

George W. Bush Presidential Library

Collection: Executive Clerk, Office of The

Series: Saunders, G. Timothy (Tim) – Bill Files

Folder Title: 06/07/2001 [H.R. 1836]



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

APPROVED
JUN 7 2001

THE DIRECTOR

June 6, 2001

01 JUN 6 PM 2:00

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 1836 - Economic Growth and Tax Relief Reconciliation Act of 2001
Sponsor - Rep. Thomas (R) California

Last Day for Action

June 15, 2001 - Friday

Purpose

Reduces individual income tax rates, increases the child tax credit, eliminates the estate tax, reduces the marriage penalty, expands Education IRAs, and makes several other changes to provisions of tax law, including retirement savings and pension provisions, other education provisions, and benefits relating to children.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Small Business Administration (SBA)	Approval
Department of Health and Human Services	Defers to Treasury (Informally)
Department of Education	Defers to Treasury (Informally)
Department of Commerce	No comment (Informally)
Department of Justice	No comment (Informally)
Office of Government Ethics	No comment (Informally)
Department of Labor	No response

Discussion

The enrolled bill would: (1) create a new initial individual income tax rate bracket beginning in calendar year 2001 and phase in reductions to the four highest income tax rates over six years, beginning July 1, 2001; (2) increase the child tax credit from \$500 to \$1,000 for each qualifying child; (3) provide for phased reductions of current estate, gift, and generation-skipping transfer taxes and repeal the taxes for estates of decedents dying and for generation-skipping transfers made after December 31, 2009; (4) increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning

and ending income levels used to calculate the earned income credit; (5) expand Education IRAs; and (6) increase alternative minimum tax (AMT) exemption amounts. In addition, the enrolled bill would make changes to tax benefits for children, education, pensions, and individual retirement arrangements. Most provisions of the enrolled bill would be phased in and all would generally sunset (i.e., be treated as if they had never been enacted) after December 31, 2010.

The major provisions of H.R. 1836 are summarized below, together with Treasury Department estimates of the effects of the provisions on receipts. Other significant provisions, including those related to pensions, education, and AMT relief, are described in Attachment A. The following table summarizes Treasury estimates of the revenue effects of this bill. (Treasury's 11-year cost estimate is \$95 billion less than the estimate prepared by the Congressional Joint Committee on Taxation (JCT).)

Estimated Revenue Effects of H.R. 1836
(Treasury estimates in billions of dollars)

Categories of Provisions	FY 2001	FY 2002	FY 2001-06	FY 2001-11
Tax Rate Reductions	-39.0	-49.5	-365.7	-799.2
Child Tax Credit Increase	-0.3	-8.5	-55.9	-159.3
Estate and Gift Taxes	-0.1	-3.4	-43.4	-133.6
Marriage Penalty Relief	—	-0.1	-17.7	-66.8
Retirement Savings and Pensions	—	-1.3	-20.0	-45.3
Education Incentives	—	-0.8	-14.1	-25.7
AMT Relief	—	-2.4	-15.3	-15.3
Benefits Relating to Children	—	-0.1	-3.4	-8.4
Corporate Estimated Tax Payments	-30.1	+30.1	—	—
TOTAL	-69.5	-35.9	-535.6	-1,253.4
Memo: Tax Proposals in FY2002 Budget	-0.2	-29.3	-495.4	-1,612.2
Memo: JCT Estimates of Effects of H.R. 1836	-73.8	-37.8	-552.5	-1,348.5

Tax Rate Reductions

New 10-Percent Rate Bracket. The enrolled bill would create a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. (For 2001, the bracket would be implemented in the form of a rate reduction credit that most income taxpayers would receive by Treasury check in 2001, as described below.) The 10-percent rate bracket would apply to the first \$6,000 of taxable income for single individuals (\$7,000 for 2008 and thereafter), the first \$10,000 of taxable income for heads of households, and the first \$12,000 for married couples filing joint returns (\$14,000 for 2008 and thereafter). The current 15-percent income tax rate bracket would be adjusted to start at the end of the new 10-percent bracket. (Treasury estimated revenue effect (for the 10-percent rate bracket and the rate reduction credit described below) for FY 2001: -\$ 37.9 billion; FY 2002: -\$ 33.7 billion; FYs 2001-2006: -\$231.5 billion; FYs 2001-2011: -\$413.8 billion.)

Rate Reduction Credit for 2001. The enrolled bill would include a rate reduction credit that is in lieu of the 10-percent rate bracket for 2001. Treasury would be required to make advance refunds of credit "as rapidly as possible" and, "to the extent practicable," before October 1, 2001. No refunds could be made after December 31, 2001. The amount of the advance credit would be computed from taxable income reported on tax returns filed for 2000. The credit would be computed as 5 percent of taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. Thus the maximum credit would be \$300 for single individuals, \$500 for heads of households, and \$600 for married couples filing joint returns. The Treasury Department reports that "most taxpayers would receive this credit in the form of a check issued by the Department of the Treasury" and that "approximately 98 million checks would be sent to taxpayers starting in late July and continuing through late September." According to Treasury, taxpayers who filed late or with extensions would receive their checks later in the fall. Treasury states that "[d]elivering tax relief through checks will enable the government to return money to taxpayers in a quicker fashion providing a short-term stimulus to the economy."

Reduction in Individual Income Tax Rates. The enrolled bill would reduce all regular individual income tax rates greater than 15 percent, effective July 1, 2001. The regular individual income tax rates under current law of 28 percent, 31 percent, 36 percent, and 39.6 percent would be phased down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001. The table below shows the schedule of regular income tax rate reductions.

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* -2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

* effective July 1, 2001

(Treasury estimated revenue effect for FY 2001: -\$ 1.1 billion; FY 2002: -\$15.9 billion; FYs 2001-2006: -\$132.8 billion; FYs 2001-2011: -\$359.4 billion.)

Phase-In of Repeal of the Itemized Deductions Limitation and the Personal Exemption Phase-Out. H.R. 1836 would phase in a repeal of existing limitations on itemized deductions and the existing phase-out for personal exemptions. The limitations and the phase-out currently apply to upper-income taxpayers. Treasury notes that these provisions have the effect of reducing marginal rates and also provide simplification. Both the limitations on itemized deductions and the phase-out for personal exemptions would be reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation would be eliminated and the phase-out would be repealed for taxable years beginning after December 31, 2009. (Treasury estimated revenue effect for FY 2002: \$0; FY 2002-2006: -\$1.4 billion; FYs 2002-2011: -\$25.9 billion.)

Increase and Expansion of the Child Tax Credit

The enrolled bill would increase the child tax credit from \$500 to \$1,000, phased-in over a ten-year period, effective for taxable years beginning after December 31, 2000. The table below shows the schedule for the increase of the child tax credit.

Calendar Year	2001-2004	2005-2008	2009	2010 and later
Credit Amount Per Child	\$600	\$700	\$800	\$1,000

The enrolled bill would make the child credit refundable for up to 10 percent of a taxpayer's earned income in excess of \$10,000 for calendar years 2001-2004. This percentage would be increased to 15 percent for calendar years 2005 and thereafter. The \$10,000 amount would be indexed for inflation beginning in 2002. Families with three or more children would be allowed a refundable credit for the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit (the current law rule), if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of \$10,000. The enrolled bill would provide that the refundable portion of the child credit does not constitute income and could not be 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. (Treasury estimated revenue effect for FY 2001: -\$0.3 billion; FY 2002: -\$8.5 billion; FYs 2001-2006: -\$55.9 billion; FYs 2001-2011: -\$159.3 billion.)

Estate and Gift Taxes

Estate and Gift Taxes Reduction and Estate Tax Repeal. Under current law, an estate tax is imposed on transfers of assets of a taxpayer at death, and a gift tax is imposed on transfers of assets during a taxpayer's lifetime. The estate and gift taxes are unified such that a single graduated rate schedule applies to cumulative taxable transfers made by a taxpayer during his or her lifetime and at death. The current rate schedule ranges from 18 percent on the first \$10,000 in cumulative taxable transfers to 55 percent on transfers over \$3 million. Current law provides, through a tax credit called the "unified credit," for the elimination of taxes on taxable transfers by gift or death totalling \$675,000 in 2001. This total, called the "exclusion amount," increases under current law to \$700,000 in 2002 and 2003, \$850,000 in 2004, \$950,000 in 2005, and \$1,000,000 in 2006 and subsequent years.

Under the enrolled bill, the highest estate and gift tax rates would be reduced and the "exclusion amount" would be increased from 2002 through 2009. In 2010, the estate tax would be repealed. The following table shows the highest estate and gift tax rates and the "exclusion amount" for estate tax purposes for 2001 through 2009.

Estate and Gift Tax Rates and Exclusion Amount (in \$ million)								
Calendar Year	2002	2003	2004	2005	2006	2007	2008	2009
Highest estate and gift tax rates	50%	49%	48%	47%	46%	45%	45%	45%
Exclusion Amount	1.0	1.0	1.5	1.5	2.0	2.0	2.0	3.5

In 2010, when the estate and generation-skipping transfer taxes would be repealed, the top gift tax rate would be the top individual income tax rate (35 percent) and, except as provided in regulations, a transfer to trust would have to be treated as a taxable gift, unless the trust is treated as wholly owned by the donor or the donor's spouse under the grantor trust provisions of the Internal Revenue Code. (Treasury estimated revenue effect (for this section on "Estate and Gift Taxes" and the provision described below on "Basis of Property at Death") for FY 2001: -\$0.1 billion; FY 2002: -\$3.3 billion; FYs 2001-2006: -\$41.6 billion; FYs 2001-2011: -\$130.9 billion.)

Basis of Property at Death. The "basis" value of property is the value for tax purposes of an individual's investment in a property. The basis is used for tax purposes to compute gains or losses on the sale or exchange of property. Under current law, the basis of property received from a decedent is its fair market value on the date of the decedent's death. This "step up" (or "step down") in basis eliminates the recognition of any income on the appreciation of property that occurred prior to the decedent's death. After repeal of the estate and generation-skipping transfer taxes, the rules under current law providing for a fair market value (i.e., stepped-up) basis for property acquired from a decedent would be repealed. A modified carryover basis regime would generally take effect, which would provide that recipients of property transferred at the decedent's death will receive a basis equal to the lesser of the decedent basis or the fair market value of the property on the date of the decedent's death.

Marriage Penalty Relief Provisions

H.R. 1836 would increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning and ending income levels used to calculate the earned income credit.

Increase in Standard Deduction for Married Couples. Under current law, for taxable years beginning in 2001, the basic standard deduction amount for married couples filing joint returns is 168 percent of the basic standard deduction amount for single filers. The enrolled bill would increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return. This increase would be phased-in over five years beginning in 2005 and would be fully phased-in for 2009 and thereafter. The table 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.

Calendar Year	2005	2006	2007	2008	2009 and later
Standard Deduction for Joint Returns as Percentage of Standard Deduction for Single Returns	174%	184%	187%	190%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$2.3 billion; FYs 2002-2011: -\$16.8 billion.)

Expansion of the 15-Percent Rate Bracket For Married Couples. Under current law, for taxable years beginning in 2001, the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return is 167 percent of the end point of the 15-percent bracket for an unmarried individual filing a single return. The enrolled bill would increase the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. The increase would be phased-in over four years, beginning in 2005. The table below shows the increase in the size of the 15-percent bracket during the phase-in period.

Taxable Year	2005	2006	2007	2008 and later
End point of 15-percent rate bracket for married couple as percentage of end point for unmarried individuals	180%	187%	193%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$10.4 billion; FYs 2002-2011: -\$36.4 billion.)

Earned Income Credit (EIC) Modification and Simplification. For married taxpayers who file a joint return, the enrolled bill would increase the beginning and ending income levels of the earned income credit phase-out by \$1,000 for taxable years beginning in 2002-2004; by \$2,000 for taxable years beginning in 2005-2007; and by \$3,000 for taxable years beginning after 2007. The \$3,000 amount would be adjusted annually for inflation after 2008. The enrolled bill would simplify the definition of earned income by excluding nontaxable employee compensation from the definition of earned income for earned income credit purposes. H.R. 1836 would also simplify the calculation of the earned income credit and repeal the provision in current law that reduces the earned income credit by the amount of an individual's alternative minimum tax. The enrolled bill would authorize the Internal Revenue Service, beginning in 2004, to deny the earned income credit if the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of the child with respect to whom the credit is claimed. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$4.9 billion; FYs 2002-2011: -\$13.6 billion.)

Sunset Provision

The provisions of H.R. 1836 would not apply to taxable, plan, or limitation years beginning after December 31, 2010, and, in the case of estate, gift, and GST tax provisions, to estates of decedents dying after December 31, 2010. The sunset provisions were included in the bill to ensure compliance with the Congressional Budget Act of 1974, which permits members of the Senate to raise a point of order against provisions of the bill unrelated to the goals of the 10-year budget reconciliation process.

Pay-As-You-Go Scoring

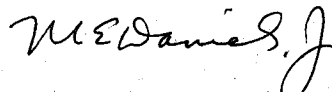
The enrolled bill would be subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The Treasury Department estimates that the enrolled bill would have a net budget cost of \$69.5 billion in FY 2001, \$35.9 billion in FY 2002, \$535.6 billion over six years, FY 2001-2006, and \$1.25 trillion over 11 years, FY 2001-2011.

Absent the enactment of legislation to adjust the balance on the pay-as-you-go scorecard to offset this bill's revenue losses (and the cumulative net costs of any other bills subject to the pay-as-you-go requirements), you would be required late this year to order the "sequestration" (across-the-board reduction) of non-exempt direct spending programs, including Medicare and farm price supports. The Statement of Administration Policy issued on May 17, 2001, for S. 896, the Senate Finance Committee-reported version of this bill, noted that the Administration will work with Congress to "ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans."

Conclusion and Recommendations

Treasury notes in its views letter that the enrolled bill "is generally consistent with the objectives and priorities of the President's tax plan as contained in the Fiscal Year 2002 Budget." Treasury further advises that "[w]hile the specific provisions in the bill differ in several respects from the President's proposals, the bill provides meaningful tax relief to the American people by reducing the penalty on work, savings, and investment. The tax relief will lay a foundation for further long-term economic growth."

We join Treasury and SBA in recommending that you approve H.R. 1836, which passed the House by a vote of 240-154 and the Senate by 58-33.



Mitchell E. Daniels, Jr.
Director

Enclosures

Other Significant Provisions of H.R. 1836

Retirement Savings and Pensions

H.R. 1836 would make numerous changes to pension and retirement savings laws. For example, the enrolled bill would modify individual retirement account (IRA) contribution limits by: (1) increasing the annual limit for IRA contributions (last increased in 1982) from \$2,000 to \$3,000 in 2002, \$4,000 in 2005, and \$5,000 in 2008; (2) allowing individuals who have attained age 50 before the end of the taxable year an additional "catch-up" contribution of \$500 in years 2002 through 2005, and \$1,000 in 2006 and thereafter; and (3) providing for indexing of the limits in subsequent years. (Treasury estimated revenue effect for FY 2002: -\$0.2 billion; FYs 2002-2006: -\$4.1 billion; FYs 2001-2011: -\$15.1 billion.)

In addition, the enrolled bill would change the employer pension system by: (1) gradually increasing contribution limits to qualified cash or deferred arrangements (section 401(k) plans), tax-sheltered annuities (section 403(b) annuities), and certain deferred compensation plans (section 457 eligible plans) from \$10,500 under current law (\$7,500 for 457 plans) to \$15,000 in 2006, and allowing employees over age 50 to make additional annual contributions to those plans and annuities; (2) increasing other contribution, benefit, and deduction limits under the qualified plan rules; and (3) eliminating certain rules regarding nondiscrimination and rules applying to top-heavy plans (tax-qualified plans where 60 percent of the value accrued benefits are for highly-compensated employees). The enrolled bill also would repeal the prohibition on certain small-business owners from borrowing from company pension plans, and provide a tax credit for small businesses for administrative and retirement education expenses incurred in the first three years of a new retirement plan. (Treasury estimated revenue effect for FY 2001: -\$0.2 billion; FYs 2001-2006: -\$3.7 billion; FYs 2001-2011: -\$10.8 billion.)

The enrolled bill also would provide a temporary non-refundable tax credit for low- and middle-income individuals who save in IRAs or qualified plans, require faster vesting for employer matching contributions, and facilitate rollovers between all types of IRAs, tax-qualified plans, 403(b) annuities, and funded governmental plans under section 457. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$8.3 billion; FYs 2001-2011: -\$10.6 billion.)

Education Incentives

Deduction for Qualified Higher Education Expenses. The enrolled bill would permit taxpayers a deduction for qualified higher education expenses paid by the taxpayer during a taxable year. In 2002 and 2003, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married couples filing joint returns) would be entitled to a maximum deduction of \$3,000 per year. Taxpayers with adjusted gross income above these thresholds would not be entitled to a deduction. In 2004 and 2005, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$4,000 and taxpayers with adjusted gross income that does not exceed \$80,000 (\$160,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$2,000. (Treasury estimated revenue effect for FY 2002: -\$0.3 billion; FYs 2002-2006: -\$8.4 billion; FYs 2002-2011: -\$8.4 billion.)

Exclusion for Employer-Provided Educational Assistance. Under current law, employer-provided assistance for undergraduate education is excluded from income for tax purposes. The enrolled bill would extend the exclusion to graduate education and make the exclusion (as applied to both undergraduate and graduate education) permanent, effective with respect to courses beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$3.3 billion; FYs 2002-2011: -\$7.1 billion.)

Education IRAs. Education IRAs (Ed IRAs) are trusts or custodial accounts created exclusively to pay higher education expenses (i.e., tuition, fees, books) of a named beneficiary. Contributions to Ed IRAs are not tax deductible but earnings on the account generally are not taxed until they are distributed to the beneficiary. Contributions into those accounts can be made by any person or corporation, but the contribution amount is phased out for higher income taxpayers, and is capped at \$500 annually per beneficiary until the beneficiary reaches age 18.

The enrolled bill would modify Ed IRAs by: increasing the limit on annual contributions to Ed IRAs for a beneficiary from \$500 to \$2,000; allowing Ed IRA contributions for special needs beneficiaries above the age of 18; clarifying that corporations, tax-exempt organizations, and other entities may contribute to Ed IRAs, regardless of the income of the corporation in the year of contribution; allowing taxpayers to exclude Ed IRA distributions from gross income and claim the HOPE or Lifetime Learning credit as long as they are not used for the same expenses; repealing the excise tax on contributions made to Ed IRAs when the contributions are made by anyone on behalf of the same beneficiary to a qualified State tuition program; increasing the phase-out range for married taxpayers from \$150,000-\$160,000 to \$190,000-\$220,000 so it is twice the range for single taxpayers; and permitting tax-free withdrawals from Ed IRAs to be used for qualified expenses at elementary and secondary schools. These provisions modifying Ed IRAs would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.8 billion; FYs 2002-2011: -\$6.4 billion.)

Modifications to Student Loan Interest Deduction. The enrolled bill would increase the income phase-out ranges for eligibility for the student loan interest deduction from \$40,000-\$55,000 to \$50,000-\$65,000 for single taxpayers and from \$60,000-\$75,000 to \$100,000-\$130,000 for married taxpayers filing joint returns. These income phase-out ranges would be adjusted annually for inflation after 2002. The maximum \$4,000 deduction for higher education tuition would be lowered to \$2,000 for income from \$130,000 to \$160,000 and phased out above that level. H.R. 1836 would repeal both the 60-month limit on the number of months during which interest paid on a qualified education loan is deductible and the restriction that voluntary payments of interest are not deductible. The provision would be effective for interest paid on qualified education loans after December 31, 2001. (Treasury estimated revenue effect for FY 2001: -\$0.1 billion; FYs 2001-2006: -\$1.1 billion; FYs 2001-2011: -\$2.3 billion.)

Qualified Prepaid Tuition/Savings Programs. Qualified State tuition programs allow individuals to purchase tuition credits for a named beneficiary or make contributions to a savings account plan for a beneficiary to cover higher education expenses. Under current law, the contributor pays tax on contributions only and the beneficiary pays tax on any earnings when they are distributed. The enrolled bill would expand the definition of "qualified tuition program"

to include certain prepaid tuition programs established and maintained by private institutions. The enrolled bill would modify the definition of qualified higher education expenses to include expenses of a special needs beneficiary that are necessary in connection with his or her enrollment or attendance at an eligible education institution.

Under H.R. 1836, an exclusion from gross income would be provided for distributions from qualified tuition programs to the extent that the distribution is used to pay for qualified higher education expenses. A taxpayer would be allowed to claim a HOPE credit or Lifetime Learning credit as long as the distribution is not used for the same expenses for which a credit is claimed. H.R. 1836 would provide that a transfer of credits from one qualified tuition program to another for the benefit of the same beneficiary is not considered a distribution. The enrolled bill would eliminate the penalty under current law on distributions not used for higher education expenses and instead apply the same additional tax that applies to education IRAs. H.R. 1836 would provide that assets of qualified tuition plans of private institutions must be held in trust. These provisions would be effective for taxable years beginning after December 31, 2001, except that the exclusion from gross income for certain distributions from a qualified tuition program established and maintained by an entity other than a State would be effective for taxable years beginning after December 31, 2003. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.3 billion; FYs 2002-2011: -\$1.2 billion.)

Tax Benefits for Certain Bonds for Educational Facilities and Activities. Under the enrolled bill, the additional amount of governmental bonds for public schools that small governmental units could issue without being subject to the arbitrage rebate requirements would be increased from \$5 million to \$10 million. As a result, these governmental units could issue up to \$15 million of governmental bonds in a calendar year provided that at least \$10 million of the bonds are used to finance public school construction expenditures.

The private activities for which tax-exempt bonds could be issued would be expanded to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local educational agency. Issuance of these tax-exempt private-activity bonds would be subject to annual per-State volume limits of the greater of \$10 per resident or \$5 million, in lieu of current law State private activity volume limits. These provisions would be effective for bonds issued after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.2 billion.)

Eliminate Tax on Awards Under Two Health Scholarship Programs. The enrolled bill would provide that amounts received by an individual under the National Health Service Corps (NHSC) Scholarship Program or the Armed Forces Scholarship Program would be eligible for tax-free treatment, without regard to any service obligation by the recipient. This provision would be effective for education awards received after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1 million; FYs 2002-2011: -\$3 million.)

Alternative Minimum Tax (AMT) Relief

Under current law, an alternative minimum tax is imposed on individuals to the extent that the tentative minimum tax exceeds the regular tax. The tentative minimum tax generally is an amount equal to the sum of (1) 26 percent of the first \$175,000 (or the first \$87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income in excess of an exemption amount and (2) 28 percent of the remaining alternative minimum taxable income. Alternative minimum taxable income is the individual's taxable income adjusted to take account of specified preferences and adjustments. The AMT exemption amounts are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of other unmarried individuals; and (3) \$22,500 in the case of married individuals filing a separate return, estates, and trusts.

The enrolled bill would increase the AMT exemption amount for married couples filing a joint return and surviving spouses by \$4,000 in 2001 through 2004. The AMT exemption amounts for other individuals (i.e., unmarried individuals and married individuals filing a separate return) would increase by \$2,000 in 2001 through 2004. This provision of the enrolled bill would be effective only for taxable years beginning after December 31, 2000, and before January 1, 2005. (Treasury estimated revenue effect for FY 2002: -\$2.4 billion; FYs 2002-2006: -\$15.3 billion; FYs 2002-2011: -\$15.3 billion.)

Benefits Relating to Children

In addition to the child tax credit increase, H.R. 1836 includes several provisions on tax benefits relating to children.

Extension and Expansion of Adoption Tax Benefits. The enrolled bill would permanently extend the adoption credit for children other than special needs children. The maximum credit would be increased to \$10,000 per eligible child, including special needs children. A \$10,000 credit would be provided in the year a special needs adoption is finalized regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range for eligibility for this credit would be increased from \$115,000 to \$150,000 of modified adjusted gross income. In addition, the adoption credit would be allowed against the alternative minimum tax permanently.

The enrolled bill would permanently extend the exclusion from income for employer-provided adoption assistance. The maximum exclusion would be increased from \$5,000 to \$10,000 per eligible child, including special needs children. In the case of a special needs adoption, the exclusion would be provided regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range would be increased from \$115,000 to \$150,000 of modified adjusted gross income.

These provisions would generally be effective for taxable years beginning after December 31, 2001, except that the provisions that extend the tax credit and exclusion from income for special needs adoptions regardless of whether the taxpayer has qualified adoption expenses would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$1.2 billion; FYs 2002-2011: -\$3.4 billion.)

Expansion of Dependent Care Tax Credit. The enrolled bill would increase the maximum amount of employment-related expenses eligible for the dependent care tax credit from \$2,400 to \$3,000, if there is one qualifying individual (and from \$4,800 to \$6,000, if there are two or more qualifying individuals) and would increase the maximum credit from 30 percent to 35 percent. H.R. 1836 would modify the phase-down of the credit so that it would begin at \$15,000 of adjusted gross income. These provisions would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.7 billion; FYs 2001-2011: -\$3.5 billion.)

Tax Credit for Employer-Provided Child Care Facilities. The enrolled bill would provide a tax credit to employers equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. The maximum total credit that could be claimed could not exceed \$150,000 per taxable year. The provision would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.6 billion; FYs 2002-2011: -\$1.5 billion.)

Estate and Gift Taxes

In addition to the bill's estate tax reduction and repeal provisions, H.R. 1836 includes numerous additional provisions affecting estate and gift taxes.

State Death Tax Credit. Under current law, a credit against Federal estate taxes is allowed for certain State death taxes. H.R. 1836 provides that the State death tax credit allowable under current law would be reduced by 25 percent in 2002, by 50 percent in 2003, and by 75 percent in 2004. In 2005, the State death tax credit would be repealed, after which there would be a deduction for any estate, inheritance, legacy, or succession taxes actually paid to any State or the District of Columbia, in respect of property included in the gross estate of the decedent. (Treasury estimated revenue effect included in total for "Estate and Gift Taxes Reduction and Estate Tax Repeal.")

Conservation Easements. Under current law, an executor may elect to exclude from the taxable estate 40 percent of the value of any land subject to a "qualified conservation easement," i.e., a contribution of a qualified real property interest to a qualified organization exclusively for conservation purposes. The enrolled bill would expand the availability of qualified conservation easements by eliminating the requirement that the land be located within a certain distance from a metropolitan area, national park, wilderness area, or Urban National Forest. As a result, under the enrolled bill, a qualified conservation easement could be claimed with respect to any land that is located in the United States or its possessions. This provision of the enrolled bill would be effective for estates of decedents dying after December 31, 2000. (Treasury estimated revenue effect for FY 2002: -\$3 million; FYs 2002-2006: -\$109 million; FYs 2002-2011: -\$292 million.)

Generation-Skipping Transfer (GST) Tax Modifications and Repeal. A generation-skipping transfer (GST) tax generally is imposed on transfers, either directly or through a trust, to a "skip person" (i.e., a beneficiary in a generation more than one generation below that of the transferor). An exemption of \$1 million (indexed for inflation beginning in 1999) is provided for each person making GSTs. If the value of transferred property exceeds the amount of GST exemption allocated to that property, then the GST tax generally is imposed at a flat rate equal to the highest estate tax rate (currently 55 percent) on the value of the taxable property at the time of a taxable event.

The enrolled bill would make certain modifications to the GST tax provisions in current law before repealing the tax in 2010, including: (1) deemed allocation of the GST tax exemption to lifetime transfers to trusts that are not direct skips; and (2) retroactive allocation of the GST exemption. These provisions would generally be effective after December 31, 2000. (Treasury estimated revenue effect for FY 2001: -\$2 million; FYs 2001-2006: -\$39 million; FYs 2001-2011: -\$89 million.)

Availability of Installment Payment of Estate Tax for Estates of Decedents with an Interest in Closely-Held Businesses. Under current law, the estate tax generally is due within nine months of a decedent's death. However, an executor generally may elect to pay estate tax attributable to an interest in a closely-held business in installments. An estate is eligible for payment of estate tax in installments if the value of the decedent's interest in a closely-held business exceeds 35 percent of the decedent's adjusted gross estate (i.e., the gross estate less certain deductions). For purposes of these rules, an interest in a closely-held business is: (1) an interest as a proprietor in a sole proprietorship; (2) an interest as a partner in a partnership carrying on a trade or business if 20 percent or more of the total capital interest of such partnership is included in the decedent's gross estate or the partnership had 15 or fewer partners; and (3) stock in a corporation carrying on a trade or business if 20 percent or more of the value of the voting stock of the corporation is included in the decedent's gross estate or such corporation had 15 or fewer shareholders.

The enrolled bill would expand the availability of installment payment rules to qualified lending and finance business interests and certain holding company stock. In addition, H.R. 1836 would increase from 15 to 45 the maximum number of partners of a partnership or shareholders in a corporation required for eligibility for installment payments of estate tax. These provisions would be effective for decedents dying after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.5 billion; FYs 2001-2011: -\$2.2 billion.)

Estate Tax Recapture from Cash Rents of Specially-Valued Property. The enrolled bill would provide that if a claim for a refund or credit of any overpayment of tax resulting from the application of net cash lease provisions for spouses and lineal descendants is barred by operation of law or rule of law, then the refund or credit of such overpayment would, nonetheless, be allowed if a claim is filed within one year of enactment. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.1 billion.)

Miscellaneous Provisions

Corporate Estimated Tax. The deadline for corporate estimated tax payments due under current law on September 15, 2001, would be delayed until October 1, 2001. A portion of corporate estimated tax payments due on September 15, 2004, would be delayed until October 1, 2004. The effect of these provisions is to shift \$30.1 billion of the bill's costs from FY 2002 to FY 2001 and \$6.7 billion from FY 2005 to FY 2004. (Treasury estimated revenue effect for FY 2001: -\$30.1 billion; FY 2002: +\$30.1 billion; FYs 2001-2006: \$0; FYs 2001-2011: \$0.)

Treatment of Restitution Payments to Holocaust Victims. The enrolled bill would provide that certain restitution payments made to persons who were persecuted by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country (or such restitution payments made to the heirs or estates of those persons) will be: (1) excluded from gross income; and (2) not taken into account for any provision of the Internal Revenue Code that takes into account excludable gross income in computing adjusted gross income (e.g., taxation of Social Security benefits). The provision would be effective for amounts received on or after January 1, 2000. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$12 million; FYs 2002-2011: -\$27 million.)

Authority to Postpone Certain Tax-Related Deadlines. The enrolled bill would allow the Secretary of the Treasury to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a Presidentially-declared disaster. This provision of the bill would be effective upon enactment. (Treasury estimated revenue effect: negligible.)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

May 31, 2001

ASSISTANT SECRETARY

The Honorable Mitchell E. Daniels, Jr.
Director, Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Attention: Assistant Director for Legislative Reference

Dear Mr. Daniels:

This responds to your request for the views of this Department on enrolled bill H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001. The bill contains many of the principles and priorities of the President's proposals for tax relief contained in the Fiscal Year 2002 Budget submission. The enrolled bill would reduce individual income tax rates across the board, provide tax benefits relating to children including an increase and expansion of the child tax credit, provide relief from the marriage penalty, increase tax incentives for education, phase out the estate tax, and make a number of changes to the rules relating to pensions and individual retirement arrangements. The bill also would provide temporary relief from the alternative minimum tax and includes other miscellaneous provisions.

Title I of the bill would create a new 10-percent income tax rate bracket that applies to the first \$6,000 of taxable income for single individuals (\$7,000 for 2008 and after), \$10,000 for heads of households, and \$12,000 for joint returns (\$14,000 for 2008 and after). These taxable income levels would be indexed for inflation after 2008. The Act also would reduce the other income tax rates above 15 percent, effective January 1, 2001, according to the following schedule:

Calendar Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001	27.5%	30.5%	35.5%	39.1%
2002 – 2003	27%	30%	35%	38.6%
2004 – 2005	26%	29%	34%	37.6%
2006 – 2010	25%	28%	33%	35%

This rate structure is broadly similar to the President's proposal; however, the President's proposal provided for greater marginal rate reductions and reduced the number of tax rate brackets from five to four.

Title I, however, includes other provisions that have the effect of reducing marginal rates. It would phase out the overall limitation on itemized deductions and the personal exemption phase-out. The otherwise applicable overall limitation on itemized deductions and personal exemption phase-out would be reduced by one-third in 2006 and 2007, reduced by two-thirds in 2008 and

2009, and eliminated in 2010. In addition to marginal rate relief, the repeal of these provisions provides simplification.

Title I would also include a rate reduction credit that is in lieu of the 10-percent rate bracket for 2001. Most taxpayers would receive this credit in the form of a check issued by the Department of the Treasury. The amount of the check would be computed from taxable income reported on tax returns filed for 2000. The credit would be equal to a maximum of \$300 for singles, \$500 for heads of households, and \$600 for joint returns (computed as 5 percent of taxable income up to \$6,000 for singles, \$10,000 for heads of households, and \$12,000 for joint returns). The credit would not exceed tax liability less nonrefundable credits. Approximately 98 million checks would be sent to taxpayers starting in late July and continuing through late September. Taxpayers who filed late or with extensions would receive their checks later in the fall. Delivering tax relief through checks will enable the government to return money to taxpayers in a quicker fashion providing a short-term stimulus to the economy.

Title II of the bill would increase the child tax credit to \$600 in 2001, \$700 in 2005, \$800 in 2009, and \$1,000 in 2010. The credit would be refundable to the extent of 10 percent (15 percent beginning in 2005) of the taxpayer's earned income in excess of \$10,000 (indexed for inflation beginning in 2002). The bill would allow the child tax credit to the extent of the full amount of the individual's regular income tax and alternative minimum tax, and the refundable child tax credit would no longer be reduced by the amount of the alternative minimum tax. The President's proposal contained a similar increase in the credit, but with a faster phase-in. It did not include a refundability change.

Title II would also make the adoption credit permanent and increase it to \$10,000 per eligible child, including special needs children. Beginning in 2003, a \$10,000 credit would be provided in the year a special needs adoption is finalized regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range would be increased to \$150,000 of modified adjusted gross income. The adoption credit would be allowed against the alternative minimum tax. The exclusion from income for employer-provided adoption assistance would also be amended, generally along parallel lines. The President's proposal included an increase in the adoption credit.

Beginning in 2003, Title II of the bill would also increase the maximum amount of eligible employment-related expenses for purposes of the dependent care credit from \$2,400 to \$3,000 for one qualifying individual and from \$4,800 to \$6,000 for two or more qualifying individuals. The maximum credit would be increased from 30 percent to 35 percent, and the phase-down of the credit would be modified to begin at \$15,000 of adjusted gross income.

Title II would also provide employers a tax credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services, with a maximum credit of \$150,000 per taxable year.

Title III of the bill would increase the standard deduction for a married couple filing a joint return to twice the standard deduction for an unmarried individual filing a single return. The

increase would be phased in over a five-year period beginning in 2005. The phase-in schedule is shown below.

Calendar Year	Standard Deduction for Joint Returns as Percentage of Standard Deduction for Single Returns
----------------------	--

Current level	167%
2005	174%
2006	184%
2007	187%
2008	190%
2009 - 2010	200%

Title III would also increase the size of the 15-percent income tax rate bracket for a joint return to twice the size of the corresponding rate bracket for a single return. The increase is phased in over a five-year period beginning in 2005. The phase-in schedule is shown below.

Calendar Year	End Point of the 15-Percent Rate Bracket for Joint Returns as Percentage of the End Point of the Bracket for Single Returns
----------------------	--

Current level	167%
2005	180%
2006	187%
2007	193%
2008 - 2010	200%

For married taxpayers who file a joint return, Title III would increase the beginning and ending of the earned income tax credit (EITC) phase-out range by \$1,000 in 2002, by \$2,000 in 2005, and by \$3,000 in 2008 (indexed for inflation after 2008). Title III would repeal the present-law provision that reduces the earned income credit by the amount of an individual's alternative minimum tax. Title III would also make several other changes to simplify the EITC and improve compliance. The President's proposal also included significant marriage penalty relief.

Title IV of the bill makes a number of revisions to education tax incentives. It would increase the annual limit on contributions to education IRAs from \$500 to \$2,000 and expand the definition of qualified expenses that may be paid tax-free from such IRAs to include elementary and secondary school expenses. It would also increase the phase-out range for married taxpayers filing a joint return to \$190,000 to \$220,000 of modified adjusted gross income, double the range of single filers.

Title IV would also extend the exclusion for employer-provided educational assistance to graduate education and make the exclusion (for both undergraduate and graduate education) permanent.

In addition, it would increase the beginning points of the income phase-out ranges for eligibility for the student loan interest deduction to \$50,000 for single taxpayers and to \$100,000 for

married taxpayers filing joint returns. The bill would also increase the phase-out range from \$15,000 to \$30,000 for married taxpayers filing joint returns. As under current law, the beginning points of the phase-out ranges would be indexed for inflation. The 60-month limitation on deductibility of student loan interest would be repealed.

Title IV would also provide a new above-the-line deduction for qualified higher education expenses. For taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 on joint returns), the maximum deduction would be \$3,000 per year in 2002 and 2003 and \$4,000 per year in 2004 and 2005. Taxpayers with adjusted gross income that does not exceed \$80,000 (\$160,000 on joint returns) would be entitled to a maximum deduction of \$2,000 in 2004 and 2005.

Title IV would also make other changes relating to education, including provisions affecting prepaid tuition programs, bonds for educational facilities and activities, and treatment of certain awards and scholarships.

The President's proposal also included significant education tax incentives.

In 2002, Title V of the bill would increase the amount a taxpayer can pass tax-free to heirs from \$700,000 (current law for 2002) to \$1 million. By 2009, a taxpayer would be able to bequeath up to \$3.5 million free of tax. The top estate tax rate would drop from 60 percent to 50 percent in 2002, and to 45 percent by 2007 (see the table below). The estate tax would be repealed entirely in 2010.

After repeal of the estate tax, the basis of property acquired from a decedent would be the lesser of fair market value or the decedent's basis. Additions to basis would be allowed so that, in general, estates that are not currently subject to estate tax would not be subject to capital gains tax upon disposition of the property. To mitigate the effect of estate tax repeal on income tax avoidance, the gift tax would be retained. The Act also includes anti-avoidance measures.

Table of Unified Credit Increases and Rate Decreases

Year of Death or Gift	Amount Exempted by Estate Tax Unified Credit	Estate and Gift Tax Rates
2002	\$1 million	41% - 50%
2003	\$1 million	41% - 49%
2004	\$1.5 million	45% - 48%
2005	\$1.5 million	45% - 47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	Estate tax is repealed. (Lifetime gift exclusion remains \$1 million.)	35% (gift tax only)

The President's proposal also included a phase-out of the estate, gift, and generation-skipping transfer taxes, albeit at a quicker rate.

Title VI of the bill includes a number of provisions relating to pensions and individual retirement arrangements. These provisions will encourage employers to sponsor retirement plans and increase the opportunity for Americans to save more of their money. This will help more Americans prepare for retirement and improve the personal savings rate.

The individual retirement account (IRA) contribution limits would be increased to allow greater saving opportunities. The current limit on IRA contributions is \$2,000 and it has not increased since 1982. The contribution limit would be increased to \$3,000 in 2002 through 2004, \$4,000 in 2005 through 2007, and \$5,000 in 2008; this amount would be indexed for inflation thereafter. In addition, a new provision would allow individuals who have attained age 50 to make an additional "catch-up" contribution of \$500 in 2002 through 2005 and \$1,000 in subsequent years.

Under current law, a participant in a tax-qualified retirement plan is able to "roll over" a distribution from the plan to another tax-qualified retirement plan or to an IRA. This ability to transfer a distribution without taxation encourages participants to continue to save and accumulate distributed amounts for retirement instead of using those assets for non-retirement related purposes. The bill would expand the ability to roll over distributions so that rollovers are available between all types of IRAs, qualified plans, 403(b) annuities, and funded governmental plans under section 457. Further addressing the retirement savings "leakage" issue, the bill would require automatic rollovers of small distributions from a plan to an IRA, unless the participant affirmatively requests a cash payment.

The bill also includes a number of provisions that are designed to encourage employers (particularly small businesses) to sponsor retirement plans for their employees.

The current limit on elective contributions under 401(k) plans and 403(b) annuities (tax deferred savings plans for employees of tax-exempt organizations and educational institutions) is \$10,500. The current limit on elective contributions under 457 plans (tax-deferred savings plan for employees of state and local governments) is \$8,500. The limit for all three types of plans would be increased to \$11,000 in 2002, and would phase up to \$15,000 in 2006 (and would be indexed for inflation thereafter). For a SIMPLE (a simplified tax-favored retirement plan for small employers that is similar to a 401(k) plan), the maximum contribution is currently \$6,500. This limit would be increased to \$7,000 in 2002, and would phase up to \$10,000 in 2005 (and would be indexed for inflation thereafter).

Although these limits would be increased, in most instances highly paid employees would not be able to take full advantage of these higher limits unless lower paid employees have increased rates of savings. The bill's sponsors believe that employers will take action to increase savings by the lower paid employees (through education, increased employer matching contributions, or higher employer contributions on behalf of lower paid employees) in order for the highly paid employees to take advantage of these new limits.

The bill would restore many of the limits on the maximum benefit amounts that were imposed on retirement plan benefits in the 1980's and early 1990's. The maximum annual pension benefit payable from a defined benefit plan would be increased from \$140,000 to \$160,000 for life annuities beginning at age 62; this would restore the reduction in this limit which was made in 1982, when the maximum benefit level was reduced from \$136,425 to \$90,000. The maximum compensation that can be taken into account would be increased from \$170,000 to \$200,000. This would partially restore the compensation limit reduction made in 1993, when the compensation limit was reduced from \$235,840 to \$150,000. In addition, the maximum annual contribution to a defined contribution plan on behalf of any employee would be increased from the lesser of \$30,000 and 25% of the employee's compensation to the lesser of \$40,000 or 100% of compensation. This partially restores the dollar limit to its 1982 level of \$45,475.

For companies that sponsor employee stock ownership plans, the bill would expand current law by allowing dividends that are paid on company stock held in the ESOP to be deducted by the company, regardless of whether the participant receives the dividend in cash or lets the dividend be reinvested in the ESOP. Previously, reinvested dividends were not deductible. In addition, the bill attempts to close a tax abuse concerning S corporations whose stock is primarily held in the ESOP the S corporation established, thereby avoiding taxation on the income of the S corporation until shares are distributed from the ESOP.

In addition to providing incentives for employers to start and maintain retirement plans, participants in these plans would be offered new incentives to save and protections of their current benefits. Low and moderate income taxpayers would receive a nonrefundable tax credit for contributions of up to \$2,000 to an IRA or an employer-sponsored plan. The maximum credit amount, 50% of the contribution, would be available to joint filers whose adjusted gross income is \$30,000 or less. The credit amount would decrease as the taxpayer's income increases, with no credit available to joint filers with adjusted gross income above \$50,000. The income amounts and credit phase-outs would be proportionately reduced for single and head of household filers. This is a temporary credit that expires in 2007.

Plans can provide employees age 50 and older with the ability to make additional "catch-up" contributions. The amount of the catch-up in a 401(k) plan, 403(b) annuity or 457 plan would increase the otherwise applicable contribution limit by \$1,000 in 2002 and it would phase up to \$5,000 in 2006 (indexed for inflation thereafter). These catch-up contributions would not be subject to normal nondiscrimination testing. Catch-up contributions to SIMPLEs would equal \$500 in 2002, and would phase up to \$2,500 in 2006 (indexed for inflation thereafter).

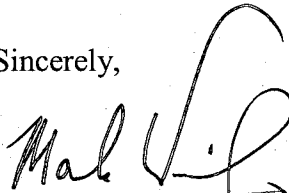
Title VI would also require faster vesting for employer matching contributions. In addition, the existing disclosure rules would be modified to increase disclosure to employees regarding pension formula changes that reduce future rate of accrual, including a conversion of a traditional pension plan to a cash balance plan.

To ensure compliance with the Congressional Budget Act of 1974, Title IX of the bill would provide that all of its provisions generally do not apply for taxable years beginning after December 31, 2010.

The enrolled bill is generally consistent with the objectives and priorities of the President's tax plan as contained in the Fiscal Year 2002 Budget of the Administration. While the specific provisions in the bill differ in several respects from the President's proposals, the bill provides meaningful tax relief to the American people by reducing the penalty on work, savings, and investment. The tax relief will lay a foundation for further long-term economic growth.

The Department of the Treasury supports the enrolled bill, and therefore recommends that the President sign it into law.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Weinberger". The signature is fluid and cursive, with a large loop at the end.

Mark A. Weinberger
Assistant Secretary (Tax Policy)



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

May 31, 2001

OFFICE OF THE ADMINISTRATOR

The Honorable Mitchell Daniels
Director
Office of Management and Budget
Washington, DC 20503

Dear Mr. Daniels:

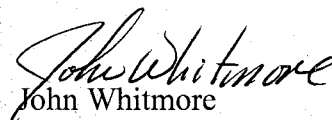
This letter is in response to your request for the position of the U.S. Small Business Administration (SBA) on enrolled bill H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001.

Our mission at the Small Business Administration is to work to strengthen the Nation's economy through capital support, technical assistance and counseling of small businesses. We believe this bill will help us in that cause. As such, the SBA recommends the President sign this bill.

SBA's strongest support for this bill is centered in its benefits for America's small business entrepreneurs. We feel that the economic benefits derived from this bill: the repeal of the estate tax, the repeal of the marriage penalty, as well as the gradual income tax rate reductions will significantly stimulate investment and continued growth among the Nation's small businesses, who are overburdened by taxation, relative to their entrepreneurial role in our market economy. Additionally, the ancillary benefits of the tax relief bill will bolster small businesses' available capital, allowing for expansion or investment in infrastructure improvements key to their continued prosperity.

We reiterate our support for H.R. 1836, as we anticipate it providing significant immediate and ongoing tax-relief and economic benefits to the Nation's small business community. SBA urges that the President sign this legislation.

Sincerely,


John Whitmore
Acting Administrator





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 6, 2001

01 JUN 6 PM 2:01

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 1836 - Economic Growth and Tax Relief Reconciliation Act of 2001
Sponsor - Rep. Thomas (R) California

Last Day for Action

June 15, 2001 - Friday

Purpose

Reduces individual income tax rates, increases the child tax credit, eliminates the estate tax, reduces the marriage penalty, expands Education IRAs, and makes several other changes to provisions of tax law, including retirement savings and pension provisions, other education provisions, and benefits relating to children.

Agency Recommendations

Office of Management and Budget

Approval

Department of the Treasury
Small Business Administration (SBA)
Department of Health and Human Services
Department of Education
Department of Commerce
Department of Justice
Office of Government Ethics
Department of Labor

Approval
Approval
Defers to Treasury (Informally)
Defers to Treasury (Informally)
No comment (Informally)
No comment (Informally)
No comment (Informally)
No response

Discussion

The enrolled bill would: (1) create a new initial individual income tax rate bracket beginning in calendar year 2001 and phase in reductions to the four highest income tax rates over six years, beginning July 1, 2001; (2) increase the child tax credit from \$500 to \$1,000 for each qualifying child; (3) provide for phased reductions of current estate, gift, and generation-skipping transfer taxes and repeal the taxes for estates of decedents dying and for generation-skipping transfers made after December 31, 2009; (4) increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning

and ending income levels used to calculate the earned income credit; (5) expand Education IRAs; and (6) increase alternative minimum tax (AMT) exemption amounts. In addition, the enrolled bill would make changes to tax benefits for children, education, pensions, and individual retirement arrangements. Most provisions of the enrolled bill would be phased in and all would generally sunset (i.e., be treated as if they had never been enacted) after December 31, 2010.

The major provisions of H.R. 1836 are summarized below, together with Treasury Department estimates of the effects of the provisions on receipts. Other significant provisions, including those related to pensions, education, and AMT relief, are described in Attachment A. The following table summarizes Treasury estimates of the revenue effects of this bill. (Treasury's 11-year cost estimate is \$95 billion less than the estimate prepared by the Congressional Joint Committee on Taxation (JCT).)

Estimated Revenue Effects of H.R. 1836
(Treasury estimates in billions of dollars)

Categories of Provisions	FY 2001	FY 2002	FY 2001-06	FY 2001-11
Tax Rate Reductions	-39.0	-49.5	-365.7	-799.2
Child Tax Credit Increase	-0.3	-8.5	-55.9	-159.3
Estate and Gift Taxes	-0.1	-3.4	-43.4	-133.6
Marriage Penalty Relief	—	-0.1	-17.7	-66.8
Retirement Savings and Pensions	—	-1.3	-20.0	-45.3
Education Incentives	—	-0.8	-14.1	-25.7
AMT Relief	—	-2.4	-15.3	-15.3
Benefits Relating to Children	—	-0.1	-3.4	-8.4
Corporate Estimated Tax Payments	-30.1	+30.1	—	—
TOTAL	-69.5	-35.9	-535.6	-1,253.4
Memo: Tax Proposals in FY2002 Budget	-0.2	-29.3	-495.4	-1,612.2
Memo: JCT Estimates of Effects of H.R. 1836	-73.8	-37.8	-552.5	-1,348.5

Tax Rate Reductions

New 10-Percent Rate Bracket. The enrolled bill would create a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. (For 2001, the bracket would be implemented in the form of a rate reduction credit that most income taxpayers would receive by Treasury check in 2001, as described below.) The 10-percent rate bracket would apply to the first \$6,000 of taxable income for single individuals (\$7,000 for 2008 and thereafter), the first \$10,000 of taxable income for heads of households, and the first \$12,000 for married couples filing joint returns (\$14,000 for 2008 and thereafter). The current 15-percent income tax rate bracket would be adjusted to start at the end of the new 10-percent bracket. (Treasury estimated revenue effect (for the 10-percent rate bracket and the rate reduction credit described below) for FY 2001: -\$ 37.9 billion; FY 2002: -\$ 33.7 billion; FYs 2001-2006: -\$231.5 billion; FYs 2001-2011: -\$413.8 billion.)

Rate Reduction Credit for 2001. The enrolled bill would include a rate reduction credit that is in lieu of the 10-percent rate bracket for 2001. Treasury would be required to make advance refunds of credit "as rapidly as possible" and, "to the extent practicable," before October 1, 2001. No refunds could be made after December 31, 2001. The amount of the advance credit would be computed from taxable income reported on tax returns filed for 2000. The credit would be computed as 5 percent of taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. Thus the maximum credit would be \$300 for single individuals, \$500 for heads of households, and \$600 for married couples filing joint returns. The Treasury Department reports that "most taxpayers would receive this credit in the form of a check issued by the Department of the Treasury" and that "approximately 98 million checks would be sent to taxpayers starting in late July and continuing through late September." According to Treasury, taxpayers who filed late or with extensions would receive their checks later in the fall. Treasury states that "[d]elivering tax relief through checks will enable the government to return money to taxpayers in a quicker fashion providing a short-term stimulus to the economy."

Reduction in Individual Income Tax Rates. The enrolled bill would reduce all regular individual income tax rates greater than 15 percent, effective July 1, 2001. The regular individual income tax rates under current law of 28 percent, 31 percent, 36 percent, and 39.6 percent would be phased down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001. The table below shows the schedule of regular income tax rate reductions.

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* -2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

* effective July 1, 2001

(Treasury estimated revenue effect for FY 2001: -\$ 1.1 billion; FY 2002: -\$15.9 billion; FYs 2001-2006: -\$132.8 billion; FYs 2001-2011: -\$359.4 billion.)

Phase-In of Repeal of the Itemized Deductions Limitation and the Personal Exemption Phase-Out. H.R. 1836 would phase in a repeal of existing limitations on itemized deductions and the existing phase-out for personal exemptions. The limitations and the phase-out currently apply to upper-income taxpayers. Treasury notes that these provisions have the effect of reducing marginal rates and also provide simplification. Both the limitations on itemized deductions and the phase-out for personal exemptions would be reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation would be eliminated and the phase-out would be repealed for taxable years beginning after December 31, 2009. (Treasury estimated revenue effect for FY 2002: \$0; FY 2002-2006: -\$1.4 billion; FYs 2002-2011: -\$25.9 billion.)

Increase and Expansion of the Child Tax Credit

The enrolled bill would increase the child tax credit from \$500 to \$1,000, phased-in over a ten-year period, effective for taxable years beginning after December 31, 2000. The table below shows the schedule for the increase of the child tax credit.

Calendar Year	2001-2004	2005-2008	2009	2010 and later
Credit Amount Per Child	\$600	\$700	\$800	\$1,000

The enrolled bill would make the child credit refundable for up to 10 percent of a taxpayer's earned income in excess of \$10,000 for calendar years 2001-2004. This percentage would be increased to 15 percent for calendar years 2005 and thereafter. The \$10,000 amount would be indexed for inflation beginning in 2002. Families with three or more children would be allowed a refundable credit for the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit (the current law rule), if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of \$10,000. The enrolled bill would provide that the refundable portion of the child credit does not constitute income and could not be 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. (Treasury estimated revenue effect for FY 2001: -\$0.3 billion; FY 2002: -\$8.5 billion; FYs 2001-2006: -\$55.9 billion; FYs 2001-2011: -\$159.3 billion.)

Estate and Gift Taxes

Estate and Gift Taxes Reduction and Estate Tax Repeal. Under current law, an estate tax is imposed on transfers of assets of a taxpayer at death, and a gift tax is imposed on transfers of assets during a taxpayer's lifetime. The estate and gift taxes are unified such that a single graduated rate schedule applies to cumulative taxable transfers made by a taxpayer during his or her lifetime and at death. The current rate schedule ranges from 18 percent on the first \$10,000 in cumulative taxable transfers to 55 percent on transfers over \$3 million. Current law provides, through a tax credit called the "unified credit," for the elimination of taxes on taxable transfers by gift or death totalling \$675,000 in 2001. This total, called the "exclusion amount," increases under current law to \$700,000 in 2002 and 2003, \$850,000 in 2004, \$950,000 in 2005, and \$1,000,000 in 2006 and subsequent years.

Under the enrolled bill, the highest estate and gift tax rates would be reduced and the "exclusion amount" would be increased from 2002 through 2009. In 2010, the estate tax would be repealed. The following table shows the highest estate and gift tax rates and the "exclusion amount" for estate tax purposes for 2001 through 2009.

Estate and Gift Tax Rates and Exclusion Amount (in \$ million)								
Calendar Year	2002	2003	2004	2005	2006	2007	2008	2009
Highest estate and gift tax rates	50%	49%	48%	47%	46%	45%	45%	45%
Exclusion Amount	1.0	1.0	1.5	1.5	2.0	2.0	2.0	3.5

In 2010, when the estate and generation-skipping transfer taxes would be repealed, the top gift tax rate would be the top individual income tax rate (35 percent) and, except as provided in regulations, a transfer to trust would have to be treated as a taxable gift, unless the trust is treated as wholly owned by the donor or the donor's spouse under the grantor trust provisions of the Internal Revenue Code. (Treasury estimated revenue effect (for this section on "Estate and Gift Taxes" and the provision described below on "Basis of Property at Death") for FY 2001: -\$0.1 billion; FY 2002: -\$3.3 billion; FYs 2001-2006: -\$41.6 billion; FYs 2001-2011: -\$130.9 billion.)

Basis of Property at Death. The "basis" value of property is the value for tax purposes of an individual's investment in a property. The basis is used for tax purposes to compute gains or losses on the sale or exchange of property. Under current law, the basis of property received from a decedent is its fair market value on the date of the decedent's death. This "step up" (or "step down") in basis eliminates the recognition of any income on the appreciation of property that occurred prior to the decedent's death. After repeal of the estate and generation-skipping transfer taxes, the rules under current law providing for a fair market value (i.e., stepped-up) basis for property acquired from a decedent would be repealed. A modified carryover basis regime would generally take effect, which would provide that recipients of property transferred at the decedent's death will receive a basis equal to the lesser of the decedent basis or the fair market value of the property on the date of the decedent's death.

Marriage Penalty Relief Provisions

H.R. 1836 would increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning and ending income levels used to calculate the earned income credit.

Increase in Standard Deduction for Married Couples. Under current law, for taxable years beginning in 2001, the basic standard deduction amount for married couples filing joint returns is 168 percent of the basic standard deduction amount for single filers. The enrolled bill would increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return. This increase would be phased-in over five years beginning in 2005 and would be fully phased-in for 2009 and thereafter. The table 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.

Calendar Year	2005	2006	2007	2008	2009 and later
Standard Deduction for Joint Returns as Percentage of Standard Deduction for Single Returns	174%	184%	187%	190%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$2.3 billion; FYs 2002-2011: -\$16.8 billion.)

Expansion of the 15-Percent Rate Bracket For Married Couples. Under current law, for taxable years beginning in 2001, the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return is 167 percent of the end point of the 15-percent bracket for an unmarried individual filing a single return. The enrolled bill would increase the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. The increase would be phased-in over four years, beginning in 2005. The table below shows the increase in the size of the 15-percent bracket during the phase-in period.

Taxable Year	2005	2006	2007	2008 and later
End point of 15-percent rate bracket for married couple as percentage of end point for unmarried individuals	180%	187%	193%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$10.4 billion; FYs 2002-2011: -\$36.4 billion.)

Earned Income Credit (EIC) Modification and Simplification. For married taxpayers who file a joint return, the enrolled bill would increase the beginning and ending income levels of the earned income credit phase-out by \$1,000 for taxable years beginning in 2002-2004; by \$2,000 for taxable years beginning in 2005-2007; and by \$3,000 for taxable years beginning after 2007. The \$3,000 amount would be adjusted annually for inflation after 2008. The enrolled bill would simplify the definition of earned income by excluding nontaxable employee compensation from the definition of earned income for earned income credit purposes. H.R. 1836 would also simplify the calculation of the earned income credit and repeal the provision in current law that reduces the earned income credit by the amount of an individual's alternative minimum tax. The enrolled bill would authorize the Internal Revenue Service, beginning in 2004, to deny the earned income credit if the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of the child with respect to whom the credit is claimed. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$4.9 billion; FYs 2002-2011: -\$13.6 billion.)

Sunset Provision

The provisions of H.R. 1836 would not apply to taxable, plan, or limitation years beginning after December 31, 2010, and, in the case of estate, gift, and GST tax provisions, to estates of decedents dying after December 31, 2010. The sunset provisions were included in the bill to ensure compliance with the Congressional Budget Act of 1974, which permits members of the Senate to raise a point of order against provisions of the bill unrelated to the goals of the 10-year budget reconciliation process.

Pay-As-You-Go Scoring

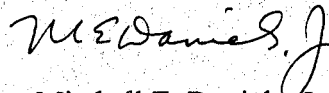
The enrolled bill would be subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The Treasury Department estimates that the enrolled bill would have a net budget cost of \$69.5 billion in FY 2001, \$35.9 billion in FY 2002, \$535.6 billion over six years, FY 2001-2006, and \$1.25 trillion over 11 years, FY 2001-2011.

Absent the enactment of legislation to adjust the balance on the pay-as-you-go scorecard to offset this bill's revenue losses (and the cumulative net costs of any other bills subject to the pay-as-you-go requirements), you would be required late this year to order the "sequestration" (across-the-board reduction) of non-exempt direct spending programs, including Medicare and farm price supports. The Statement of Administration Policy issued on May 17, 2001, for S. 896, the Senate Finance Committee-reported version of this bill, noted that the Administration will work with Congress to "ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans."

Conclusion and Recommendations

Treasury notes in its views letter that the enrolled bill "is generally consistent with the objectives and priorities of the President's tax plan as contained in the Fiscal Year 2002 Budget." Treasury further advises that "[w]hile the specific provisions in the bill differ in several respects from the President's proposals, the bill provides meaningful tax relief to the American people by reducing the penalty on work, savings, and investment. The tax relief will lay a foundation for further long-term economic growth."

We join Treasury and SBA in recommending that you approve H.R. 1836, which passed the House by a vote of 240-154 and the Senate by 58-33.



Mitchell E. Daniels, Jr.
Director

Enclosures

Other Significant Provisions of H.R. 1836

Retirement Savings and Pensions

H.R. 1836 would make numerous changes to pension and retirement savings laws. For example, the enrolled bill would modify individual retirement account (IRA) contribution limits by: (1) increasing the annual limit for IRA contributions (last increased in 1982) from \$2,000 to \$3,000 in 2002, \$4,000 in 2005, and \$5,000 in 2008; (2) allowing individuals who have attained age 50 before the end of the taxable year an additional "catch-up" contribution of \$500 in years 2002 through 2005, and \$1,000 in 2006 and thereafter; and (3) providing for indexing of the limits in subsequent years. (Treasury estimated revenue effect for FY 2002: -\$0.2 billion; FYs 2002-2006: -\$4.1 billion; FYs 2001-2011: -\$15.1 billion.)

In addition, the enrolled bill would change the employer pension system by: (1) gradually increasing contribution limits to qualified cash or deferred arrangements (section 401(k) plans), tax-sheltered annuities (section 403(b) annuities), and certain deferred compensation plans (section 457 eligible plans) from \$10,500 under current law (\$7,500 for 457 plans) to \$15,000 in 2006, and allowing employees over age 50 to make additional annual contributions to those plans and annuities; (2) increasing other contribution, benefit, and deduction limits under the qualified plan rules; and (3) eliminating certain rules regarding nondiscrimination and rules applying to top-heavy plans (tax-qualified plans where 60 percent of the value accrued benefits are for highly-compensated employees). The enrolled bill also would repeal the prohibition on certain small-business owners from borrowing from company pension plans, and provide a tax credit for small businesses for administrative and retirement education expenses incurred in the first three years of a new retirement plan. (Treasury estimated revenue effect for FY 2001: -\$0.2 billion; FYs 2001-2006: -\$3.7 billion; FYs 2001-2011: -\$10.8 billion.)

The enrolled bill also would provide a temporary non-refundable tax credit for low- and middle-income individuals who save in IRAs or qualified plans, require faster vesting for employer matching contributions, and facilitate rollovers between all types of IRAs, tax-qualified plans, 403(b) annuities, and funded governmental plans under section 457. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$8.3 billion; FYs 2001-2011: -\$10.6 billion.)

Education Incentives

Deduction for Qualified Higher Education Expenses. The enrolled bill would permit taxpayers a deduction for qualified higher education expenses paid by the taxpayer during a taxable year. In 2002 and 2003, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married couples filing joint returns) would be entitled to a maximum deduction of \$3,000 per year. Taxpayers with adjusted gross income above these thresholds would not be entitled to a deduction. In 2004 and 2005, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$4,000 and taxpayers with adjusted gross income that does not exceed \$80,000 (\$160,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$2,000. (Treasury estimated revenue effect for FY 2002: -\$0.3 billion; FYs 2002-2006: -\$8.4 billion; FYs 2002-2011: -\$8.4 billion.)

Exclusion for Employer-Provided Educational Assistance. Under current law, employer-provided assistance for undergraduate education is excluded from income for tax purposes. The enrolled bill would extend the exclusion to graduate education and make the exclusion (as applied to both undergraduate and graduate education) permanent, effective with respect to courses beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$3.3 billion; FYs 2002-2011: -\$7.1 billion.)

Education IRAs. Education IRAs (Ed IRAs) are trusts or custodial accounts created exclusively to pay higher education expenses (i.e., tuition, fees, books) of a named beneficiary. Contributions to Ed IRAs are not tax deductible but earnings on the account generally are not taxed until they are distributed to the beneficiary. Contributions into those accounts can be made by any person or corporation, but the contribution amount is phased out for higher income taxpayers, and is capped at \$500 annually per beneficiary until the beneficiary reaches age 18.

The enrolled bill would modify Ed IRAs by: increasing the limit on annual contributions to Ed IRAs for a beneficiary from \$500 to \$2,000; allowing Ed IRA contributions for special needs beneficiaries above the age of 18; clarifying that corporations, tax-exempt organizations, and other entities may contribute to Ed IRAs, regardless of the income of the corporation in the year of contribution; allowing taxpayers to exclude Ed IRA distributions from gross income and claim the HOPE or Lifetime Learning credit as long as they are not used for the same expenses; repealing the excise tax on contributions made to Ed IRAs when the contributions are made by anyone on behalf of the same beneficiary to a qualified State tuition program; increasing the phase-out range for married taxpayers from \$150,000-\$160,000 to \$190,000-\$220,000 so it is twice the range for single taxpayers; and permitting tax-free withdrawals from Ed IRAs to be used for qualified expenses at elementary and secondary schools. These provisions modifying Ed IRAs would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.8 billion; FYs 2002-2011: -\$6.4 billion.)

Modifications to Student Loan Interest Deduction. The enrolled bill would increase the income phase-out ranges for eligibility for the student loan interest deduction from \$40,000-\$55,000 to \$50,000-\$65,000 for single taxpayers and from \$60,000-\$75,000 to \$100,000-\$130,000 for married taxpayers filing joint returns. These income phase-out ranges would be adjusted annually for inflation after 2002. The maximum \$4,000 deduction for higher education tuition would be lowered to \$2,000 for income from \$130,000 to \$160,000 and phased out above that level. H.R. 1836 would repeal both the 60-month limit on the number of months during which interest paid on a qualified education loan is deductible and the restriction that voluntary payments of interest are not deductible. The provision would be effective for interest paid on qualified education loans after December 31, 2001. (Treasury estimated revenue effect for FY 2001: -\$0.1 billion; FYs 2001-2006: -\$1.1 billion; FYs 2001-2011: -\$2.3 billion.)

Qualified Prepaid Tuition/Savings Programs. Qualified State tuition programs allow individuals to purchase tuition credits for a named beneficiary or make contributions to a savings account plan for a beneficiary to cover higher education expenses. Under current law, the contributor pays tax on contributions only and the beneficiary pays tax on any earnings when they are distributed. The enrolled bill would expand the definition of "qualified tuition program"

to include certain prepaid tuition programs established and maintained by private institutions. The enrolled bill would modify the definition of qualified higher education expenses to include expenses of a special needs beneficiary that are necessary in connection with his or her enrollment or attendance at an eligible education institution.

Under H.R. 1836, an exclusion from gross income would be provided for distributions from qualified tuition programs to the extent that the distribution is used to pay for qualified higher education expenses. A taxpayer would be allowed to claim a HOPE credit or Lifetime Learning credit as long as the distribution is not used for the same expenses for which a credit is claimed. H.R. 1836 would provide that a transfer of credits from one qualified tuition program to another for the benefit of the same beneficiary is not considered a distribution. The enrolled bill would eliminate the penalty under current law on distributions not used for higher education expenses and instead apply the same additional tax that applies to education IRAs. H.R. 1836 would provide that assets of qualified tuition plans of private institutions must be held in trust. These provisions would be effective for taxable years beginning after December 31, 2001, except that the exclusion from gross income for certain distributions from a qualified tuition program established and maintained by an entity other than a State would be effective for taxable years beginning after December 31, 2003. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.3 billion; FYs 2002-2011: -\$1.2 billion.)

Tax Benefits for Certain Bonds for Educational Facilities and Activities. Under the enrolled bill, the additional amount of governmental bonds for public schools that small governmental units could issue without being subject to the arbitrage rebate requirements would be increased from \$5 million to \$10 million. As a result, these governmental units could issue up to \$15 million of governmental bonds in a calendar year provided that at least \$10 million of the bonds are used to finance public school construction expenditures.

The private activities for which tax-exempt bonds could be issued would be expanded to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local educational agency. Issuance of these tax-exempt private-activity bonds would be subject to annual per-State volume limits of the greater of \$10 per resident or \$5 million, in lieu of current law State private activity volume limits. These provisions would be effective for bonds issued after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.2 billion.)

Eliminate Tax on Awards Under Two Health Scholarship Programs. The enrolled bill would provide that amounts received by an individual under the National Health Service Corps (NHSC) Scholarship Program or the Armed Forces Scholarship Program would be eligible for tax-free treatment, without regard to any service obligation by the recipient. This provision would be effective for education awards received after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1 million; FYs 2002-2011: -\$3 million.)

Alternative Minimum Tax (AMT) Relief

Under current law, an alternative minimum tax is imposed on individuals to the extent that the tentative minimum tax exceeds the regular tax. The tentative minimum tax generally is an amount equal to the sum of (1) 26 percent of the first \$175,000 (or the first \$87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income in excess of an exemption amount and (2) 28 percent of the remaining alternative minimum taxable income. Alternative minimum taxable income is the individual's taxable income adjusted to take account of specified preferences and adjustments. The AMT exemption amounts are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of other unmarried individuals; and (3) \$22,500 in the case of married individuals filing a separate return, estates, and trusts.

The enrolled bill would increase the AMT exemption amount for married couples filing a joint return and surviving spouses by \$4,000 in 2001 through 2004. The AMT exemption amounts for other individuals (i.e., unmarried individuals and married individuals filing a separate return) would increase by \$2,000 in 2001 through 2004. This provision of the enrolled bill would be effective only for taxable years beginning after December 31, 2000, and before January 1, 2005. (Treasury estimated revenue effect for FY 2002: -\$2.4 billion; FYs 2002-2006: -\$15.3 billion; FYs 2002-2011: -\$15.3 billion.)

Benefits Relating to Children

In addition to the child tax credit increase, H.R. 1836 includes several provisions on tax benefits relating to children.

Extension and Expansion of Adoption Tax Benefits. The enrolled bill would permanently extend the adoption credit for children other than special needs children. The maximum credit would be increased to \$10,000 per eligible child, including special needs children. A \$10,000 credit would be provided in the year a special needs adoption is finalized regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range for eligibility for this credit would be increased from \$115,000 to \$150,000 of modified adjusted gross income. In addition, the adoption credit would be allowed against the alternative minimum tax permanently.

The enrolled bill would permanently extend the exclusion from income for employer-provided adoption assistance. The maximum exclusion would be increased from \$5,000 to \$10,000 per eligible child, including special needs children. In the case of a special needs adoption, the exclusion would be provided regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range would be increased from \$115,000 to \$150,000 of modified adjusted gross income.

These provisions would generally be effective for taxable years beginning after December 31, 2001, except that the provisions that extend the tax credit and exclusion from income for special needs adoptions regardless of whether the taxpayer has qualified adoption expenses would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$1.2 billion; FYs 2002-2011: -\$3.4 billion.)

Expansion of Dependent Care Tax Credit. The enrolled bill would increase the maximum amount of employment-related expenses eligible for the dependent care tax credit from \$2,400 to \$3,000, if there is one qualifying individual (and from \$4,800 to \$6,000, if there are two or more qualifying individuals) and would increase the maximum credit from 30 percent to 35 percent. H.R. 1836 would modify the phase-down of the credit so that it would begin at \$15,000 of adjusted gross income. These provisions would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.7 billion; FYs 2001-2011: -\$3.5 billion.)

Tax Credit for Employer-Provided Child Care Facilities. The enrolled bill would provide a tax credit to employers equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. The maximum total credit that could be claimed could not exceed \$150,000 per taxable year. The provision would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.6 billion; FYs 2002-2011: -\$1.5 billion.)

Estate and Gift Taxes

In addition to the bill's estate tax reduction and repeal provisions, H.R. 1836 includes numerous additional provisions affecting estate and gift taxes.

State Death Tax Credit. Under current law, a credit against Federal estate taxes is allowed for certain State death taxes. H.R. 1836 provides that the State death tax credit allowable under current law would be reduced by 25 percent in 2002, by 50 percent in 2003, and by 75 percent in 2004. In 2005, the State death tax credit would be repealed, after which there would be a deduction for any estate, inheritance, legacy, or succession taxes actually paid to any State or the District of Columbia, in respect of property included in the gross estate of the decedent. (Treasury estimated revenue effect included in total for "Estate and Gift Taxes Reduction and Estate Tax Repeal.")

Conservation Easements. Under current law, an executor may elect to exclude from the taxable estate 40 percent of the value of any land subject to a "qualified conservation easement," i.e., a contribution of a qualified real property interest to a qualified organization exclusively for conservation purposes. The enrolled bill would expand the availability of qualified conservation easements by eliminating the requirement that the land be located within a certain distance from a metropolitan area, national park, wilderness area, or Urban National Forest. As a result, under the enrolled bill, a qualified conservation easement could be claimed with respect to any land that is located in the United States or its possessions. This provision of the enrolled bill would be effective for estates of decedents dying after December 31, 2000. (Treasury estimated revenue effect for FY 2002: -\$3 million; FYs 2002-2006: -\$109 million; FYs 2002-2011: -\$292 million.)

Generation-Skipping Transfer (GST) Tax Modifications and Repeal. A generation-skipping transfer (GST) tax generally is imposed on transfers, either directly or through a trust, to a "skip person" (i.e., a beneficiary in a generation more than one generation below that of the transferor). An exemption of \$1 million (indexed for inflation beginning in 1999) is provided for each person making GSTs. If the value of transferred property exceeds the amount of GST exemption allocated to that property, then the GST tax generally is imposed at a flat rate equal to the highest estate tax rate (currently 55 percent) on the value of the taxable property at the time of a taxable event.

The enrolled bill would make certain modifications to the GST tax provisions in current law before repealing the tax in 2010, including: (1) deemed allocation of the GST tax exemption to lifetime transfers to trusts that are not direct skips; and (2) retroactive allocation of the GST exemption. These provisions would generally be effective after December 31, 2000. (Treasury estimated revenue effect for FY 2001: -\$2 million; FYs 2001-2006: -\$39 million; FYs 2001-2011: -\$89 million.)

Availability of Installment Payment of Estate Tax for Estates of Decedents with an Interest in Closely-Held Businesses. Under current law, the estate tax generally is due within nine months of a decedent's death. However, an executor generally may elect to pay estate tax attributable to an interest in a closely-held business in installments. An estate is eligible for payment of estate tax in installments if the value of the decedent's interest in a closely-held business exceeds 35 percent of the decedent's adjusted gross estate (i.e., the gross estate less certain deductions). For purposes of these rules, an interest in a closely-held business is: (1) an interest as a proprietor in a sole proprietorship; (2) an interest as a partner in a partnership carrying on a trade or business if 20 percent or more of the total capital interest of such partnership is included in the decedent's gross estate or the partnership had 15 or fewer partners; and (3) stock in a corporation carrying on a trade or business if 20 percent or more of the value of the voting stock of the corporation is included in the decedent's gross estate or such corporation had 15 or fewer shareholders.

The enrolled bill would expand the availability of installment payment rules to qualified lending and finance business interests and certain holding company stock. In addition, H.R. 1836 would increase from 15 to 45 the maximum number of partners of a partnership or shareholders in a corporation required for eligibility for installment payments of estate tax. These provisions would be effective for decedents dying after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.5 billion; FYs 2001-2011: -\$2.2 billion.)

Estate Tax Recapture from Cash Rents of Specially-Valued Property. The enrolled bill would provide that if a claim for a refund or credit of any overpayment of tax resulting from the application of net cash lease provisions for spouses and lineal descendants is barred by operation of law or rule of law, then the refund or credit of such overpayment would, nonetheless, be allowed if a claim is filed within one year of enactment. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.1 billion.)

Miscellaneous Provisions

Corporate Estimated Tax. The deadline for corporate estimated tax payments due under current law on September 15, 2001, would be delayed until October 1, 2001. A portion of corporate estimated tax payments due on September 15, 2004, would be delayed until October 1, 2004. The effect of these provisions is to shift \$30.1 billion of the bill's costs from FY 2002 to FY 2001 and \$6.7 billion from FY 2005 to FY 2004. (Treasury estimated revenue effect for FY 2001: -\$30.1 billion; FY 2002: +\$30.1 billion; FYs 2001-2006: \$0; FYs 2001-2011: \$0.)

Treatment of Restitution Payments to Holocaust Victims. The enrolled bill would provide that certain restitution payments made to persons who were persecuted by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country (or such restitution payments made to the heirs or estates of those persons) will be: (1) excluded from gross income; and (2) not taken into account for any provision of the Internal Revenue Code that takes into account excludable gross income in computing adjusted gross income (e.g., taxation of Social Security benefits). The provision would be effective for amounts received on or after January 1, 2000. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$12 million; FYs 2002-2011: -\$27 million.)

Authority to Postpone Certain Tax-Related Deadlines. The enrolled bill would allow the Secretary of the Treasury to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a Presidentially-declared disaster. This provision of the bill would be effective upon enactment. (Treasury estimated revenue effect: negligible.)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

01 JUN 6 PM '01

THE DIRECTOR

June 6, 2001

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 1836 - Economic Growth and Tax Relief Reconciliation Act of 2001
Sponsor - Rep. Thomas (R) California

Last Day for Action

June 15, 2001 - Friday

Purpose

Reduces individual income tax rates, increases the child tax credit, eliminates the estate tax, reduces the marriage penalty, expands Education IRAs, and makes several other changes to provisions of tax law, including retirement savings and pension provisions, other education provisions, and benefits relating to children.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Small Business Administration (SBA)	Approval
Department of Health and Human Services	Defers to Treasury (Informally)
Department of Education	Defers to Treasury (Informally)
Department of Commerce	No comment (Informally)
Department of Justice	No comment (Informally)
Office of Government Ethics	No comment (Informally)
Department of Labor	No response

Discussion

The enrolled bill would: (1) create a new initial individual income tax rate bracket beginning in calendar year 2001 and phase in reductions to the four highest income tax rates over six years, beginning July 1, 2001; (2) increase the child tax credit from \$500 to \$1,000 for each qualifying child; (3) provide for phased reductions of current estate, gift, and generation-skipping transfer taxes and repeal the taxes for estates of decedents dying and for generation-skipping transfers made after December 31, 2009; (4) increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning

and ending income levels used to calculate the earned income credit; (5) expand Education IRAs; and (6) increase alternative minimum tax (AMT) exemption amounts. In addition, the enrolled bill would make changes to tax benefits for children, education, pensions, and individual retirement arrangements. Most provisions of the enrolled bill would be phased in and all would generally sunset (i.e., be treated as if they had never been enacted) after December 31, 2010.

The major provisions of H.R. 1836 are summarized below, together with Treasury Department estimates of the effects of the provisions on receipts. Other significant provisions, including those related to pensions, education, and AMT relief, are described in Attachment A. The following table summarizes Treasury estimates of the revenue effects of this bill. (Treasury's 11-year cost estimate is \$95 billion less than the estimate prepared by the Congressional Joint Committee on Taxation (JCT).)

Estimated Revenue Effects of H.R. 1836
(Treasury estimates in billions of dollars)

Categories of Provisions	FY 2001	FY 2002	FY 2001-06	FY 2001-11
Tax Rate Reductions	-39.0	-49.5	-365.7	-799.2
Child Tax Credit Increase	-0.3	-8.5	-55.9	-159.3
Estate and Gift Taxes	-0.1	-3.4	-43.4	-133.6
Marriage Penalty Relief	—	-0.1	-17.7	-66.8
Retirement Savings and Pensions	—	-1.3	-20.0	-45.3
Education Incentives	—	-0.8	-14.1	-25.7
AMT Relief	—	-2.4	-15.3	-15.3
Benefits Relating to Children	—	-0.1	-3.4	-8.4
Corporate Estimated Tax Payments	-30.1	+30.1	—	—
TOTAL	-69.5	-35.9	-535.6	-1,253.4
Memo: Tax Proposals in FY2002 Budget	-0.2	-29.3	-495.4	-1,612.2
Memo: JCT Estimates of Effects of H.R. 1836	-73.8	-37.8	-552.5	-1,348.5

Tax Rate Reductions

New 10-Percent Rate Bracket. The enrolled bill would create a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. (For 2001, the bracket would be implemented in the form of a rate reduction credit that most income taxpayers would receive by Treasury check in 2001, as described below.) The 10-percent rate bracket would apply to the first \$6,000 of taxable income for single individuals (\$7,000 for 2008 and thereafter), the first \$10,000 of taxable income for heads of households, and the first \$12,000 for married couples filing joint returns (\$14,000 for 2008 and thereafter). The current 15-percent income tax rate bracket would be adjusted to start at the end of the new 10-percent bracket. (Treasury estimated revenue effect (for the 10-percent rate bracket and the rate reduction credit described below) for FY 2001: -\$ 37.9 billion; FY 2002: -\$ 33.7 billion; FYs 2001-2006: -\$231.5 billion; FYs 2001-2011: -\$413.8 billion.)

Rate Reduction Credit for 2001. The enrolled bill would include a rate reduction credit that is in lieu of the 10-percent rate bracket for 2001. Treasury would be required to make advance refunds of credit "as rapidly as possible" and, "to the extent practicable," before October 1, 2001. No refunds could be made after December 31, 2001. The amount of the advance credit would be computed from taxable income reported on tax returns filed for 2000. The credit would be computed as 5 percent of taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. Thus the maximum credit would be \$300 for single individuals, \$500 for heads of households, and \$600 for married couples filing joint returns. The Treasury Department reports that "most taxpayers would receive this credit in the form of a check issued by the Department of the Treasury" and that "approximately 98 million checks would be sent to taxpayers starting in late July and continuing through late September." According to Treasury, taxpayers who filed late or with extensions would receive their checks later in the fall. Treasury states that "[d]elivering tax relief through checks will enable the government to return money to taxpayers in a quicker fashion providing a short-term stimulus to the economy."

Reduction in Individual Income Tax Rates. The enrolled bill would reduce all regular individual income tax rates greater than 15 percent, effective July 1, 2001. The regular individual income tax rates under current law of 28 percent, 31 percent, 36 percent, and 39.6 percent would be phased down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001. The table below shows the schedule of regular income tax rate reductions.

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*-2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

* effective July 1, 2001

(Treasury estimated revenue effect for FY 2001: -\$ 1.1 billion; FY 2002: -\$15.9 billion; FYs 2001-2006: -\$132.8 billion; FYs 2001-2011: -\$359.4 billion.)

Phase-In of Repeal of the Itemized Deductions Limitation and the Personal Exemption Phase-Out. H.R. 1836 would phase in a repeal of existing limitations on itemized deductions and the existing phase-out for personal exemptions. The limitations and the phase-out currently apply to upper-income taxpayers. Treasury notes that these provisions have the effect of reducing marginal rates and also provide simplification. Both the limitations on itemized deductions and the phase-out for personal exemptions would be reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation would be eliminated and the phase-out would be repealed for taxable years beginning after December 31, 2009. (Treasury estimated revenue effect for FY 2002: \$0; FY 2002-2006: -\$1.4 billion; FYs 2002-2011: -\$25.9 billion.)

Increase and Expansion of the Child Tax Credit

The enrolled bill would increase the child tax credit from \$500 to \$1,000, phased-in over a ten-year period, effective for taxable years beginning after December 31, 2000. The table below shows the schedule for the increase of the child tax credit.

Calendar Year	2001-2004	2005-2008	2009	2010 and later
Credit Amount Per Child	\$600	\$700	\$800	\$1,000

The enrolled bill would make the child credit refundable for up to 10 percent of a taxpayer's earned income in excess of \$10,000 for calendar years 2001-2004. This percentage would be increased to 15 percent for calendar years 2005 and thereafter. The \$10,000 amount would be indexed for inflation beginning in 2002. Families with three or more children would be allowed a refundable credit for the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit (the current law rule), if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of \$10,000. The enrolled bill would provide that the refundable portion of the child credit does not constitute income and could not be 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. (Treasury estimated revenue effect for FY 2001: -\$0.3 billion; FY 2002: -\$8.5 billion; FYs 2001-2006: -\$55.9 billion; FYs 2001-2011: -\$159.3 billion.)

Estate and Gift Taxes

Estate and Gift Taxes Reduction and Estate Tax Repeal. Under current law, an estate tax is imposed on transfers of assets of a taxpayer at death, and a gift tax is imposed on transfers of assets during a taxpayer's lifetime. The estate and gift taxes are unified such that a single graduated rate schedule applies to cumulative taxable transfers made by a taxpayer during his or her lifetime and at death. The current rate schedule ranges from 18 percent on the first \$10,000 in cumulative taxable transfers to 55 percent on transfers over \$3 million. Current law provides, through a tax credit called the "unified credit," for the elimination of taxes on taxable transfers by gift or death totalling \$675,000 in 2001. This total, called the "exclusion amount," increases under current law to \$700,000 in 2002 and 2003, \$850,000 in 2004, \$950,000 in 2005, and \$1,000,000 in 2006 and subsequent years.

Under the enrolled bill, the highest estate and gift tax rates would be reduced and the "exclusion amount" would be increased from 2002 through 2009. In 2010, the estate tax would be repealed. The following table shows the highest estate and gift tax rates and the "exclusion amount" for estate tax purposes for 2001 through 2009.

Estate and Gift Tax Rates and Exclusion Amount (in \$ million)								
Calendar Year	2002	2003	2004	2005	2006	2007	2008	2009
Highest estate and gift tax rates	50%	49%	48%	47%	46%	45%	45%	45%
Exclusion Amount	1.0	1.0	1.5	1.5	2.0	2.0	2.0	3.5

In 2010, when the estate and generation-skipping transfer taxes would be repealed, the top gift tax rate would be the top individual income tax rate (35 percent) and, except as provided in regulations, a transfer to trust would have to be treated as a taxable gift, unless the trust is treated as wholly owned by the donor or the donor's spouse under the grantor trust provisions of the Internal Revenue Code. (Treasury estimated revenue effect (for this section on "Estate and Gift Taxes" and the provision described below on "Basis of Property at Death") for FY 2001: -\$0.1 billion; FY 2002: -\$3.3 billion; FYs 2001-2006: -\$41.6 billion; FYs 2001-2011: -\$130.9 billion.)

Basis of Property at Death. The "basis" value of property is the value for tax purposes of an individual's investment in a property. The basis is used for tax purposes to compute gains or losses on the sale or exchange of property. Under current law, the basis of property received from a decedent is its fair market value on the date of the decedent's death. This "step up" (or "step down") in basis eliminates the recognition of any income on the appreciation of property that occurred prior to the decedent's death. After repeal of the estate and generation-skipping transfer taxes, the rules under current law providing for a fair market value (i.e., stepped-up) basis for property acquired from a decedent would be repealed. A modified carryover basis regime would generally take effect, which would provide that recipients of property transferred at the decedent's death will receive a basis equal to the lesser of the decedent basis or the fair market value of the property on the date of the decedent's death.

Marriage Penalty Relief Provisions

H.R. 1836 would increase, for married couples filing joint tax returns, the basic standard deduction, the size of the 15-percent income tax bracket, and the beginning and ending income levels used to calculate the earned income credit.

Increase in Standard Deduction for Married Couples. Under current law, for taxable years beginning in 2001, the basic standard deduction amount for married couples filing joint returns is 168 percent of the basic standard deduction amount for single filers. The enrolled bill would increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return. This increase would be phased-in over five years beginning in 2005 and would be fully phased-in for 2009 and thereafter. The table 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.

Calendar Year	2005	2006	2007	2008	2009 and later
Standard Deduction for Joint Returns as Percentage of Standard Deduction for Single Returns	174%	184%	187%	190%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$2.3 billion; FYs 2002-2011: -\$16.8 billion.)

Expansion of the 15-Percent Rate Bracket For Married Couples. Under current law, for taxable years beginning in 2001, the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return is 167 percent of the end point of the 15-percent bracket for an unmarried individual filing a single return. The enrolled bill would increase the end point of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. The increase would be phased-in over four years, beginning in 2005. The table below shows the increase in the size of the 15-percent bracket during the phase-in period.

Taxable Year	2005	2006	2007	2008 and later
End point of 15-percent rate bracket for married couple as percentage of end point for unmarried individuals	180%	187%	193%	200%

(Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$10.4 billion; FYs 2002-2011: -\$36.4 billion.)

Earned Income Credit (EIC) Modification and Simplification. For married taxpayers who file a joint return, the enrolled bill would increase the beginning and ending income levels of the earned income credit phase-out by \$1,000 for taxable years beginning in 2002-2004; by \$2,000 for taxable years beginning in 2005-2007; and by \$3,000 for taxable years beginning after 2007. The \$3,000 amount would be adjusted annually for inflation after 2008. The enrolled bill would simplify the definition of earned income by excluding nontaxable employee compensation from the definition of earned income for earned income credit purposes. H.R. 1836 would also simplify the calculation of the earned income credit and repeal the provision in current law that reduces the earned income credit by the amount of an individual's alternative minimum tax. The enrolled bill would authorize the Internal Revenue Service, beginning in 2004, to deny the earned income credit if the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of the child with respect to whom the credit is claimed. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$4.9 billion; FYs 2002-2011: -\$13.6 billion.)

Sunset Provision

The provisions of H.R. 1836 would not apply to taxable, plan, or limitation years beginning after December 31, 2010, and, in the case of estate, gift, and GST tax provisions, to estates of decedents dying after December 31, 2010. The sunset provisions were included in the bill to ensure compliance with the Congressional Budget Act of 1974, which permits members of the Senate to raise a point of order against provisions of the bill unrelated to the goals of the 10-year budget reconciliation process.

Pay-As-You-Go Scoring

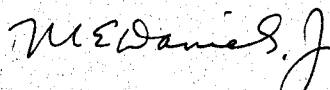
The enrolled bill would be subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The Treasury Department estimates that the enrolled bill would have a net budget cost of \$69.5 billion in FY 2001, \$35.9 billion in FY 2002, \$535.6 billion over six years, FY 2001-2006, and \$1.25 trillion over 11 years, FY 2001-2011.

Absent the enactment of legislation to adjust the balance on the pay-as-you-go scorecard to offset this bill's revenue losses (and the cumulative net costs of any other bills subject to the pay-as-you-go requirements), you would be required late this year to order the "sequestration" (across-the-board reduction) of non-exempt direct spending programs, including Medicare and farm price supports. The Statement of Administration Policy issued on May 17, 2001, for S. 896, the Senate Finance Committee-reported version of this bill, noted that the Administration will work with Congress to "ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans."

Conclusion and Recommendations

Treasury notes in its views letter that the enrolled bill "is generally consistent with the objectives and priorities of the President's tax plan as contained in the Fiscal Year 2002 Budget." Treasury further advises that "[w]hile the specific provisions in the bill differ in several respects from the President's proposals, the bill provides meaningful tax relief to the American people by reducing the penalty on work, savings, and investment. The tax relief will lay a foundation for further long-term economic growth."

We join Treasury and SBA in recommending that you approve H.R. 1836, which passed the House by a vote of 240-154 and the Senate by 58-33.



Mitchell E. Daniels, Jr.
Director

Enclosures

Other Significant Provisions of H.R. 1836

Retirement Savings and Pensions

H.R. 1836 would make numerous changes to pension and retirement savings laws. For example, the enrolled bill would modify individual retirement account (IRA) contribution limits by: (1) increasing the annual limit for IRA contributions (last increased in 1982) from \$2,000 to \$3,000 in 2002, \$4,000 in 2005, and \$5,000 in 2008; (2) allowing individuals who have attained age 50 before the end of the taxable year an additional "catch-up" contribution of \$500 in years 2002 through 2005, and \$1,000 in 2006 and thereafter; and (3) providing for indexing of the limits in subsequent years. (Treasury estimated revenue effect for FY 2002: -\$0.2 billion; FYs 2002-2006: -\$4.1 billion; FYs 2001-2011: -\$15.1 billion.)

In addition, the enrolled bill would change the employer pension system by: (1) gradually increasing contribution limits to qualified cash or deferred arrangements (section 401(k) plans), tax-sheltered annuities (section 403(b) annuities), and certain deferred compensation plans (section 457 eligible plans) from \$10,500 under current law (\$7,500 for 457 plans) to \$15,000 in 2006, and allowing employees over age 50 to make additional annual contributions to those plans and annuities; (2) increasing other contribution, benefit, and deduction limits under the qualified plan rules; and (3) eliminating certain rules regarding nondiscrimination and rules applying to top-heavy plans (tax-qualified plans where 60 percent of the value accrued benefits are for highly-compensated employees). The enrolled bill also would repeal the prohibition on certain small-business owners from borrowing from company pension plans, and provide a tax credit for small businesses for administrative and retirement education expenses incurred in the first three years of a new retirement plan. (Treasury estimated revenue effect for FY 2001: -\$0.2 billion; FYs 2001-2006: -\$3.7 billion; FYs 2001-2011: -\$10.8 billion.)

The enrolled bill also would provide a temporary non-refundable tax credit for low- and middle-income individuals who save in IRAs or qualified plans, require faster vesting for employer matching contributions, and facilitate rollovers between all types of IRAs, tax-qualified plans, 403(b) annuities, and funded governmental plans under section 457. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$8.3 billion; FYs 2001-2011: -\$10.6 billion.)

Education Incentives

Deduction for Qualified Higher Education Expenses. The enrolled bill would permit taxpayers a deduction for qualified higher education expenses paid by the taxpayer during a taxable year. In 2002 and 2003, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married couples filing joint returns) would be entitled to a maximum deduction of \$3,000 per year. Taxpayers with adjusted gross income above these thresholds would not be entitled to a deduction. In 2004 and 2005, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$4,000 and taxpayers with adjusted gross income that does not exceed \$80,000 (\$160,000 in the case of married taxpayers filing joint returns) would be entitled to a maximum deduction of \$2,000. (Treasury estimated revenue effect for FY 2002: -\$0.3 billion; FYs 2002-2006: -\$8.4 billion; FYs 2002-2011: -\$8.4 billion.)

Exclusion for Employer-Provided Educational Assistance. Under current law, employer-provided assistance for undergraduate education is excluded from income for tax purposes. The enrolled bill would extend the exclusion to graduate education and make the exclusion (as applied to both undergraduate and graduate education) permanent, effective with respect to courses beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: -\$0.5 billion; FYs 2002-2006: -\$3.3 billion; FYs 2002-2011: -\$7.1 billion.)

Education IRAs. Education IRAs (Ed IRAs) are trusts or custodial accounts created exclusively to pay higher education expenses (i.e., tuition, fees, books) of a named beneficiary. Contributions to Ed IRAs are not tax deductible but earnings on the account generally are not taxed until they are distributed to the beneficiary. Contributions into those accounts can be made by any person or corporation, but the contribution amount is phased out for higher income taxpayers, and is capped at \$500 annually per beneficiary until the beneficiary reaches age 18.

The enrolled bill would modify Ed IRAs by: increasing the limit on annual contributions to Ed IRAs for a beneficiary from \$500 to \$2,000; allowing Ed IRA contributions for special needs beneficiaries above the age of 18; clarifying that corporations, tax-exempt organizations, and other entities may contribute to Ed IRAs, regardless of the income of the corporation in the year of contribution; allowing taxpayers to exclude Ed IRA distributions from gross income and claim the HOPE or Lifetime Learning credit as long as they are not used for the same expenses; repealing the excise tax on contributions made to Ed IRAs when the contributions are made by anyone on behalf of the same beneficiary to a qualified State tuition program; increasing the phase-out range for married taxpayers from \$150,000-\$160,000 to \$190,000-\$220,000 so it is twice the range for single taxpayers; and permitting tax-free withdrawals from Ed IRAs to be used for qualified expenses at elementary and secondary schools. These provisions modifying Ed IRAs would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.8 billion; FYs 2002-2011: -\$6.4 billion.)

Modifications to Student Loan Interest Deduction. The enrolled bill would increase the income phase-out ranges for eligibility for the student loan interest deduction from \$40,000-\$55,000 to \$50,000-\$65,000 for single taxpayers and from \$60,000-\$75,000 to \$100,000-\$130,000 for married taxpayers filing joint returns. These income phase-out ranges would be adjusted annually for inflation after 2002. The maximum \$4,000 deduction for higher education tuition would be lowered to \$2,000 for income from \$130,000 to \$160,000 and phased out above that level. H.R. 1836 would repeal both the 60-month limit on the number of months during which interest paid on a qualified education loan is deductible and the restriction that voluntary payments of interest are not deductible. The provision would be effective for interest paid on qualified education loans after December 31, 2001. (Treasury estimated revenue effect for FY 2001: -\$0.1 billion; FYs 2001-2006: -\$1.1 billion; FYs 2001-2011: -\$2.3 billion.)

Qualified Prepaid Tuition/Savings Programs. Qualified State tuition programs allow individuals to purchase tuition credits for a named beneficiary or make contributions to a savings account plan for a beneficiary to cover higher education expenses. Under current law, the contributor pays tax on contributions only and the beneficiary pays tax on any earnings when they are distributed. The enrolled bill would expand the definition of "qualified tuition program"

to include certain prepaid tuition programs established and maintained by private institutions. The enrolled bill would modify the definition of qualified higher education expenses to include expenses of a special needs beneficiary that are necessary in connection with his or her enrollment or attendance at an eligible education institution.

Under H.R. 1836, an exclusion from gross income would be provided for distributions from qualified tuition programs to the extent that the distribution is used to pay for qualified higher education expenses. A taxpayer would be allowed to claim a HOPE credit or Lifetime Learning credit as long as the distribution is not used for the same expenses for which a credit is claimed. H.R. 1836 would provide that a transfer of credits from one qualified tuition program to another for the benefit of the same beneficiary is not considered a distribution. The enrolled bill would eliminate the penalty under current law on distributions not used for higher education expenses and instead apply the same additional tax that applies to education IRAs. H.R. 1836 would provide that assets of qualified tuition plans of private institutions must be held in trust. These provisions would be effective for taxable years beginning after December 31, 2001, except that the exclusion from gross income for certain distributions from a qualified tuition program established and maintained by an entity other than a State would be effective for taxable years beginning after December 31, 2003. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.3 billion; FYs 2002-2011: -\$1.2 billion.)

Tax Benefits for Certain Bonds for Educational Facilities and Activities. Under the enrolled bill, the additional amount of governmental bonds for public schools that small governmental units could issue without being subject to the arbitrage rebate requirements would be increased from \$5 million to \$10 million. As a result, these governmental units could issue up to \$15 million of governmental bonds in a calendar year provided that at least \$10 million of the bonds are used to finance public school construction expenditures.

The private activities for which tax-exempt bonds could be issued would be expanded to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local educational agency. Issuance of these tax-exempt private-activity bonds would be subject to annual per-State volume limits of the greater of \$10 per resident or \$5 million, in lieu of current law State private activity volume limits. These provisions would be effective for bonds issued after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.2 billion.)

Eliminate Tax on Awards Under Two Health Scholarship Programs. The enrolled bill would provide that amounts received by an individual under the National Health Service Corps (NHSC) Scholarship Program or the Armed Forces Scholarship Program would be eligible for tax-free treatment, without regard to any service obligation by the recipient. This provision would be effective for education awards received after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1 million; FYs 2002-2011: -\$3 million.)

Alternative Minimum Tax (AMT) Relief

Under current law, an alternative minimum tax is imposed on individuals to the extent that the tentative minimum tax exceeds the regular tax. The tentative minimum tax generally is an amount equal to the sum of (1) 26 percent of the first \$175,000 (or the first \$87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income in excess of an exemption amount and (2) 28 percent of the remaining alternative minimum taxable income. Alternative minimum taxable income is the individual's taxable income adjusted to take account of specified preferences and adjustments. The AMT exemption amounts are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of other unmarried individuals; and (3) \$22,500 in the case of married individuals filing a separate return, estates, and trusts.

The enrolled bill would increase the AMT exemption amount for married couples filing a joint return and surviving spouses by \$4,000 in 2001 through 2004. The AMT exemption amounts for other individuals (i.e., unmarried individuals and married individuals filing a separate return) would increase by \$2,000 in 2001 through 2004. This provision of the enrolled bill would be effective only for taxable years beginning after December 31, 2000, and before January 1, 2005. (Treasury estimated revenue effect for FY 2002: -\$2.4 billion; FYs 2002-2006: -\$15.3 billion; FYs 2002-2011: -\$15.3 billion.)

Benefits Relating to Children

In addition to the child tax credit increase, H.R. 1836 includes several provisions on tax benefits relating to children.

Extension and Expansion of Adoption Tax Benefits. The enrolled bill would permanently extend the adoption credit for children other than special needs children. The maximum credit would be increased to \$10,000 per eligible child, including special needs children. A \$10,000 credit would be provided in the year a special needs adoption is finalized regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range for eligibility for this credit would be increased from \$115,000 to \$150,000 of modified adjusted gross income. In addition, the adoption credit would be allowed against the alternative minimum tax permanently.

The enrolled bill would permanently extend the exclusion from income for employer-provided adoption assistance. The maximum exclusion would be increased from \$5,000 to \$10,000 per eligible child, including special needs children. In the case of a special needs adoption, the exclusion would be provided regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range would be increased from \$115,000 to \$150,000 of modified adjusted gross income.

These provisions would generally be effective for taxable years beginning after December 31, 2001, except that the provisions that extend the tax credit and exclusion from income for special needs adoptions regardless of whether the taxpayer has qualified adoption expenses would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$1.2 billion; FYs 2002-2011: -\$3.4 billion.)

Expansion of Dependent Care Tax Credit. The enrolled bill would increase the maximum amount of employment-related expenses eligible for the dependent care tax credit from \$2,400 to \$3,000, if there is one qualifying individual (and from \$4,800 to \$6,000, if there are two or more qualifying individuals) and would increase the maximum credit from 30 percent to 35 percent. H.R. 1836 would modify the phase-down of the credit so that it would begin at \$15,000 of adjusted gross income. These provisions would be effective for taxable years beginning after December 31, 2002. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.7 billion; FYs 2001-2011: -\$3.5 billion.)

Tax Credit for Employer-Provided Child Care Facilities. The enrolled bill would provide a tax credit to employers equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. The maximum total credit that could be claimed could not exceed \$150,000 per taxable year. The provision would be effective for taxable years beginning after December 31, 2001. (Treasury estimated revenue effect for FY 2002: loss of less than \$50 million; FYs 2002-2006: -\$0.6 billion; FYs 2002-2011: -\$1.5 billion.)

Estate and Gift Taxes

In addition to the bill's estate tax reduction and repeal provisions, H.R. 1836 includes numerous additional provisions affecting estate and gift taxes.

State Death Tax Credit. Under current law, a credit against Federal estate taxes is allowed for certain State death taxes. H.R. 1836 provides that the State death tax credit allowable under current law would be reduced by 25 percent in 2002, by 50 percent in 2003, and by 75 percent in 2004. In 2005, the State death tax credit would be repealed, after which there would be a deduction for any estate, inheritance, legacy, or succession taxes actually paid to any State or the District of Columbia, in respect of property included in the gross estate of the decedent. (Treasury estimated revenue effect included in total for "Estate and Gift Taxes Reduction and Estate Tax Repeal.")

Conservation Easements. Under current law, an executor may elect to exclude from the taxable estate 40 percent of the value of any land subject to a "qualified conservation easement," i.e., a contribution of a qualified real property interest to a qualified organization exclusively for conservation purposes. The enrolled bill would expand the availability of qualified conservation easements by eliminating the requirement that the land be located within a certain distance from a metropolitan area, national park, wilderness area, or Urban National Forest. As a result, under the enrolled bill, a qualified conservation easement could be claimed with respect to any land that is located in the United States or its possessions. This provision of the enrolled bill would be effective for estates of decedents dying after December 31, 2000. (Treasury estimated revenue effect for FY 2002: -\$3 million; FYs 2002-2006: -\$109 million; FYs 2002-2011: -\$292 million.)

Generation-Skipping Transfer (GST) Tax Modifications and Repeal. A generation-skipping transfer (GST) tax generally is imposed on transfers, either directly or through a trust, to a "skip person" (i.e., a beneficiary in a generation more than one generation below that of the transferor). An exemption of \$1 million (indexed for inflation beginning in 1999) is provided for each person making GSTs. If the value of transferred property exceeds the amount of GST exemption allocated to that property, then the GST tax generally is imposed at a flat rate equal to the highest estate tax rate (currently 55 percent) on the value of the taxable property at the time of a taxable event.

The enrolled bill would make certain modifications to the GST tax provisions in current law before repealing the tax in 2010, including: (1) deemed allocation of the GST tax exemption to lifetime transfers to trusts that are not direct skips; and (2) retroactive allocation of the GST exemption. These provisions would generally be effective after December 31, 2000. (Treasury estimated revenue effect for FY 2001: -\$2 million; FYs 2001-2006: -\$39 million; FYs 2001-2011: -\$89 million.)

Availability of Installment Payment of Estate Tax for Estates of Decedents with an Interest in Closely-Held Businesses. Under current law, the estate tax generally is due within nine months of a decedent's death. However, an executor generally may elect to pay estate tax attributable to an interest in a closely-held business in installments. An estate is eligible for payment of estate tax in installments if the value of the decedent's interest in a closely-held business exceeds 35 percent of the decedent's adjusted gross estate (i.e., the gross estate less certain deductions). For purposes of these rules, an interest in a closely-held business is: (1) an interest as a proprietor in a sole proprietorship; (2) an interest as a partner in a partnership carrying on a trade or business if 20 percent or more of the total capital interest of such partnership is included in the decedent's gross estate or the partnership had 15 or fewer partners; and (3) stock in a corporation carrying on a trade or business if 20 percent or more of the value of the voting stock of the corporation is included in the decedent's gross estate or such corporation had 15 or fewer shareholders.

The enrolled bill would expand the availability of installment payment rules to qualified lending and finance business interests and certain holding company stock. In addition, H.R. 1836 would increase from 15 to 45 the maximum number of partners of a partnership or shareholders in a corporation required for eligibility for installment payments of estate tax. These provisions would be effective for decedents dying after December 31, 2001. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$1.5 billion; FYs 2001-2011: -\$2.2 billion.)

Estate Tax Recapture from Cash Rents of Specially-Valued Property. The enrolled bill would provide that if a claim for a refund or credit of any overpayment of tax resulting from the application of net cash lease provisions for spouses and lineal descendants is barred by operation of law or rule of law, then the refund or credit of such overpayment would, nonetheless, be allowed if a claim is filed within one year of enactment. (Treasury estimated revenue effect for FY 2002: -\$0.1 billion; FYs 2002-2006: -\$0.1 billion; FYs 2002-2011: -\$0.1 billion.)

Miscellaneous Provisions

Corporate Estimated Tax. The deadline for corporate estimated tax payments due under current law on September 15, 2001, would be delayed until October 1, 2001. A portion of corporate estimated tax payments due on September 15, 2004, would be delayed until October 1, 2004. The effect of these provisions is to shift \$30.1 billion of the bill's costs from FY 2002 to FY 2001 and \$6.7 billion from FY 2005 to FY 2004. (Treasury estimated revenue effect for FY 2001: -\$30.1 billion; FY 2002: +\$30.1 billion; FYs 2001-2006: \$0; FYs 2001-2011: \$0.)

Treatment of Restitution Payments to Holocaust Victims. The enrolled bill would provide that certain restitution payments made to persons who were persecuted by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country (or such restitution payments made to the heirs or estates of those persons) will be: (1) excluded from gross income; and (2) not taken into account for any provision of the Internal Revenue Code that takes into account excludable gross income in computing adjusted gross income (e.g., taxation of Social Security benefits). The provision would be effective for amounts received on or after January 1, 2000. (Treasury estimated revenue effect for FY 2002: \$0; FYs 2002-2006: -\$12 million; FYs 2002-2011: -\$27 million.)

Authority to Postpone Certain Tax-Related Deadlines. The enrolled bill would allow the Secretary of the Treasury to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a Presidentially-declared disaster. This provision of the bill would be effective upon enactment. (Treasury estimated revenue effect: negligible.)

THE WHITE HOUSE
Office of the Press Secretary

EVENT BACKGROUNDER
Tax Bill Signing Ceremony
June 7, 2001 9:50 am
East Room
POOL COVERAGE

SCHEDULE OF EVENTS:

The stage will be set in front of the Cross Hall doors and the press risers will be in front of the Gold Curtain
The cuts will be on the North side (Pool)
The Vice President will be pre-positioned on stage
The President and the First Lady will walk down the Cross Hall to the stage that will be in the doorway
The President will make remarks (10-15 min)
The President proceeds to signing table and signs the Tax Bill into law
On Stage Participants include: The Vice President, The First Lady, The Ramos and Beerbower families, 20 members of Congress, Secretary O'Neill, and Director Daniels

BACKGROUND INFORMATION:

The President will be signing into law a \$1.35 trillion Tax Relief Package for American families. The assembled audience includes Members of Congress, Congressional Staff, Administration Staff, Business Leaders, Trade Association Leaders, Tax Families, Political Leaders, Economists and supporters.

Speaker J. Dennis Hastert
Representative Dick Armey
Representative Tom DeLay
Representative Rob Portman
Representative Bill Thomas
Representative Jim Nussle
Representative Jennifer Dunn
Representative Bud Cramer
Representative Ken Lucas
Representative Ralph Hall
Senator Trent Lott
Senator Don Nickles
Senator Charles Grassley
Senator Pete Domenici
Senator Kay Bailey Hutchison
Senator Rick Santorum
Senator Olympia Snowe
Senator Max Baucus
Senator John Breaux
Senator Zell Miller

Bills Received at the White House

Date received and
notification to OMB: 6/4/2001

Last day for action: 6/15/2001

01 JUN 1994:47

H.R.1836

Official Title

An Act to provide for reconciliation pursuant to section 104
of the concurrent resolution on the budget for fiscal year
2002.

487462

01 JUN 1994:47

(1) escrow accounts or settlement funds established pursuant to the settlement of the action entitled "In re: Holocaust Victim Assets Litigation," (E.D.N.Y.) C.A. No. 96-4849,

(2) funds to benefit eligible individuals or their heirs created by the International Commission on Holocaust Insurance Claims as a result of the Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany concerning the Foundation "Remembrance, Responsibility, and Future," dated July 17, 2000, or

(3) similar funds subject to the administration of the United States courts created to provide excludable restitution payments to eligible individuals (or eligible individuals' heirs or estates).

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—This section shall apply to any amount received on or after January 1, 2000.

(2) NO INFERENCE.—Nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of any amount received before January 1, 2000.

TITLE IX—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

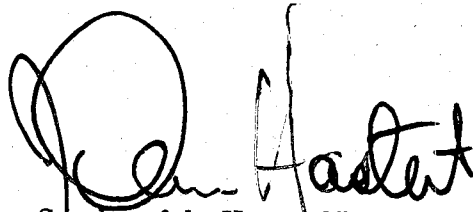
SEC. 901. SUNSET OF PROVISIONS OF ACT.

(a) IN GENERAL.—All provisions of, and amendments made by, this Act shall not apply—

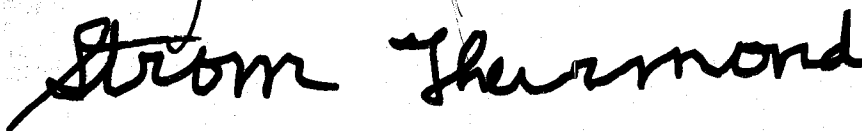
(1) to taxable, plan, or limitation years beginning after December 31, 2010, or

(2) in the case of title V, to estates of decedents dying, gifts made, or generation skipping transfers, after December 31, 2010.

(b) APPLICATION OF CERTAIN LAWS.—The Internal Revenue Code of 1986 and the Employee Retirement Income Security Act of 1974 shall be applied and administered to years, estates, gifts, and transfers described in subsection (a) as if the provisions and amendments described in subsection (a) had never been enacted.



Speaker of the House of Representatives.



Vice President of the United States and

President of the Senate. pro Tempore



(1) escrow accounts or settlement funds established pursuant to the settlement of the action entitled "In re: Holocaust Victim Assets Litigation," (E.D.N.Y.) C.A. No. 96-4849,

(2) funds to benefit eligible individuals or their heirs created by the International Commission on Holocaust Insurance Claims as a result of the Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany concerning the Foundation "Remembrance, Responsibility, and Future," dated July 17, 2000, or

(3) similar funds subject to the administration of the United States courts created to provide excludable restitution payments to eligible individuals (or eligible individuals' heirs or estates).

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—This section shall apply to any amount received on or after January 1, 2000.

(2) NO INFERENCE.—Nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of any amount received before January 1, 2000.

TITLE IX—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

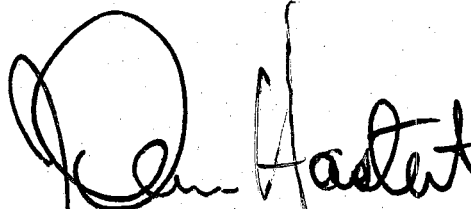
SEC. 901. SUNSET OF PROVISIONS OF ACT.

(a) IN GENERAL.—All provisions of, and amendments made by, this Act shall not apply—

(1) to taxable, plan, or limitation years beginning after December 31, 2010, or

(2) in the case of title V, to estates of decedents dying, gifts made, or generation skipping transfers, after December 31, 2010.

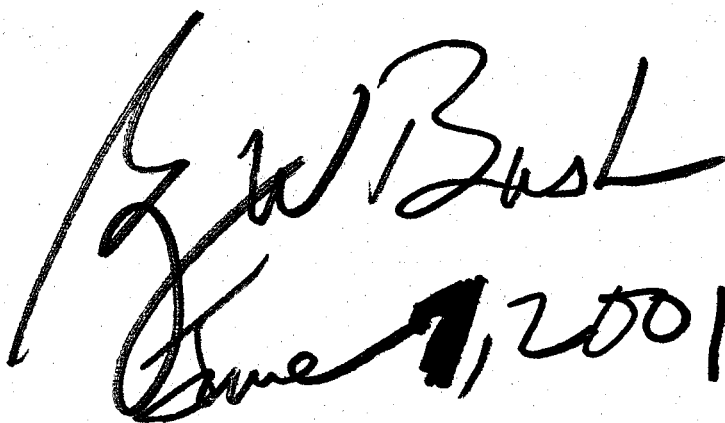
(b) APPLICATION OF CERTAIN LAWS.—The Internal Revenue Code of 1986 and the Employee Retirement Income Security Act of 1974 shall be applied and administered to years, estates, gifts, and transfers described in subsection (a) as if the provisions and amendments described in subsection (a) had never been enacted.



Speaker of the House of Representatives.



*Vice President of the United States and
President of the Senate. pro Tempore*



June 1, 2001

(1) escrow accounts or settlement funds established pursuant to the settlement of the action entitled "In re: Holocaust Victim Assets Litigation," (E.D.N.Y.) C.A. No. 96-4849,

(2) funds to benefit eligible individuals or their heirs created by the International Commission on Holocaust Insurance Claims as a result of the Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany concerning the Foundation "Remembrance, Responsibility, and Future," dated July 17, 2000, or

(3) similar funds subject to the administration of the United States courts created to provide excludable restitution payments to eligible individuals (or eligible individuals' heirs or estates).

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—This section shall apply to any amount received on or after January 1, 2000.

(2) NO INFERENCE.—Nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of any amount received before January 1, 2000.

TITLE IX—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

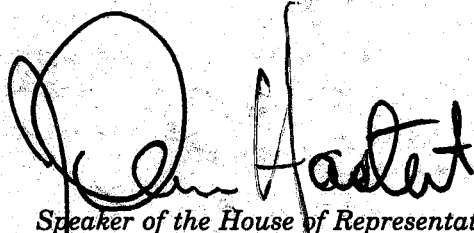
SEC. 901. SUNSET OF PROVISIONS OF ACT.

(a) IN GENERAL.—All provisions of, and amendments made by, this Act shall not apply—

(1) to taxable, plan, or limitation years beginning after December 31, 2010, or

(2) in the case of title V, to estates of decedents dying, gifts made, or generation skipping transfers, after December 31, 2010.

(b) APPLICATION OF CERTAIN LAWS.—The Internal Revenue Code of 1986 and the Employee Retirement Income Security Act of 1974 shall be applied and administered to years, estates, gifts, and transfers described in subsection (a) as if the provisions and amendments described in subsection (a) had never been enacted.


Speaker of the House of Representatives.

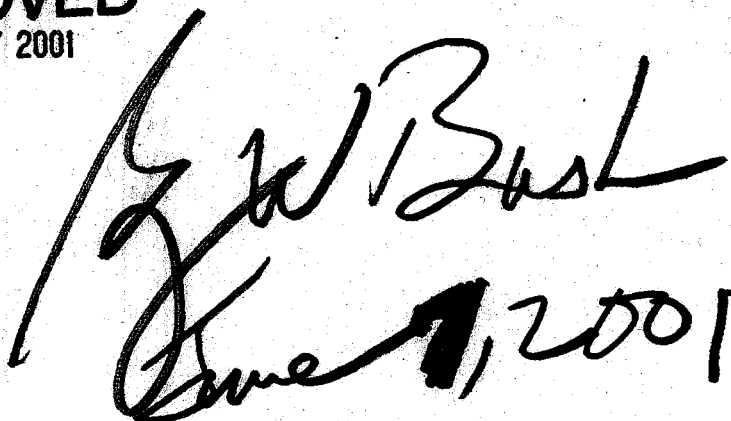


~~Vice President of the United States and~~

President of the Senate. *pro Tempore*

APPROVED

JUN - 7 2001


June 7, 2001

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

May 26, 2001

REMARKS BY THE PRESIDENT
AFTER PASSAGE OF THE TAX PLAN

The East Room

3:08 P.M. EDT

THE PRESIDENT: Thank you. Please be seated. Well, thank you all very much for joining me here at the people's house on this historic occasion. I asked all of you to join me here to be able to publicly thank the members of the House and the Senate for working so diligently to give Americans another important reason to celebrate this holiday weekend.

I first want to thank House Speaker Dennis Hastert and Senate Majority Leader Trent Lott for their strong and effective leadership -- leadership that was instrumental in delivering significant tax relief for the American people. I thank the incoming Majority Leader of the Senate, Tom Daschle, for working with us to schedule today's vote promptly. I very much appreciate Senator Daschle's willingness to allow the will of the majority of the Senate to prevail, even though he, himself, did not agree.

I thank all the members of the conference committee, especially Chairman Chuck Grassley and Chairman Bill Thomas, Senator Max Baucus and Senator John Breaux, who worked tirelessly to make tax relief a reality. I also want to especially thank Don Nickles, Phil Gramm, Olympia Snowe, and House Majority Leader Dick Armey, and all who helped make tax relief possible. And while I'm thanking people, I want to thank all those who voted aye. And so do the taxpayers of America. (Applause.)

Today, for the first time since the landmark tax relief championed 20 years ago by President Ronald Reagan, and 40 years ago by President John F. Kennedy, an American President has the wonderful honor of letting the American people know significant tax relief is on the way.

What is especially significant about the tax relief passed by the United States House and Senate today is that it cuts income taxes for everyone who pays them. Nothing could be more profound, and nothing could be more fair. No more wondering

whether you're targeted in, or whether you meet all the fine print requirements to qualify for one special tax break or another. No, this tax relief is straightforward and fair -- if you pay income taxes, you get relief. (Applause.)

And for this year's first installment of the tax cut, the check will literally be in the mail. (Applause.) Late this summer and into the fall, every single American who pays income taxes will receive a check. Single taxpayers will receive a check of \$300. Single parents who are heads of household will receive a check of \$500. And married couples will receive a check of \$600.

That immediate tax relief will provide an important boost at an important time for our economy. And what is more is you can feel comfortable using it because more tax relief is on the way. (Applause.) The checks are the first installment of lasting, long-term reductions in tax rates. As a result, when this tax relief plan is fully implemented, a typical family of four will see their taxes cut by about half. (Applause.)

The check you will receive in the mail represents your benefit from the newest lowest rate, which drops from 15 percent to 10 percent. Starting in July and continuing next January, the federal government will begin reducing the amount it withholds from paychecks to reflect the first phase of new and lower tax rates.

Ultimately, tax rates will be reduced from the current 28 to 25; from 31 down to 28; from 36 to 33; and from 39.6 to 35 percent. Over the next 10 years, the child credit will double, from last year's \$500 per child to \$600 per child this year, to \$1,000 by the year 2010. The marriage penalty will be dramatically reduced. And the unfair death tax will be completely abolished by the year 2010. (Applause.)

This tax relief helps all taxpayers. It especially helps those at the low end of the economic ladder. It helps American workers by letting them keep more money. And it helps small businesses, so that family-owned restaurants and start-up software companies can hire more workers and provide more jobs for Americans.

The tax relief package honors marriage and family by reducing the unfair marriage penalty and doubling the credit for children. It does away with one of the most unfair aspects of the tax code -- a death tax, that taxes earnings when you make them, the interest when you save them, and one more time when you die.

As many of you know, throughout my campaign, I met tax families all across the country -- diverse people from all walks of life who represented the hopes and dreams of American families. Joining us today is one of those families -- the

Petersons, Paul and Deborah, and Juliette and Sarah Kate.
(Applause.)

They work hard. Paul works during the day at Ukrops Supermarket in downtown Richmond, Virginia. At night he's working on an MBA at Avery College. Deborah works at home, caring for their daughters. The Peterson family was here last February, when the prospects for tax relief were not exactly what they were -- like they are today.

Well, Paul and Deborah, I'm delighted to let you know that your family will receive \$800 in tax relief this year -- \$600 from the check and another \$200 from the immediate increase in the child credit.

I have even more good news for the Petersons, and folks like them all across America. When you were here in February, we calculated that your ultimate tax savings would be \$1,100 a year. Well, when all aspects of the plan are phased in, you will receive not \$1,100 a year, but \$1,700 a year. (Applause.) That is \$1,700 more for this good family to spend on their children and on their dreams. (Applause.) I'm confident about one thing -- these good folks can spend the \$1,700 better than the federal government can. (Applause.)

Tax relief was the right thing to do, and it is the responsible thing to do, for the American people and for our economy.

I, once again, thank and applaud the members of Congress, both Republicans and Democrats, who joined together to get results on behalf of the American people. The tax relief package that was voted on today was agreed on last night, after this week's change in the balance of power in the United States Senate. And it can be a model for the work that is ahead. Tax relief was based on important principles -- principles that are compassionate and conservative, and principles that were preserved during the legislative process of give-and-take.

We listened to the voices of those in my party and in the Democratic Party who wanted additional help for those at the lowest end of the economic ladder. We listened, and as a result, this plan has even more help for lower-income Americans. The earned income credit is expanded for low-income married couples, and the child credit is refundable for parents, providing the most help for those who earn between \$10,000 and \$25,000 a year.

We acted on principle. We worked together to build consensus and to get results. This is significant -- and this is only the beginning. The Peterson family, and families like them all across America, need more than just a tax cut. The Petersons want us to work together to improve public education, strengthen their retirement security, modernize Medicare, and strengthen and modernize our national defenses.

Again, thanks to the members of Congress. I hope you enjoy your Memorial Day recess. And then, let's work together to complete the great progress we are making on legislation to improve America's public schools.

Again, I want to thank you all for coming. This is an historic day. It explains the art of the possible; it shows what can happen when good people come together with the intention of doing what's right for the American people. And we have done right by the American people today. God bless you. (Applause.)

END

3:20 P.M. EDT

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON <i>N/C</i>	☒	☐
HUGHES <i>OK</i>	☒	☐	LA MONTAGNE <i>OK</i>	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO <i>OK</i>	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

'01 MAY 16 AM 11:17

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOONH.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

01 MAY 16 AM 11:17

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

01 MAY 16 AM 11:13

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

 *** TX REPORT ***

TRANSMISSION OK

TX/RX NO 3578
 CONNECTION TEL 66212
 CONNECTION ID
 ST. TIME 05/16 11:26
 USAGE T 02'08
 PGS. SENT 5
 RESULT OK

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
 Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY. with a cc to us. Thanks.

 *** TX REPORT ***

TRANSMISSION OK

TX/RX NO 3579
 CONNECTION TEL 51005
 CONNECTION ID
 ST. TIME 05/16 11:33
 USAGE T 03'08
 PGS. SENT 5
 RESULT OK

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
 Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY. with a cc to us. Thanks.

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOONH.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF
Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

ok - legislation affair

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF

Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐		☐	☐
BLAKEMAN	☐	☐		☐	☐
CALIO	☒	☐		☐	☐
FLEISCHER	☒	☐		☐	☐
GONZALES	☒	☐		☐	☐
HAWKINS	☒	☐		☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

NC

RESPONSE: _____

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF

Subject: 2001

01 MAY 16 PM 1:41

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

OK
by phone

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF

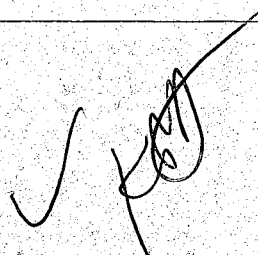
Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:



Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

01 MAY 16 AM 11:17

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 am

Subject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON <i>N/C</i>	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN <i>N/C</i>	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS <i>✓</i>	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO <i>ok by phone</i>	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

Barbara-

This was a final version of a SPP that had already been sent to the Hill. It should have been staffed FYI.

Travis JZ

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance: COS (Silverberg for Bolton), WHLA (Howard, Hobbs), WHC (Kavanaugh), OVP (Addington), OVPLA (Dorn), NEC (Bonilla), CEA (Furchtgott-Roth).

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus

Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01 , 10:00 amSubject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY <i>See Comments of OMB</i>	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO <i>ok by phone</i>	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

RESPONSE: _____

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance: COS (Silverberg for Bolton), WHLA (Howard, Hobbs), WHC (Kavanaugh), OVP (Addington), OVPLA (Dorn), NEC (Bonilla), CEA (Furchtgott-Roth).

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus

Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

 *** TX REPORT ***

TRANSMISSION OK

TX/RX NO 3589
 CONNECTION TEL 51005
 CONNECTION ID
 ST. TIME 05/16 22:23
 USAGE T 03'11
 PGS. SENT 5
 RESULT OK

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01 , 10:00 amSubject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

 *** TX REPORT ***

TRANSMISSION OK

TX/RX NO 3590
 CONNECTION TEL 66212
 CONNECTION ID
 ST. TIME 05/16 22:27
 USAGE T 02'01
 PGS. SENT 5
 RESULT OK

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 amSubject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT →	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 am

Subject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

RESPONSE:

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance: COS (Silverberg for Bolton), WHLA (Howard, Hobbs), WHC (Kavanaugh), OVP (Addington), OVPLA (Dorn), NEC (Bonilla), CEA (Furchtgott-Roth).

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates.

H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus

Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 am

Subject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

RESPONSE:

NEC Commented through the
~~OMB~~ OMB clearance process

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance: COS (Silverberg for Bolton), WHLA (Howard, Hobbs), WHC (Kavanaugh), OVP (Addington), OVPLA (Dorn), NEC (Bonilla), CEA (Furchtgott-Roth).

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates.

H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus

Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 amSubject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

01 MAY 17 AM 9:02

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	✓ ☒	☐	IRASTORZA	☐	☐
CARD	✓ ☒	☐	JOHNSON	☒	☐
HUGHES	✓ ☒	☐	LA MONTAGNE	✓ ☒	☐
ROVE	✓ ☒	☐	LINDSEY	✓ ☒	☐
BOLTEN	✓ ☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	✓ ☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	✓ ☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	✓ ☒	☐	_____	☐	☐
HAWKINS	✓ ☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

NC

RESPONSE:

final version
of HR 1836
went the hill
yesterday 5-16

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 am

01 MAY 17 AM 9:02

Subject: S. 896, "RESTORING EARNINGS TO LIFT INDIVIDUALS AND EMPOWER FAMILIES" RELIEF ACT

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

NC

RESPONSE:

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01 ACTION / CONCURRENCE / COMMENT DUE BY: 5-17-01, 10:00 amSubject: H.R. 1836, ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	GERSON	☐	☐
BLAKEMAN	☐	☐	D. SIMONETTA	☐	☒
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please send comments to Danielle Simonetta (Rm. 243), 54790, no later than 10 a.m., 5-17-01, with copy to Staff Secretary. Thank you.

RESPONSE:

No comment

Harriet E. Miers
Assistant to the President
and Staff Secretary
Ext. 62702

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001
(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance: COS (Silverberg for Bolton), WHLA (Howard, Hobbs), WHC (Kavanaugh), OVP (Addington), OVPLA (Dorn), NEC (Bonilla), CEA (Furchtgott-Roth).

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus

Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001

WHITE HOUSE STAFFING MEMORANDUM

Date: 5-16-01

ACTION / CONCURRENCE / COMMENT DUE BY: 5-16-01 NOON

H.R. 1836 - ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF

Subject: 2001

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	IRASTORZA	☐	☐
CARD	☒	☐	JOHNSON	☒	☐
HUGHES	☒	☐	LA MONTAGNE	☒	☐
ROVE	☒	☐	LINDSEY	☒	☐
BOLTEN	☒	☐	MIERS	☐	☐
HAGIN	☐	☒	RICE	☐	☐
DANIELS	☒	☐	_____	☐	☐
BLAKEMAN	☐	☐	_____	☐	☐
CALIO	☒	☐	_____	☐	☐
FLEISCHER	☒	☐	_____	☐	☐
GONZALES	☒	☐	_____	☐	☐
HAWKINS	☒	☐	_____	☐	☐

REMARKS:

Please provide comments directly to Danielle Simonetta, x54790, NO LATER THAN NOON TODAY, with a cc to us. Thanks.

RESPONSE:

Harriet E. Miers
 Assistant to the President
 and Staff Secretary
 Ext. 62702

01 MAY 16 AM 11:17

DRAFT – DO NOT RELEASE

May 16, 2001
(House)

H.R. 1836 – Economic Growth and Tax Relief Reconciliation Act of 2001

(Rep. Thomas (R) California)

The Administration supports House passage of H.R. 1836 as a positive step on the way to passage of the President's tax relief plan. By reducing marginal tax rates, this bill would reduce the penalty on work, savings, and investment, begin the process of providing much needed immediate tax relief to the American people, and lay a foundation for further long-term economic growth.

No one should be forced to pay more than a third of what they earn in taxes. In fact, 77 percent of the tax relief associated with cutting the top rate in H.R. 1836 would go to small business owners and entrepreneurs – the engines of growth in our economy.

The Administration looks forward to working with Congress through the legislative process to achieve a result that best embodies the objectives and priorities of the President's plan.

Pay-As-You-Go Scoring

Any law that would reduce receipts is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, H.R. 1836 or any substitute amendment in lieu thereof, that would also reduce revenues, will be subject to the pay-as-you-go requirement. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy was developed by the Legislative Reference Division (Kho), in consultation with the Department of the Treasury (Chris Smith), WH Counsel (Kavanaugh), OVP (Conda), and CEA (Furchtgott-Roth).

The following did not respond to our request for views: WH/LA, NEC, EP, BRD, EIML, and HTF.

OMB/LA Clearance:

Administration Position to Date

H.R. 1836 is identical to H.R. 3, the Economic Growth and Tax Relief Act of 2001, which was passed by the House on March 8, 2001. A Statement of Administration Policy on H.R. 3 was sent to the House on March 8, 2001, stating that the Administration supports the bill as a "very positive first step" to achieving the objectives of the President's tax relief plan.

Summary of H.R. 1836

H.R. 1836 would create a new initial income tax rate bracket and consolidate the five current income tax rates into four by 2006.

New Low Income Tax Rate Bracket. H.R. 1836 would create a new income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new initial bracket would cover taxable income up to \$6,000 for single individuals, up to \$10,000 for heads of households, and up to \$12,000 for married couples filing joint returns. The lower rate for the new bracket would be phased in as follows:

- for taxable years beginning in calendar years 2001 and 2002, 12 percent;
- for taxable years beginning in calendar years 2003, 2004, and 2005, 11 percent; and
- for taxable years beginning in calendar year 2006, 10 percent.

The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

The current 15-percent income tax bracket would be adjusted to start at the end of the new low-rate income tax bracket. The 15-percent income tax bracket would end at the same level as under current law. (Treasury estimated revenue effect for FY 2001: -\$4.9 billion; FY 2002: -\$36.3 billion; FYs 2001-2005: -\$172.9 billion; FYs 2001-2011: -\$374.9 billion.)

Reduction of Other Tax Rates and Consolidation of Rate Brackets. Beginning in calendar year 2002, H.R. 1836 would begin to phase in reductions to the four highest income tax rates. H.R. 1836 would consolidate the number of rate brackets from five (15 percent, 28 percent, 31 percent, 36 percent, and

39.6 percent) to four by calendar year 2006.

H.R. 1836 would phase down the current income tax rates of 28 percent and 31 percent to 25 percent over five years. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under the current law and end at the level at which the 31-percent rate bracket ends under the current law.

H.R. 1836 would phase down the current income tax rates of 36 percent and 39.6 percent to 33 percent over five years. The taxable income level for the new 33-percent rate bracket would begin at the level at which the 36-percent rate bracket begins under the current law.

The table below shows the schedule for the income tax rate reductions.

For taxable years beginning during calendar year:	The corresponding percentages would be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

(Treasury estimated revenue effect for FY2002: -\$11.7 billion; FYs 2002-2006: -\$165.1 billion; FYs 2002-2011: -\$499.8 billion.)

Other Provisions of H.R. 1836. The bill would repeal the current-law provisions that offset the refundable child credit (for families with three or more children) and the earned income credit by the amount of the alternative minimum tax (AMT) for taxpayers subject to the AMT. (Treasury estimated revenue effect for FY 2002: -\$45 million; FYs 2002-2006: -\$1.7 billion; FYs 2002-2011: -\$7.3 billion.)

The bill would also specify that transfers of income taxes to any of the trust funds under the Social Security Act would continue as under current law. This provision of the bill would ensure that the long-term financial condition of the Social Security and Medicare trust funds would not be affected by enactment of the bill.

H.R. 1836 would require the Treasury to implement regulations revising wage withholding tables to reflect the rate reduction for calendar year 2001 such that the tables could be applied to amounts paid after the 60th day following enactment of this bill.

Pay-As-You-Go Scoring

As noted above, H.R. 1836 is identical to H.R. 3. According to BASD (Barth), H.R. 3 could affect receipts; therefore, it would be subject to the pay-as-you-go requirements of the Omnibus Reconciliation Act of 1990. The Treasury Department estimates that H.R. 3 would have a net budget cost of \$4.9 billion in FY 2001, \$48.0 billion in FY 2002, \$339.8 billion over six years, FY 2001-2006, and \$881.9 billion over eleven years, FY 2001-2011.

LEGISLATIVE REFERENCE DIVISION

May 16, 2001