified by the Chairman on July 14 prior to being submitted to the full committee; most of the modifications were quite minor, but there was a provision to allow deduction for prescription drug coverage under Medicare in the event this legislation is approved.

During committee markup further modifications were made including a slow down in the phase-down of the corporate capital gains tax rate, along with additional benefits for low income housing, the oil and gas industry, further extensions of certain expiring provisions, and timber. The overall size of the tax cut is about the same. Amendments offered by Democrats to scale back the tax cuts were rejected; President Clinton indicated that he would veto the bill.

Chairman Archer proposed narrowing the corporate capital gains tax rate to save $7 billion, and delaying the phase-in of several provisions: the individual AMT (saving $18 billion), the corporate AMT (saving $2 billion), the broad based tax cuts (saving $32 billion), the small savers provisions (saving $4 billion) and the estate tax (saving $10 billion). These provisions, approved in the Rules Committee, brought the cost to $792 billion. Certain provisions relating to the Employee Retirement Income Security Act (ERISA) were also removed from the bill.

Senate Plan

Chairman Roth's proposal, the Taxpayer Refund Act of 1999, was approved by the Senate on July 30. It would cut the 15% tax rate to 14%, which would be the largest element of the proposal (in its effects on revenues), costing $216 billion. The new 14% bracket would also be widened at a cost of $67 billion. These two provisions would total $282 billion. Other provisions of the proposal included:

- Elimination of the marriage penalty by allowing optional filing of married couples as singles ($112 billion), increasing the standard deduction for married couples ($20 billion) and marriage penalty relief for the earned income tax credit ($6 billion), for a total of $138 billion.

- Modifying the dependent care credit (credit for child care and other care of family members), at a cost of $10 billion. Other minor family related provisions include exclusion from income of certain foster care payments and a tax credit for employer-provided child care.

- Relief from the individual Alternative Minimum Tax (AMT), costing $87 billion.

- Additional savings incentives, including (1) increasing the contribution limits for Individual Retirement Accounts (IRAs) from $2,000 to $5,000 and increasing and eliminating income limits, (2) increasing contribution limits on 401(k), 403(b) and other retirement plans, generally by 50%, (3) creating retirement plans like Roth IRAs, which do not allow up-front deductions but exempt income from tax, (4) increasing the amount those 50 and over can contribute to plans, and (5) revising pension plans in general. These provisions cost $66 billion. There is also a $1000 annual capital gains exclusion ($8 billion).

- Additional benefits for tuition savings plans, increases in deductions for student loans, permanent extension of employer provided education assistance, and other education provisions costing $14 billion.

- Health care benefits including accelerating the full deductibility of individually purchased health care; making long term health care insurance deductible and allowing it as part of employer cafeteria plans, and allowing extra tax exemptions for those who care for elderly family members ($52 billion). The 100% deduction for health insurance for the self-employed would also be accelerated ($3 billion), and a tax credit would be allowed for small businesses to insure low wage workers ($1 billion).

- Reduction in estate taxes and increases in the exclusion, along with some minor revisions, costing $62 billion.

- Business tax reductions including an increase in the limits for expensing equipment ($2.5 billion) and other minor provisions, tax benefits for multinational corporations primarily through a change in the allocation of interest ($11 billion); relief from the corporation alternative minimum tax or AMT (at $5 billion), along with some other minor revisions.

- Provisions benefitting certain industries and activities including tax exempt organizations and charitable contributions ($10 billion), and housing and real estate ($8 billion),and small benefits for the oil and gas and timber industries.

- Extension of expired and expiring provisions ($39 billion).

- Other minor miscellaneous provisions amounting to about $2 billion.

- Revenue offsets primarily aimed at corporate tax shelters, raising $9 billion.

Several changes were made during markup, including a provision to make the R&D tax credit permanent, costing an additional $17 billion. Other amendments included some small provisions for energy and environmental subsidies, a provision to allow leasehold improvements to be depreciated over 15 years ($2.7 billion), extending tax benefits for the District of Columbia and a temporary exemption from the airline ticket tax for seaplanes.

Several amendments were adopted on the Senate floor; these amendments were in general minor or involved timing changes. However, the proposal to allow a deduction for up to $1000 of capital gains was approved, along with a proposal to increase the standard deduction for joint returns.

Finance Committee Democrats Plan

Finance Committee Democrats, led by Senator Moynihan proposed a $290 billion tax cut. About half of the cost, $169 billion, resulted from raising the standard deduction for all taxpayers, with the proportional increases largest for joint returns.

Other provisions would :

- Allow a second earner deduction for married couples who itemize ($26 billion).

- Provide a deduction for health insurance for the self employed and a 30% credit for those without employer provided health insurance ($27 billion).

- Relief from the alternative minimum tax or AMT ($11 billion).

- Estate tax relief ($10 billion).

- Permanent extension of the R&D credit and benefits for low income housing ($31 billion).

- Education tax benefits ($17 billion).

- Small business tax credit for pensions and pension portability ($9 billion), benefits for energy and environmental conservation ($5 billion), benefits for agriculture ($5 billion). Small business provisions including health insurance and pension credits already listed along with an increase in expensing of equipment would be $11 billion.

There were also a number of revenue raisers amounting to $27 billion, including corporate tax shelter revisions, modifications for Real Estate Investment Trusts (REITs) and the largest one, reinstatement of superfund taxes.

House Democrats Plan

House Democrats offered a $250 billion alternative plan that was defeated. These tax cuts were made contingent on solvency of Social Security and Medicare. Among other provisions, their proposal increased the standard deduction for joint returns to twice that of singles, permanently extended expiring tax provisions, including the R&D tax credit, and provided tax benefits for school construction. Their plan also included some revenue raisers in the President's budget and measures in H.R. 2255 concerning corporate tax shelters.