Budget – FY 2001 – Taxes

BUDGET '01 - TAX

PHOTOCOPY
PRESERVATION

Summary of New Tax Initiatives

The following are the principal themes for new initiatives in this year's budget: (1) Provide poverty relief and revitalize communities; (2) Education; (3) Health; (4) AMT relief and other income tax simplification; (5) Middle-income and marriage penalty relief; and (6) Progressive saving incentives.

Provide Poverty Relief and Revitalize Communities

We have developed a package to provide poverty relief and revitalize communities costing about $ 44.5 billion over ten years. The package includes:

- enhancing the EITC by:
  - providing targeted marriage penalty relief for low-income working couples
  - increasing the phaseup rate from 40 percent to 45 percent for taxpayers with 3 or more children
  - moving the beginning of the phaseout range back for taxpayers with 3 or more children; and
  - reducing the phaseout rate for taxpayers with 2 or more children.
- doubling the size of last year's proposed New Markets tax credit
- extending the availability of tax benefits to existing empowerment zones and possibly increasing the number of empowerment zones,
- reducing the digital divide by providing tax incentives to improve access to computers and the internet in low-income areas,
- enhancing last year's budget proposal by indexing the caps for the low-income housing credit.
- make the Child and Dependent Care Tax Credit refundable, beginning in 2004.

Education

Last year's education package would be enhanced by making the Lifetime Learning credit more attractive by:

- accelerating the increase in the limit on qualified expenses eligible for the lifetime learning credit to $10,000, and
- raising the credit for the first $5,000 from 20% to 30% credit, and
- allowing a 10% credit for the second $5,000.

This package would cost $10.8 billion over 10 years.

Health

Last year's health care package would be enhanced by:

- expanding last year's budget proposal to provide tax credits for small businesses who purchase health insurance through coalitions
- Increase the maximum amount of last year's proposed long term care credit from $1,000 to $2,000. (*This could be phased in to help meet budget targets*).
- provide a 15% tax credit for the purchase of health insurance outside the employer market. *(This credit would be effective beginning in 2002; the credit rate would be 10% for the first three years)*.
  - To meet budget targets or to allow more for other initiatives, this credit could be replaced with more targeted tax credits (1) for taxpayers purchasing COBRA coverage between jobs, and (2) for Medicare buy-in by those age 55 – 64

The current new package of health care initiatives is estimated to cost about $ 40 billion over 10 years.

Provide AMT Relief and Simplify the Income Tax

The budget would provide relief to retarget the alternative minimum tax so that it applies to rich tax-aggressive people rather than middle-income people with large families.

- The proposal would remove dependent personal exemptions as an AMT preference item.
- Other relatively low-cost simplification options are being included.

The AMT proposal would cost about $32 billion over 10 years, and the other simplification proposals would cost about $4 billion over 10 years.

Provide Moderate-Income Tax Relief, and Reduce Marriage Penalties

The budget would include a package to provide middle income relief and reduce marriage penalty relief:

- Reduce the number of itemizers by increasing the standard deduction by $250 for single filers and $500 for joint filers. (*To meet budget constraints, this proposal would begin in 2005 or 2006*).
- Reduce marriage penalties by increasing the standard deduction for two-earner couples to twice that of single filers. (*To help meet budget constraints, this proposal would be phased in over 5 years)*.
- Also, as discussed above, we would reduce marriage penalties by providing a larger EITC for two-earner couples.

Encourage Philanthropy

- The current excise tax on foundation investment income would be simplified and would remove current law disincentives to annual giving above certain thresholds.
- Provide an above-the-line percentage deduction for nonitemizers who make charitable contributions above a floor (e.g., $750 for single filers and $1,500 for joint filers).

Encourage Saving

A progressive savings package is being developed to meet available budget targets (around $100 billion over 10 years). The proposal is being designed to coordinate well with the current tax incentives for savings.

- Encourage saving by low and moderate income taxpayers by targeted incentives, such as automatic contributions and matching credit (similar to last year's USA proposal), or a credit to encourage employers to offer pension plans and an additional credit for taxpayer contributions to IRAs and 401(k) type plans.
- Adopt new pension simplifications, including several of the simplifications in Portman-Cardin.
- Encourage small employers to set up and maintain pension plans, and encourage them to make automatic contributions on behalf of workers.

Revenue Estimates
Tax Package Options
Very Preliminary

	Fiscal Years							
	2000	2001	2002	2003	2004	2005	2000-2005	2000-2010
Carryover provisions from FY 2000 include:								
Making health care more affordable	0.0	-0.1	-1.3	-1.5	-1.6	-1.8	-6.4	-16.0
Long-term care credit, disabled workers credit, small business health plans								
Expanding education initiatives	-0.1	-0.4	-0.4	-0.6	-0.9	-1.2	-3.5	-10.1
School construction, employer-provided educational assistance (graduate), workplace literacy, student loans								
Making child care more affordable	0.0	-0.4	-1.6	-1.4	-1.5	-1.5	-6.3	-14.5
Child-care tax credit, credit for employer-provided facilities								
Providing incentives to revitalize communities	0.0	0.0	-0.3	-0.6	-0.9	-1.3	-3.1	-11.5
Low-income housing (increase per capita cap), Better America Bonds, New Markets Tax Credit, extension of Brownfields initiative								
Promoting energy efficiency and proving the environment	0.0	-0.4	-0.7	-0.8	-1.3	-1.5	-3.6	-6.6
Promoting expanded retirement savings, security and portability	-0.1	-0.4	-0.5	-0.4	-0.3	-0.3	-1.4	-2.9
Total, Reproposed Initiatives from 2000	-0.2	-2.1	-5.7	-6.5	-7.2	-7.8	-28.4	-72.8
Reproposed raisers	0.6	4.9	7.0	7.5	9.6	8.5	38.1	89.6
NET, FY 2000 Budget Carryover	0.4	2.8	1.3	1.0	2.4	0.7	9.7	16.8
Target Stream	0.0	-3.0	-9.0	-10.0	-14.0	-19.0	-55.0	-240.0
Available for new initiatives (carryover from 2000 budget plus target stream)	0.4	5.8	10.3	11.0	16.4	19.7	64.7	256.8

Revenue Estimates
Tax Package Options
Very Preliminary

	Fiscal Years							
	2000	2001	2002	2003	2004	2005	2000-2005	2000-2010
Available for new initiatives (carryover from 2000 budget plus target stream)	0.4	5.8	10.3	11.0	16.4	19.7	64.7	256.8
Fixed initiatives								
Poverty (EITC, Digital Divide, New Markets)	–	-0.1	-2.2	-2.4	-2.5	-2.6	-9.8	-22.2
AMT (remove personal exemptions as preference item)	–	-0.4	-0.5	-1.0	-1.3	-1.6	-4.8	-31.3
Education (expand Lifetime Learning Credit)	--	-0.4	-1.9	-1.7	-1.1	-1.0	-6.1	-11.0
Philanthropy and other items	--	-1.1	-0.5	-1.4	-2.1	-1.5	-6.6	-16.0
Subtotal, fixed initiatives	0.0	-2.0	-5.1	-6.5	-7.0	-6.7	-27.3	-80.6
Available after cost of fixed initiatives	0.4	3.8	5.2	4.5	9.4	13.0	36.3	176.5
Refundable child-care credit, incremental cost over last year's budget	–	0.2	0.8	-0.6	-2.7	-3.0	-5.3	-22.3
Health credit (10% first three years; 15% thereafter)	--	–	-0.2	-1.9	-2.1	-2.5	-6.7	-29.9
Marriage penalty/standard deduction increase (increase standard deduction, double single standard deduction for joint filers)	–	-0.2	-0.8	-1.5	-2.1	-2.8	-7.6	-41.3
Double long-term care credit (incremental cost over last year's budget)	–	-0.1	-0.8	-0.9	-1.0	-1.1	-3.9	-9.2
Subtotal, adjustable and fixed initiatives	0.0	-2.1	-6.2	-11.4	-14.9	-16.0	-50.7	-183.2
Available for Progressive Savings	-0.4	-3.7	-4.1	0.4	-1.5	-3.7	-12.6	-70.1
2001 -- new initiatives -- total	-0.4	-5.8	-10.3	-11.0	-16.4	-19.7	-63.7	-253.3
FY 2001 NET (New initiatives and FY 2000 carryover)	0.0	-3.0	-9.0	-10.0	-14.0	-19.0	-54.0	-236.5

Department of the Treasury
Office of Tax Policy

Five and Ten Year Budget Cost of Tax Initiatives in Billions of Dollars

	2000-2005	2000-2010	% of Budget
Promote Retirement Saving/Pension Simplification	14.0	73.0	23
Relieve Poverty and Revitalize Communities	24.5	70.5	22
Make Health Care More Affordable	17.1	55.2	17
Marriage Penalty/Middle Class Tax Relief	7.6	41.3	13
AMT Relief/Simplify the Tax Law	8.1	37.1	11
Expand Access to Education	9.6	21.1	7
Miscellaneous and Trade	4.3	13.0	4
Promote Energy Efficiency and Improve the Environmen	3.6	6.6	2
Encourage Philanthropy	3.0	6.0	2
Total	**91.8**	**323.8**	**100**

Very Preliminary

Five and Ten Year Budget Cost of Tax Initiatives in Billions of Dollars

-- New Initiatives --

	2000-2005	2000-2010	% of Budget
Promote Retirement Saving/Pension Simplification	12.6	70.1	28
Relieve Poverty and Revitalize Communities	15.1	44.5	18
Make Health Care More Affordable	10.7	39.2	15
Marriage Penalty/Middle Class Tax Relief	7.6	41.3	16
AMT Relief/Simplify the Tax Law	7.5	36.3	14
Expand Access to Education	6.1	11.0	4
Miscellaneous and Trade	0.8	4.9	2
Promote Energy Efficiency and Improve the Environmen	0.0	0.0	0
Encourage Philanthropy	3.0	6.0	2
Total	**63.4**	**253.3**	**100**

Very Preliminary

Five and Ten Year Budget Cost of Tax Initiatives in Billions of Dollars

-- Carried Over Initiatives --

	2000-2005	2000-2010	% of Budget
Promote Retirement Saving/Pension Simplification	1.4	2.9	4
Relieve Poverty and Revitalize Communities	9.4	26.0	37
Make Health Care More Affordable	6.4	16.0	23
Marriage Penalty/Middle Class Tax Relief	0.0	0.0	0
AMT Relief/Simplify the Tax Law	0.6	0.8	1
Expand Access to Education	3.5	10.1	14
Miscellaneous and Trade	3.5	8.1	12
Promote Energy Efficiency and Improve the Environmen	3.6	6.6	9
Encourage Philanthropy	0.0	0.0	0
Total	**28.4**	**70.5**	**100**

01/09/2000
03:40 PM
G:\LOTUS\MAND2001

NON-HEALTH MANDATORY INITIATIVES AND OFFSETS
(in millions of dollars; minus means savings)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
Approved initiatives:													
Farm safety net proposal	210	3,464	4,233	580	649	714	812	817	829	829	829	9,640	13,756
Immigrant and income support initiatives	--	21	-352	-251	209	438	670	783	1,084	1,631	1,400	65	5,632
Child care: Establish early learning fund	--	372	516	603	624	612	--	--	--	--	--	2,727	2,727
Fund new urban empowerment zones	--	3	51	114	138	144	150	150	150	150	150	450	1,200
Extend Welfare-to-Work	-100	-450	170	304	76	--	--	--	--	--	--	100	100
Other	--	182	171	248	289	321	258	219	210	213	216	1,210	2,326
Total	110	3,592	4,789	1,598	1,985	2,229	1,890	1,969	2,273	2,822	2,595	14,192	25,741
Approved offsets for mandatory:													
Available Superfund tax extensions	-153	-1,392	-1,110	-1,103	-1,069	-1,085	-1,131	-1,168	-1,184	-1,196	-1,223	-5,759	-11,661
Extend customs user fees	--	--	--	--	-1,460	-1,524	-1,593	-1,668	-1,747	-1,833	-1,927	-2,984	-11,752
VA offsets	--	--	--	-171	-167	-176	-184	-190	-195	-194	-199	-514	-1,476
VA COLA round down	--	--	--	-14	-33	-52	-69	-94	-120	-144	-157	-99	-683
Ag, Interior, and OPM offsets	--	-15	-64	-105	-115	-121	-98	-98	-98	-98	-98	-420	-910
Total	-153	-1,407	-1,174	-1,393	-2,844	-2,958	-3,075	-3,218	-3,344	-3,465	-3,604	-9,776	-26,482
Approved baseline adjustment:													
TVA: *Eliminate OMB adjustments to baseline*	--	-100	-100	-100	-200	-200	-300	-300	-300	-300	-300	-700	-2,200
Open policy issues:													
UMWA transfer & coal tax mod/ext	13	-50	-52	-54	4	-223	-225	-226	-227	-227	-228	-375	-1,506
OPM dental benefit offset and other initiatives	--	?	?	?	?	?	?	?	?	?	?	--	--
Total	13	-50	-52	-54	4	-223	-225	-226	-227	-227	-228	-375	-1,506
GRAND TOTAL:													
Farm safety net proposal	210	3,464	4,233	580	649	714	812	817	829	829	829	9,640	13,756
Other	-240	-1,429	-770	-529	-1,704	-1,866	-2,522	-2,592	-2,427	-1,998	-2,366	-6,299	-18,203
Grand total	-30	2,035	3,463	51	-1,055	-1,152	-1,710	-1,775	-1,598	-1,169	-1,537	3,341	-4,447
MEMORANDUM:													
Initiatives to be funded by revenue offsets:													
Rum tax cover-over (outlays):													
Provide full rum tax cover to Virgin Islands	--	1	11	15	15	15	--	--	--	--	--	57	57
Provide full rum tax cover to Puerto Rico	--	3	32	43	43	43	--	--	--	--	--	164	164
Trade preference initiatives (revenue, net):													
Extend GSP	--	--	362	402	309	--	--	--	--	--	--	1,073	1,073
Create enhanced CBI trade preference	--	373	407	445	471	122	--	--	--	--	--	1,818	1,818
Create Africa trade preference	--	63	67	72	84	117	123	131	139	147	155	403	1,098
Create Balkan trade preference	10	10	10	10	10	--	--	--	--	--	--	40	40
Marianas garment tariff:													
Increase receipts (net)	--	--	-169	-169	-169	-169	-169	-169	-169	-169	-169	-676	-1,521
Subtotal, initiatives to be funded by revenue offsets	10	450	720	818	763	128	-46	-38	-30	-22	-14	2,879	2,729

01/09/2000
03:40 PM
G:\LOTUS\MAND2001

NON-HEALTH MANDATORY INITIATIVES AND OFFSETS

(in millions of dollars; minus means savings)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
Self-funded initiatives:													
Department of the Interior:													
Finance land purchases with sales of surplus land:													
Surplus land sale receipts	--	-2	-4	-11	-11	-11	-11	-11	-11	-11	-11	-39	-94
Land purchases	--	2	4	11	11	11	11	11	11	11	11	39	94
Filming and photography on public lands:													
Filming fee receipts	--	-3	-3	-4	-4	-5	-5	-5	-5	-5	-5	-18	-43
Increased spending	--	3	3	4	4	5	5	5	5	5	5	18	43
Environmental Protection Agency:													
Fund Superfund orphan shares	--	39	84	108	150	150	150	150	150	150	150	531	1,281
Use a portion of Superfund tax extensions	--	-39	-84	-108	-150	-150	-150	-150	-150	-150	-150	-531	-1,281
Federal Emergency Management Agency:													
Flood Map Modernization:													
New fee collections	--	-104	-107	-109	-112	-114	-116	-118	-118	-118	-118	-546	-1,134
Increased spending	--	104	107	109	112	114	116	118	118	118	118	546	1,134
Subtotal, self-funded initiatives	--	--	--	--	--	--	--	--	--	--	--	--	--
Approved initiatives:													
Immigrant and income support initiatives and related offsets (excluding Medicaid piece):													
Restore SSI benefits for disabled legal immigrants..	--	--	23	99	208	377	523	651	953	1,122	1,272	707	5,228
Food stamps:													
Restore benefits for immigrants	--	24	95	140	160	145	147	133	124	115	110	564	1,193
State option on vehicle policy and other	--	4	38	145	294	305	315	326	339	352	364	786	2,481
Child support:													
Initiatives	--	37	144	144	169	167	176	185	194	204	210	661	1,630
Offsets	--	-27	-149	-188	-213	-219	-143	-145	-148	-153	-156	-796	-1,541
Subtotal, child support	--	10	-5	-44	-44	-52	33	40	46	51	54	-135	89
Education student loan offsets	--	--	-406	-505	-346	-300	-303	-308	-314	-321	-328	-1,557	-3,131
Other initiatives and offsets	--	-17	-97	-86	-63	-37	-45	-59	-64	312	-72	-300	-228
Subtotal, immigrant income support initiatives	--	21	-352	-251	209	438	670	783	1,084	1,631	1,400	65	5,632
Department of Agriculture:													
Farm safety net proposal	210	3,464	4,233	580	649	714	812	817	829	829	829	9,640	13,756
Forest Service payments to States	--	27	41	55	64	72	72	72	72	72	72	259	619
Department of Health and Human Services:													
Child care: Establish early learning fund	--	372	516	603	624	612	--	--	--	--	--	2,727	2,727
Social Services Block Grant	--	68	8	--	--	--	--	--	--	--	--	75	75
Department of Housing and Urban Development:													
Fund new urban empowerment zones	--	3	51	114	138	144	150	150	150	150	150	450	1,200
Department of the Interior:													
Increase Guam's compact impact grant	--	5	5	5	5	5	5	5	5	5	5	25	50
BLM timber payments to States delinkage	--	12	15	17	19	20	22	23	25	26	28	83	207
Recreation/entrance fees	--	--	-41	-2	48	81	82	82	83	83	84	86	500
Department of Labor													
Extend Welfare-to-Work	-100	-450	170	304	76	--	--	--	--	--	--	100	100
Trade Adjustment Assistance reforms	--	31	77	110	119	122	54	12	--	--	--	459	525
Department of Transportation:													
Shift St. Lawrence Sea way to mandatory	--	13	13	14	15	15	15	16	16	17	17	69	150
Department of Veterans Affairs:													

NON-HEALTH MANDATORY INITIATIVES AND OFFSETS

(in millions of dollars; minus means savings)

01/09/2000
03:40 PM
G:\LOTUS\MAND2001

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
Pay full benefits for Filipino veterans residing in the US	--	5	5	5	5	5	4	4	4	4	4	25	45
Office of Personnel Management:													
Gov'twide voluntary separation incentives (nonpaygo)	--	17	46	42	11	-3	?	?	?	?	?	113	113
Correction of retirement coverage errors:													
Increased outlays from CSRDF	--	4	1	1	2	3	3	4	4	5	5	11	32
General Fund transfer to SSA (nonpaygo)	--	2	2	2	3	3	3	3	3	3	3	12	27
Eliminate retirement inequities	--	1	1	1	1	1	1	1	1	1	1	5	10
Children's coverage under FEHBP	--	?	?	?	?	?	?	?	?	?	?	--	--
Social Security Administration:													
General Fund transfer from OPM (off-budget, nonpaygo)	--	-2	-2	-2	-3	-3	-3	-3	-3	-3	-3	-12	-27
Subtotal, approved initiatives	110	3,592	4,789	1,598	1,985	2,229	1,890	1,969	2,273	2,822	2,595	14,192	25,741
Approved offsets for mandatory:													
Department of Agriculture:													
Forest Service Fair Market Value proposals	--	-8	-45	-64	-70	-72	-72	-72	-72	-72	-72	-259	-619
Department of the Interior:													
Hardrock mining production fee on public lands	--	--	-8	-26	-26	-26	-26	-26	-26	-26	-26	-86	-216
Department of Treasury:													
Extend customs user fees:													
Conveyance/passenger fee	--	--	--	--	-424	-465	-511	-562	-617	-678	-746	-889	-4,003
Merchandise processing fee	--	--	--	--	-1,036	-1,059	-1,082	-1,106	-1,130	-1,155	-1,181	-2,095	-7,749
Department of Veterans Affairs:													
Extend expiring OBRA VA provisions:													
Round down to the next lower dollar COLAs for disability compensation and DIC	--	--	--	-14	-33	-52	-69	-94	-120	-144	-157	-99	-683
Verify income of beneficiaries with the IRS and SSA	--	--	--	-3	--	--	--	--	--	--	--	-3	-3
Retain current loan fees and obtain authority to reduce resale losses	--	--	--	-168	-167	-176	-184	-190	-195	-194	-199	-511	-1,473
Office of Personnel Management:													
Omnibus human resources improvements	--	-7	-11	-15	-19	-23	?	?	?	?	?	-75	-75
Revenues:													
Superfund tax extensions	-153	-1,431	-1,194	-1,211	-1,219	-1,235	-1,281	-1,318	-1,334	-1,346	-1,373	-6,290	-12,942
Offsets used for Superfund orphan shares above	--	39	84	108	150	150	150	150	150	150	150	531	1,281
Savings available	-153	-1,392	-1,110	-1,103	-1,069	-1,085	-1,131	-1,168	-1,184	-1,196	-1,223	-5,759	-11,661
Subtotal, approved offsets for mandatory	-153	-1,407	-1,174	-1,393	-2,844	-2,958	-3,075	-3,218	-3,344	-3,465	-3,604	-9,776	-26,482
Approved baseline adjustments:													
Tennessee Valley Authority:													
Eliminate OMB's adjustments to TVA's baseline estimates	--	-100	-100	-100	-200	-200	-300	-300	-300	-300	-300	-700	-2,200
Open policy issues:													
Proposed UMWA Combined Benefit Fund transfer & coal tax modification/extension beyond 2004:													
Department of the Interior:													
Transfer to UMWA Combined Benefit Fund (nonpaygo)	--	--	-1	-1	-5	-5	-5	-5	-5	-4	-4	-12	-35
AML fund interest impact of coal tax proposal (nonpaygo)	--	2	4	5	5	-3	-16	-33	-48	-65	-82	13	-231
Department of Treasury:													

NON-HEALTH MANDATORY INITIATIVES AND OFFSETS

(in millions of dollars; minus means savings)

01/09/2000
03:40 PM
G:\LOTUS\MAND2001

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
Interest paid to AML fund/ coal tax proposal (nonpaygo)	--	-2	-4	-5	-5	3	16	33	48	65	82	-13	231
United Mine Workers of America:													
Transfer from Interior's AML Reclamation Fund (nonpaygo)	--	--	1	1	5	5	5	5	5	4	4	12	35
Health benefits	--	48	45	33	28	26	25	25	24	24	24	180	302
Revenues:													
Increase premiums for UMWA Combined Benefit Fund	--	-48	-46	-34	-32	-31	-30	-30	-29	-28	-28	-191	-336
AML fund: coal tax modification & extension beyond 2004 (net)	--	48	35	17	8	-218	-220	-221	-222	-223	-224	-110	-1,218
Coal policy	13	-49	-50	-52	-54	-57	-60	-63	-67	-71	-75	-262	-598
Subtotal, net impact	13	-50	-52	-54	4	-223	-225	-226	-227	-227	-228	-375	-1,506
<u>Office of Personnel Management:</u>													
(Use Dental benefit offsets for 1) rollback of employee retirement contributions, then 2) flexible spending accounts)													
Contract separately for dental benefits	--	?	?	?	?	?	?	?	?	?	?	--	--
Rollback employee retirement contributions (revenue)	--	?	?	?	?	?	?	?	?	?	?	--	--
Flexible spending accounts (premium conversion plan)	--	?	?	?	?	?	?	?	?	?	?	--	--
Subtotal, open policy issues	13	-50	-52	-54	4	-223	-225	-226	-227	-227	-228	-375	-1,506
Offsets designated for discretionary:													
<u>Department of Agriculture</u>													
Mandatory research and rural development	--	-38	-65	-75	-28	--	--	--	--	--	--	-206	-206
<u>Department of Education:</u>													
Reduce default retention to 12% for consolidating loans	--	-412	--	--	--	--	--	--	--	--	--	-412	-412
Reduce GA retention rate to 18.5%	--	-236	--	--	--	--	--	--	--	--	--	-236	-236
Recall excess federal fund reserves	--	-950	--	--	--	--	--	--	--	--	--	-950	-950
Eliminate tax-exempt lenders' interest special allowance	--	-94	--	--	--	--	--	--	--	--	--	-94	-94
Reduce other lender yield formula to CP+203BP	--	-235	--	--	--	--	--	--	--	--	--	-235	-235
Accelerate Federal fund reserve recall	--	-165	--	--	--	--	--	--	--	--	--	-165	-165
Accelerate BBA recall from Restricted Account	--	-194	--	--	--	--	--	--	--	--	--	-194	-194
<u>Department of Health and Human Services:</u>													
TANF/ Reduce supplemental grants to 1998 levels	--	-122	--	--	--	--	--	--	--	--	--	-122	-122
<u>Department of Labor:</u>													
Implement alien labor certification fees	--	-52	-30	-30	-30	-30	-30	-30	-30	-30	-30	-172	-322
Increase H-1B fee	--	-85	-85	-85	-85	--	--	--	--	--	--	-340	-340
<u>Department of Justice:</u>													
Crime Victims Fund	--	-513	--	--	--	--	--	--	--	--	--	-513	-513
<u>Corps of Engineers:</u>													
Harbor services fees	--	-417	-361	-313	-315	-295	-273	-245	-215	-189	-165	-1,701	-2,788
<u>Federal Communications Commission:</u>													
Analog spectrum lease fee	--	-200	-200	-200	-200	-200	-200	-50	--	--	--	-1,000	-1,250
<u>Federal Deposit Insurance Corporation:</u>													
State bank exam fees	--	-92	-96	-102	-106	-111	-117	-123	-129	-136	-143	-507	-1,155
<u>Social Security Administration:</u>													
SSI State supplemental timing shift	--	-298	--	--	--	--	--	--	--	--	--	-298	-298
<u>Revenues:</u>													
FAA user fees (net)	--	-1,216	-1,033	-935	-662	-339	--	--	--	--	--	-4,185	-4,185
State bank exam fees (Fed portion)	--	-78	-82	-86	-90	-95	-99	-104	-108	-113	-118	-431	-973
Subtotal, offsets for discretionary	--	-5,397	-1,952	-1,827	-1,516	-1,070	-719	-552	-482	-468	-456	-11,761	-14,438

NON-HEALTH MANDATORY INITIATIVES AND OFFSETS
(in millions of dollars; minus means savings)

01/09/2000
03:40 PM
G:\LOTUS\MAND2001

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
MEMORANDUM:													
Timing shifts:													
Repeal the delay of the Oct. 2000 pay date:													
VA compensation benefits	1,800	-1,800	--	--	--	--	--	--	--	--	--	-1,800	-1,800
SSI	2,100	-2,100	--	--	--	--	--	--	--	--	--	-2,100	-2,100
Federal reserve transfer (revenue)	--	-3,589	--	--	--	--	--	--	--	--	--	-3,589	-3,589
Subtotal, timing shifts	3,900	-7,489	--	--	--	--	--	--	--	--	--	-7,489	-7,489
Initiatives to be funded by revenue offsets:													
Rum tax cover-over (outlays):													
Provide full rum tax cover to Virgin Islands	--	1	11	15	15	15	--	--	--	--	--	57	57
Provide full rum tax cover to Puerto Rico	--	3	32	43	43	43	--	--	--	--	--	164	164
Trade preference initiatives (revenue, net):													
Extend GSP	--	--	362	402	309	--	--	--	--	--	--	1,073	1,073
Create enhanced CBI trade preference	--	373	407	445	471	122	--	--	--	--	--	1,818	1,818
Create Africa trade preference	--	63	67	72	84	117	123	131	139	147	155	403	1,098
Create Balkan trade preference	10	10	10	10	10	--	--	--	--	--	--	40	40
Marianas garment tariff:													
Increase receipts (net)	--	--	-169	-169	-169	-169	-169	-169	-169	-169	-169	-676	-1,521
Subtotal, initiatives to be funded by revenue offsets	10	450	720	818	763	128	-46	-38	-30	-22	-14	2,879	2,729

01/08/00
03:58 PM
G:\LOTUS\MAND2001

HEALTH INITIATIVES AND OFFSETS

(in millions of dollars; minus means savings)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
Paid-for health proposals:													
Medicaid immigrant proposals:													
Benefits provided (reprop)	--	103	133	201	301	428	587	768	1,026	1,228	1,430	1,166	6,205
Cost allocation (reprop)	--	-52	-161	-262	-320	-335	-346	-357	-402	-445	-403	-1,130	-3,083
Net costs	--	51	-28	-61	-19	93	241	411	624	783	1,027	36	3,122
Medicaid non-immigrant proposals:													
Initiatives (reprop & new)	--	199	589	570	665	755	850	893	976	1,060	1,093	2,778	7,650
Offsets (reprop & new)	--	-45	-170	-185	-200	-210	-215	-230	-240	-255	-260	-810	-2,010
Net costs	--	154	419	385	465	545	635	663	736	805	833	1,968	5,640
Other Medicare proposals:													
Cancer clinical trials (reprop)	--	250	250	250	--	--	--	--	--	--	--	750	750
Offsets (reprop & new)	--	-705	-1,660	-1,430	-1,295	-1,410	-1,510	-1,615	-1,735	-1,845	-1,950	-6,500	-15,155
Net savings	--	-455	-1,410	-1,180	-1,295	-1,410	-1,510	-1,615	-1,735	-1,845	-1,950	-5,750	-14,405
Subtotal	--	-250	-1,019	-856	-849	-772	-634	-541	-375	-257	-90	-3,746	-5,643
Costs to be funded from the on-budget surplus:													
President's Medicare Reform Plan:													
Prescription drug benefits and other	--	--	404	7,906	16,067	18,631	21,136	23,982	26,636	29,771	32,873	43,008	177,406
Savings from the Reform Plan 1/	--	--	-345	-2,175	-3,678	-5,976	-7,599	-9,395	-9,505	-9,782	-10,559	-12,174	-59,014
Net costs	--	--	59	5,731	12,389	12,655	13,537	14,587	17,131	19,989	22,314	30,834	118,392
Family coverage SCHIP initiative:													
Total costs	--	2,200	3,500	4,800	5,200	5,700	6,500	6,700	6,600	6,900	6,800	21,400	54,900
Partially offset with remaining Medicare savings	--	-250	-1,019	-856	-849	-772	-634	-541	-375	-257	-90	-3,746	-5,643
Remaining costs	--	1,950	2,481	3,944	4,351	4,928	5,866	6,159	6,225	6,643	6,710	17,654	49,257
Medicare+choice payment timing shift	--	--	4,491	-4,491	--	--	--	--	--	--	--	--	--
Net costs to be funded from the on-budget surplus	--	1,950	7,031	5,184	16,740	17,583	19,403	20,746	23,356	26,632	29,024	48,488	167,649
New offset:													
Additional Medicaid cost allocation savings from new policy	--	-208	-164	-388	-330	-55	-44	-33	12	55	13	-1,145	-1,142

1/ HHS wants to drop the PPO proposal from the modernization package to accomodate the hospital groups to win support for a new board to oversee Medicare. This proposal accounts for $1.7 billion in five-year savings and $7.2 billion over ten years ($300 million in FY03 and $500 million in FY04).

2/ HHS wants to drop the Medicare+Choice takebacks to keep the managed care industry from backing a board. This proposal accounts for $1.5 billion in five-year savings and $1.8 billion over ten years ($280 million in FY03 and $100 million in FY04).

OMB and DPC Numbers for Health Intiatives

(in billions of dollars; minus means savings)

01/09/2000
12:37 PM
G:\LOTUS\MAND2001

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	'01-'05	'01-'10
OMB												
Prescription drugs	0.0	0.1	5.7	12.4	12.7	13.5	14.6	17.1	20.0	22.3	30.8	118.4
SCHIP costs	2.2	3.5	4.8	5.2	5.7	6.5	6.7	6.6	6.9	6.8	21.4	54.9
Excess Medicare savings available to offset SCHIP	-0.3	-1.0	-0.9	-0.8	-0.8	-0.6	-0.5	-0.4	-0.3	-0.1	-3.7	-5.6
Total	2.0	2.5	9.7	16.7	17.6	19.4	20.7	23.4	26.6	29.0	48.5	167.6
DPC												
Prescription drugs	-1.0	-2.0	4.0	11.0	11.0	12.0	13.0	15.0	18.0	20.0	23.0	101.0
SCHIP costs	2.0	3.5	3.8	4.2	5.3	8.0	9.0	11.0	13.0	15.0	18.8	74.8
Total	1.0	1.5	7.8	15.2	16.3	20.0	22.0	26.0	31.0	35.0	41.8	175.8
Difference												
Prescription drugs	-1.0	-2.1	-1.7	-1.4	-1.7	-1.5	-1.6	-2.1	-2.0	-2.3	-7.8	-17.4
SCHIP costs	-0.2	0.0	-1.1	-1.0	-0.4	1.5	2.3	4.4	6.1	8.2	-2.6	19.9
Excess Medicare savings available to offset SCHIP	0.3	1.0	0.9	0.8	0.8	0.6	0.5	0.4	0.3	0.1	3.7	5.6
Total	-1.0	-1.0	-1.9	-1.5	-1.3	0.6	1.3	2.6	4.4	6.0	-6.7	8.1

Approximate Ten-Year Revenue Cost for Some **Illustrative** Tax Cut Packages (in Billions)
Compared with Last Year's Package

	Last year's Package	Size of USA / Pension 150	100	50	5- and 10-year Cost: 5 years	10 years
Encourage saving						
USAs/Pensions						
USA	250.0	150				
Expand pension coverage / simplify rules	--		95			
Matching credit only	--			50		
Tax credit for IDAs			5.0			
Simplify pension rules	1.0	1.0	1.0	1.0		
Total	251.0	151.0	101.0	51.0		
Poverty Relief and Revitalizing Communities						
EITC relief for families	--					
(1) 3kid plateau allowance; (2) 2-earner allowance; (3) slower phaseout for 2 kids	--	16.7			7.2	16.7
(1) higher credit rate for 3kids ($500 increase in max credit) plus (2) and (3)	--		19.2	19.2	8.3	19.2
Child and dependent care tax credit	12.9	12.9	12.9	12.9	5.8	12.9
Refundable credit	--				2.9	8.1
Tax credit for employer child care centers	1.4	1.4	1.4	1.4	0.5	1.4
New markets tax credit	2.0	2.0	2.0	2.0	1.0	2.0
Double the allocation	--	2.0	2.0	2.0	1.0	2.0
Better America Bonds	2.8	2.8	2.8	2.8	0.6	2.8
Digital Divide:						
Improve access to computers and the internet	--	0.1	0.1	0.1	0.1	0.1
Encourage sponsorship of zone academies	0.1	0.1	0.1	0.1	0.1	0.1
Double and expand to include libraries and technology centers	--	0.1	0.1	0.1	0.1	0.1
Workplace literacy tax credit	0.5				0.1	0.5
Modify and expand to include worker training and technology training	--	4	4	4	2	4
Extend and expand empowerment zone incentives	--	4.0	4.0	4.0	2.0	4.0
Increase the cap for low-income housing credit	5.4	5.4	5.4	5.4	1.0	5.4
index the cap	--	0.3	0.3	0.3	0.0	0.3
Total	25.1	51.9	54.4	54.4		

Approximate Ten-Year Revenue Cost for Some **Illustrative** Tax Cut Packages (in Billions)
Compared with Last Year's Package

	Last year's Package	Size of USA / Pension 150	100	50	5- and 10-year Cost: 5 years	10 years
Education						
Expand the lifetime learning credit	--	10.8	10.8	10.8	6.0	10.8
Refundable credit						50.0
School construction	8.0	8.0	8.0	8.0	2.4	8.0
Employer provided graduate education	0.4	0.4	0.4	0.4	0.4	0.4
Other proposals	1.0	1.0	1.0	1.0	0.4	1.0
Total	9.4	20.2	20.2	20.2		
Health Care						
Tax credit for COBRA continuation coverage	--				6.1	15.8
Tax credit for purchase of insurance through State high-risk pools	--				0.5	1.3
Tax credit for long-term care expenses	14.2	14.2	14.2	14.2	5.6	14.2
Increase to $2,000	--	8.2	8.2	8.2	3.4	8.2
Refundable credit						
Tax credit for disabled workers	1.7	1.7	1.7	1.7	0.7	1.7
Tax credit for small business health coalitions	0.1	0.1	0.1	0.1	0.1	0.1
Double and expand	--	0.3	0.3	0.3	0.1	0.3
15 percent credit for nonemployer health insurance	--				30.0	50.0
25 percent credit for Medicare buyin	--					
[25] percent credit for expenses up to age-adjusted cap			25	50		
Total	16.0	24.5	49.5	74.5		

Approximate Ten-Year Revenue Cost for Some **Illustrative** Tax Cut Packages (in Billions) Compared with Last Year's Package					5- and 10-year Cost	
	Last year's Package	Size of USA / Pension				
		150	100	50	5 years	10 years
Simplify and Cut Taxes						
Ease burden of AMT on middle class	--					
(1) personal exemption and standard deduction through 2001	--	2.9			2.9	2.9
(1) + phase in indexing starting in [2007]	--		29.3	29.3		29.3
(1) + indexing in 2000+2001						37.0
(1) + indexing in 2001						23.0
dependent exemptions in excess of [1]	--					30.0
Reduce returns that file schedules B&D						
Raise thresholds for Schedule B	--	0	0	0	0.0	0.0
Allow simplified mutual funds (no schedule D)						
Encourage electronic filing	--			4	4.0	4.0
Simplify taxation for small businesses	--			2	2.0	2.0
Other simplification proposals	1.0	1.0	1.0	1.0	1.0	1.0
Total	1.0	3.9	30.3	36.3		
Middle Class Tax Relief						
Raise the standard deduction by $250 for single, $500 for joint filers				40.0	18.0	40.0
Marriage penalty relief options		45	45	45		
Higher standard deduction for two-earner couples					14	29.5
Higher standard deduction for two-earner couples (phased in)	--				4.3	16.6
Standard deduction for couples twice that of singles effective 2001	--	--	--	--	25.6	55.8
Total	-	45.0	45.0	45.0		
Encourage Philanthropy						
Reduce excise tax on foundations	--	4.0	4.0	4.0	1.8	4.0
Above the line deduction for nonitemizers	--					
100% deduction over $500 for single filers; $1,000 for joint filers	--				18.9	43.3
50% deduction over $500 for single filers; $1,000 for joint filers	--			14.8	6.4	14.8
Total	-	4.0	4.0	18.8		

Approximate Ten-Year Revenue Cost for Some **Illustrative** Tax Cut Packages (in Billions)
Compared with Last Year's Package

	Last year's Package	Size of USA / Pension 150	100	50	5- and 10-year Cost: 5 years	10 years
Climate change	8.9	8.9	8.9	8.9	3.4	8.9
Other provisions	8.6	10.6	6.7	10.9	2.3	8.6
Grand Total	320.0	320.0	320.0	320.0		

Other Provisions that Have Not Been Scored

Vaccines
Exclusion for telecommuting expenses
Telecom taxes
Excluding teacher pay from gross income
Reforestation incentives
50% capital gains exclusion for land sold to conservation organizations
Expansion of Brownfield tax incentives
Modify estate tax conservation easement rules
Children's savings accounts
Section 415
Tax exemptions for civil rights awards
Modifying the allocation on Better America Bonds
Expanding the disabled worker tax credit
FMLA tax credit
Homestead tax credits
Tax incentives for first-time homebuyers

Key

All numbers in billions of dollars
New proposals are in italics
Placeholders or guesstimates are shaded
* Would reduce the off-budget surpluses

AGENDA: TAXES
December 20, 1999

OUTLINE

I. Last Year's Budget – Revenue Proposals

II. Framework of FY 2001 Tax Cut

III. Should a Tax Cut be Contingent on Social Security and Medicare Reform?

IV. Role of USAs

V. Major Themes

FY 2000 Budget

- Last year's tax initiatives (other than USAs) cost about $26 billion over 5 years and $70 billion over ten years. These were fully offset by revenue raising provisions.

	5-year	10-year
• Education (primarily school construction)	2.4	8.0
• Health		
1. Long term care	5.6	14.2
2. Disabled worker credit	0.7	1.7
• Climate change initiatives	3.4	8.8
• Child care tax credits	6.4	14.3
• Revitalize communities		
• New Markets	1.0	2.0
• Better America Bonds	0.6	2.8
• Low income housing tax credit	1.0	5.4
• Tax Simplification	0.6	0.8
• Pensions	1.4	2.9
• Miscellaneous	1.6	6.2
Total	**25.9**	**69.5**

- Last year's USA proposal cost $250 billion over ten years.

How Big Should Tax Cut Be?

Options

1. Gross tax cut of $320 billion; net tax cut of $250 billion.
   - Traditional offsets and could include some tobacco
2. Gross tax cut of $320 billion; net tax cut of $200 billion
   - Traditional offsets plus last year's tobacco proposal (i.e., 55 cent excise tax)
3. Gross tax cut of $370 billion; net tax cut of $250 billion
   - Traditional offsets plus last year's tobacco proposal (i.e., 55 cent excise tax)
   - $50 billion higher gross tax cut than in the FY2000 Budget
4. Gross tax cut of $270 billion; net tax cut of $200 billion
   - Traditional offsets and could include some tobacco
   - $50 billion smaller gross tax cut than in the FY2000 Budget

Issues

- Warning: because the on-budget surplus is currently projected to be small in the first five years, there may be little room for tax cuts in the early years of the budget. It may be a challenge to phase in significant tax cuts in a way that makes sense.
- Some of your advisors would like a smaller tax cut to allow some of the surplus to be set aside to address Social Security solvency in the ten-year window.
- Last year, the tobacco excise tax was used to offset mandatory spending. Some used this to label our budget as "tax and spend."

Should the Tax Cut be Contingent?

1. Should the tax cut be contingent on <u>both</u> Social Security and Medicare solvency?

2. Should the tax cut be contingent on <u>either</u> Social Security or Medicare solvency?

3. Should we have a paid for tax cut and a separate and contingent unpaid for tax cut like last year?

4. Without a single large savings-oriented tax cut, is there a way of logically dividing an unpaid tax cut from a paid for tax cut?

5. It is the feeling of some of your advisors and Democratic Hill staff that USAs would be a more effective block to a large tax bill next year than proposing other new tax initiatives.

Should a Progressive Saving Option be Proposed? If So, What Form Should It Take?

USA-type option: As with last year's proposal, eligible individuals could receive an automatic contribution as well as a matching contribution on amounts voluntarily contributed to their USA account or 401(k) account.

Pros

- Continuity with last year's proposal
- Little of the current tax subsidies for saving go to lower-income Americans
- Forces additional saving, rather than merely providing a windfall for asset shifting
- Promotes wealth creation and saving for lower-income people
- Was generally well received by elite commentators

Cons

- Received almost no political traction on the Hill
  - ➢ Seen by many as a massive new entitlement program
  - ➢ Scored as an expenditure program by the CBO
- Treasury has very serious concerns about administration and costs, which could be more substantial as the size of accounts decreases.
  - According to Treasury's consultants, last year's plan would have cost about $2 billion to establish and $3-4 billion per year to run.
- Forces families to save when they would prefer to increase consumption of necessities, and which may well be their best use of the money.
- Treasury also has concerns about safeguards necessary to prevent USA investments from being monetized before retirement. If safeguards are instituted, USAs may be less attractive to financial sector. If they are not, it will be easier for people to remove their money from USAs, thus making them less effective at promoting retirement saving.

401(k)-type option: This proposal would provide a 50% match for employee contributions to a pension plan to which their employer makes an automatic contribution of at least 1% of compensation. The matching credit would be limited to $500 and would not be paid to individuals with incomes above a threshold.

- Employers will have a strong incentive to offer such a plan and provide automatic contributions on behalf of <u>all</u> their employees, even those who are not currently making voluntary contributions.

  -- Employees who don't contribute will receive a 1% automatic contribution from their employer.

  -- Employees who contribute 1% of pay will receive a 1% match from the Federal Government, in addition to the current law exclusion for their contribution.

- This does not suffer from the drawbacks of administrative complexity and "forced savings" which were liabilities of last year's USA proposal, because it utilizes existing private-sector administrative structures, i.e., IRAs and 401(k)-type plans.

Cons:

- Benefits are limited to employees whose employers offer 401(k) plans with 1% automatic contribution. Thus, not all workers will be reached.

- May provide a windfall to workers already saving in pension plans that offer automatic contributions.

- Refundability of matching credit raises policy and IRS administrability concerns.

Budget Themes

The following are the principal themes for this year's budget: (1) Poverty relief and revitalizing communities; (2) education; (3) health; (4) provide AMT relief and simplify the income tax; (5) reduce work disincentives and marriage penalties; and (6) encourage saving.

Poverty Relief and Revitalizing Communities

A poverty package costing about $30 billion over ten years could include:

- enhancing the EITC by:
  - providing targeted marriage penalty relief
  - increasing the phaseup rate for taxpayers with 3 or more children
  - moving the beginning of the phaseout range back for taxpayers with 3 or more children; and
  - reducing the phaseout rate for taxpayers with 2 or more children.
- doubling the size of last year's proposed New Markets tax credit
- extending the availability of tax benefits to existing empowerment zones and possibly increasing the number of empowerment zones,
- reducing the digital divide by providing tax incentives to improve access to computers and the internet in low-income areas,
- enhancing last year's budget proposal by indexing the caps for the low-income housing credit.

Education

Last year's education package could be enhanced by:

- Making higher education more affordable by:
  - accelerating the increase in the limit on qualified expenses eligible for the lifetime learning credit to $10,000, and
  - for the first $5000 for the first $5000 from 20% to 30% credit, and
  - allowing a 10% credit for the second $5,000.

We currently are reviewing and scoring other education tax incentives, including the possibility of making Lifetime Learning credits refundable.

Health

There are several possible options for increasing tax incentives for health care:

1. Provide targeted tax credits, including:

   - a tax credit for taxpayers purchasing COBRA coverage between jobs
   - a tax credit for Medicare buy-in by those age 55 – 64

- expansion of last year's budget proposal to provide tax credits for small businesses who purchase through coalitions
- a tax credit for purchase of insurance in state high-risk pools

2. Increase the maximum amount of last year's proposed long term care credit from $1000 to $2000.

3. Alternatively, provide a tax credit for the purchase of health insurance outside the employer market.
   - ➢ This would address equity concerns regarding individuals not covered by employer-provided health insurance.
   - ➢ There is concern that, by reducing the incentive for employers to contribute to health insurance, this may disrupt the employer-provided health market and could actually <u>decrease</u> the number of insured over time.

Provide AMT relief and simplify the income tax

- We are reviewing several options to retarget the alternative minimum tax so that it applies to rich tax-aggressive people instead of middle income people with large families or those who use personal credits.
  - Without fixing this problem, over 15 million middle income taxpayers will become subject to the AMT over the next ten years and tens of millions more will have to undertake complex calculations. This ultimately could lead to calls for replacement of the current income tax.
  - Because more and more taxpayers become subject to the AMT over time, waiting to fix this problem will become cost prohibitive over time.
  - In 2002, more than half of those affected by the AMT will have AGIs under $100,000.
  - The pattern of revenue losses matches the pattern of on budget surpluses (i.e., much larger in the out-years)
- Allow more taxpayers to use the 1040A or 1040EZ
- Increase small business expensing and otherwise simplify taxation for small businesses

Provide Moderate-Income Tax Relief, Reduce Work Disincentives, and Reduce Marriage Penalties

There are several options for reducing work disincentives and providing marriage penalty relief:

- Reduce the number of itemizers by increasing the standard deduction. (This could cover both single and joint filers or be limited to marriage penalty relief, as discussed below).
- Reduce marriage penalties by providing either all joint filers or two-earner couples a higher standard deduction.
- Also, as discussed above, we would reduce marriage penalties by providing a larger EITC for two-earner couples.
- Possibly enhance last year's budget proposal to increase the child and dependent care tax credit by making it refundable.

Encourage philanthropy

- Tax accounting could be simplified for foundations and provide them with needed flexibility by repealing the 1 percent excise tax on foundation income.
    - This will immediately translate into higher giving for foundations that are giving the minimum amount.

- Provide an above-the-line percentage deduction for nonitemizers who make charitable contributions above a floor (e.g., $500 for single filers and $1000 for joint filers).

Encourage Saving

- As discussed above, encourage saving by low and moderate income taxpayers by targeted incentives, such as USAs, or an additional credit for contributions to IRAs and 401(k) type plans.
- Adopt the simplifications in Portman-Cardin.
- Encourage small employers to set up and maintain pension plans, and encourage them to make automatic contributions.
- Allow lower-income taxpayers to contribute a larger percentage of their earnings (although not a larger dollar amount) to employer pensions.

<u>Allow Charitable Contribution Deductions for Non-Itemizers</u>

- MAKE 6000 [illegible] CONF.
- POLITICS 1 FAITH-BASED

<u>Key facts:</u>

- Currently 70 percent of taxpayers do not itemize and cannot get a tax credit for their charitable giving; two and a half times more taxpayers are nonitemizers 84 million) than itemizers (34 million).

- About 80 percent of families with incomes between $10,000 and $30,000 are nonitemizers. Over two-thirds of these families give to charity. Independent Sector estimates are on average nonitemizers give $465 annually, and the average household income for nonitemizers who give is $33,775.

- Low income households tend to give more of their donations to religious charities and social welfare organizations, and this proposal has the support of over 300 groups, including Catholic Charities, Salvation Army, American Red Cross, March of Dimes, Environmental Defense Fund, the American Cancer Society and the National Organization of Women Foundation.

- Governor Bush has made this proposal a key part of both his faith based and tax relief package, arguing it will generate billions of dollars annually in additional contributions.

- This proposal has strong bipartisan support in Congress. "The Charitable Giving Tax Relief Act", (H.R. 1310) sponsored by Reps. Crane (R-IL) and Coyne (D-PA), currently has 106 bipartisan cosponsors, including a majority of the House Ways and Means Committee.

<u>Likely Criticisms of the proposal include:</u>

The standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and an above-the-line deduction.

- **Response** – There is no estimate as to what amount is built into the standard deduction to compensate for charitable giving. We can address any potential problem by providing a tax deduction for nonitemizers above a set floor (about $500, the amount the average nonitemizer now gives).

Extending the charitable contribution deduction to nonitemizers is likely to cost Treasury more than the added actual giving to charities – that is, a dollar of tax deductions produced less than a dollar of additional giving.

- **Response** – There is no conclusive evidence to suggest that this is true. As a matter of fact, we know that giving is highly price elastic – implying that the deduction stimulates more in giving than it costs Treasury in terms of tax revenue. Price Waterhouse has estimated nonitemizers would give $3 billion more annually if they could deduction contributions.

It is too expensive.

- **Response** – There are a number of ways to control the cost of such a proposal, such as: 1) placing a ceiling on the amount of the deduction; 2) allowing only a percentage (i.e., 50%) of the amount over the floor to be deducted; and/or 3) raising the floor.

THE CHILD AND DEPENDENT CARE TAX CREDIT AND REFUNDABILITY
December 20, 1999

- Currently, the Child and Dependent Care Tax Credit (CDCTC) is not refundable, meaning that only families with incomes high enough to have a tax liability can benefit from it. For a single parent with 2 children, that would be $14,000. However, because of interactions with other refundable or partially-refundable tax credits (*e.g.* the EITC and the Child Tax Credit, which are claimed first), families do not actually benefit from the CDCTC unless they make roughly $21,000.

- While subsidies for child care are the most effective mechanism to help families with child care costs, we know that the Child Care and Development Block Grant (CCDBG) serves a fraction of the need. In 1998, the CCDBG served 1.5 of the 15 million children who are eligible under federal law. And, states set eligibility levels far below what is allowed by federal law.

- Therefore, there is a real gap in assisting working families with the high costs of child care. The CCDBG today effectively provides subsidies to the very lowest end of the income ladder. And, the CDCTC serves moderate to higher income families. Families between 100-200 percent of poverty, however, can receive no assistance with child care costs through either mechanism. Making the CDCTC refundable could help to close that gap and ensure that these working families can stay afloat and out of poverty.

Key Questions To Be Answered

1) **Should any credits other than expansion of the EITC be made refundable?** Possibilities include the Child and Dependent Care Credit, the Lifetime Learning Credit, and the Long-term Care Credit.

2) **Would you prefer targeted tax credits for COBRA continuation coverage and Medicare buy-in, or a 15% tax credit for non-employer-provided health insurance?**

3) **Do you want to provide permanent relief that addresses the growing alternative minimum tax problem, or short-term relief?**

4) **How much middle-income relief do you want to provide through increasing the standard deduction and providing marriage penalty relief?**

5) **Do you want to provide additional tax incentives for philanthropy?** If so, how much do you want to spend?

6) **Which version of a progressive savings vehicle do you prefer?** The two choices are a less expensive version of last year's USA's, featuring automatic contributions and a matching credit; or a matching credit for employee contributions to a 401(k) to which the employer makes an automatic contribution of 1% of the employee's compensation.

Changes to Tax Rules for Charitable Contributions: Allowing Charitable Giving Until April 15

One means to provide some incentive for charitable giving would be to allow individuals to take deductions for charitable contributions up to the time they file their income tax returns, or until April 15, whichever comes first – unlike the requirement under current law, which has a deadline of the end of the calendar year preceding the April 15 filing deadline.

This proposal would provide little change in the pure economic incentive for charitable contributions. Each dollar of contribution would receive the same federal subsidy at the taxpayer's statutory tax rate. The case for allowing a deduction up until the time of filing is mainly related to planning and psychological considerations.

Comparison to IRAs

Under current law, contributions to IRAs are allowed until filing time. For the 1984 taxable year, 45 percent of IRA contributions were actually made in 1985. Many taxpayers take note of allowable deductions when they fill out their returns. While deductions are limited in relationship to income, taxpayers seldom know last year's total income until calculations are made during filing season. From a psychological standpoint, it is at tax filing time that tax burdens are most apparent and benefits from deductions appear most real.

Similar arguments can be made for extending the charitable deduction. In particular, allowing a charitable deduction up to the time of tax filing would (1) advertise the value of the incentive much better, (2) help taxpayer planning, and (3) provide a special incentive for those who find that last minute payment of taxes is onerous.

The Advertising Factor

The favorable time for advertising is when people engage in activity closely associated with the product. For instance, advertisers often attach coupons to their merchandise to catch our attention as we make a purchase.

Under current law, the government does advertise its product at tax filing time, but refuses to let the taxpayer use the coupon on that year's return. Moreover, the price incentive for next year is not known until the new filing season has begun.

An Aid to Planning

Tax filing represents a unique moment when many households do their annual budget calculations, see the amount they have earned over the past year, and in some instances, determine just what they have done with their money, especially with respect to deductible expenses. It is an ideal planning period in which taxpayers can access how much they can afford in charitable contributions. Given the tendencies of individuals to underestimate income and overstate past generosity, the tax filing period is a good time for taxpayers to access whether they have given a reasonable percentage of income to charity.

Approximate Ten-Year Revenue Cost for Some **Illustrative** Tax Cut Packages
Compared with Last Year's Package

		Size of USA			
	Last year's Package	150	100	50	**Paid For Package**
Encourage saving					
USAs					
Automatic + matching	250.0	150	100		
Matching only	–			50	
Expand pension coverage	–	0.0	[redacted]	[redacted]	[redacted]
Simplify pension rules	1.0	1.0	[redacted]	[redacted]	[redacted]
subtotal	251.0	151.0	110.0	60.0	10.0
Poverty Relief and Revitalizing Communities					
Raise the EITC for families	–	13.7	13.7	13.7	0.0
Marriage Penalty Relief for EITC recipients	–	3.0	3.0	3.0	
New markets tax credit	2.0	2.0	2.0	2.0	2.0
Double the allocation	–	2.0	2.0	2.0	2.0
Better America Bonds	2.8	2.8	2.8	2.8	2.8
Digital Divide: Improve access to computers and the internet (see also,education)	–	[redacted]	[redacted]	[redacted]	[redacted]
Extend and expand empowerment zone incentives	–	4.0	4.0	4.0	4.0
Increase the cap for low-income housing credit	5.4	5.4	5.4	5.4	5.4
index the cap	–	0.3	0.3	0.3	0.3
subtotal	10.2	33.3	33.3	33.3	16.6
Education					
Expand the lifetime learning credit	–	10.8	10.8	10.8	
School construction	8.0	8.0	8.0	8.0	8.0
Encourage sponsorship of zone academies	0.1	0.1	0.1	0.1	0.1
Double and expand to include libraries and technology centers	–	0.1	0.1	0.1	0.1
Workplace literacy tax credit	0.5				
Modify and expand to include worker training and technology training	–	[redacted]	[redacted]	[redacted]	[redacted]
Employer provided graduate education	0.4	0.4	0.4	0.4	0.4
Other proposals	1.0	1.0	1.0	1.0	1.0
Refundable HOPE and lifetime learning credits	–				
subtotal	10.0	22.5	22.5	22.5	11.7
Health Care					
Tax credit for COBRA continuation coverage	–	[redacted]	[redacted]	[redacted]	[redacted]
Tax credit for purchase of insurance through State high-risk pools	–	1.3	1.3	1.3	1.3
Tax credit for long-term care expenses	14.2	14.2	14.2	14.2	14.2
Increase to $2,000	–	8.2	8.2	8.2	8.2
Tax credit for disabled workers	1.7	1.7	1.7	1.7	1.7
Tax credit for small business health coalitions	0.1	0.1	0.1	0.1	0.1
Double and expand	–	0.3	0.3	0.3	0.3
Accelerate full deductibility for self-employed health insurance	–				
15 percent credit for nonemployer health insurance	–				
25 percent credit for Medicare buyin	–				
subtotal	16.0	35.8	35.8	35.8	35.8

Simplify the Income Tax					
Ease burden of AMT on middle class (see menu of options)	--	[redacted]			
Reduce the number of people with income tax liability	--				
Allow more taxpayers to use the 1040A or 1040EZ	--	0	0	0	0
Reduce the number of itemizers (see marriage penalty)	--				
Encourage electronic filing	--	[redacted]			
Simplify taxation for small businesses	--				
Other simplification proposals	1.0	1.0	1.0	1.0	1.0
subtotal	1.0	7.0	38.0	43.0	6.0
Reduce Work Disincentives and Marriage Penalties					
Marriage penalty relief options		[redacted]			
Higher standard deduction for two-earner couples					
Higher standard deduction for two-earner couples (phased in)	--				
Two-earner deduction effective 2001	--	--	--	--	--
Standard deduction for couples twice that of singles effective 2001	--	--	--	--	--
Child and dependent care tax credit	12.9	12.9	12.9	12.9	12.9
Refundable credit	--	8.1	8.1	8.1	0.0
Repeal Social Security Earnings Test (tax effect only) *	--	-2.3	-2.3	-2.3	-2.3
Reduce 15% rate to 14%	--	--	--	--	--
subtotal	12.9	38.7	53.7	98.7	30.6
Encourage Philanthropy					
Reduce excise tax on foundations	--	4.0	4.0	4.0	4.0
Above the line deduction for nonitemizers	--				
subtotal	-	4.0	4.0	4.0	4.0
Climate change	8.9	8.9	8.9	8.9	8.9
Other provisions	10.0	18.8	13.8	13.8	16.4
Total	320.0	320.0	320.0	320.0	140.0

Key

All numbers in billions of dollars

New proposals are in italics

[redacted]

* Would reduce the off-budget surpluses

Options and Approximate 5- and 10-Year Cost (in Billions)

	5 years	10 years
Encourage saving		
USAs		
Automatic + matching		
Matching only		
Expand pension coverage		[redacted]
Simplify pension rules		[redacted]
Poverty Relief and Revitalizing Communities		
Raise the EITC for families	5.8	13.7
Marriage Penalty Relief: Larger EITC for two-earner couples	1.4	3.0
New markets tax credit	1.0	2.0
Double the allocation	1.0	2.0
Better America Bonds	0.6	2.8
Digital Divide: Improve access to computers and the internet (see also, education)	[redacted]	[redacted]
Extend and expand empowerment zone incentives	2.0	4.0
Increase the cap for low-income housing credit	1.0	5.4
index the cap	0.0	0.3
Education		
Expand the lifetime learning credit	6.0	10.8
School construction	2.4	8.0
Encourage sponsorship of zone academies	0.1	0.1
Double and expand to include libraries and technology centers	0.1	0.1
Workplace literacy tax credit	0.1	0.5
Modify and expand to include worker training and technology training	[redacted]	[redacted]
Employer provided graduate education	0.4	0.4
Other proposals	0.4	1.0
Refundable HOPE and lifetime learning credits	10.0	24.9
Health Care		
Tax credit for COBRA continuation coverage	[redacted]	[redacted]
Tax credit for purchase of insurance through State high-risk pools	0.5	1.3
Tax credit for long-term care expenses	5.6	14.2
Increase to $2,000	3.4	8.2
Tax credit for disabled workers	0.7	1.7
Tax credit for small business health coalitions	0.1	0.1
Double and expand	0.1	0.3
Accelerate full deductibility for self-employed health insurance	2.1	2.1
15 percent credit for nonemployer health insurance	[redacted]	[redacted]
25 percent credit for Medicare buyin		

Simplify the Income Tax		
Ease burden of AMT on middle class		
personal exemption and standard deduction through 2001	2.9	2.9
personal exemptions as of 2002, index starting in 2006	13.9	88.9
personal credits, exemptions, std. ded., index as of '01	18.7	103.4
extend personal credits	5.3	28.8
Reduce the number of people with income tax liability		
Allow more taxpayers to use the 1040A or 1040EZ		
Reduce the number of itemizers (see marriage penalty)		
Encourage electronic filing		
Simplify taxation for small businesses		
Other simplification proposals		
Reduce Work Disincentives & Marriage Penalties		
Marriage penalty relief options		
Higher standard deduction for two-earner couples	14	29.5
Higher standard deduction for two-earner couples (phased in)	4.3	16.6
Two-earner deduction effective 2001	62.1	140.3
Standard deduction for couples twice that of singles effective 2001	25.6	55.8
Larger EITC for two-earner couples	1.4	3.0
Child and dependent care tax credit	5.8	12.9
Refundable credit	2.9	8.1
Tax credit for employer child care centers	0.5	1.4
Repeal Social Security Earnings Test (tax effect only) *	-0.9	-2.3
Reduce 15% rate to 14%	131.9	254.7
Encourage Philanthropy		
Reduce excise tax on foundations	1.8	4.0
Above the line deduction for nonitemizers		
Climate change	3.4	8.9
Other provisions from FY 2000 Budget	2.3	8.6

Other Provisions that Have Not Been Scored

Vaccines
Exclusion for telecommuting expenses
Telecom taxes
Excluding teacher pay from gross income
Reforestation incentives
50% capital gains exclusion for land sold to conservation organizations

Expansion of Brownfield tax incentives
Modify estate tax conservation easement rules
Children's savings accounts
Section 415
Tax exemptions for civil rights awards
Modifying the allocation on Better America Bonds
Expanding the disabled worker tax credit
FMLA tax credit
Homestead tax credits
Tax incentives for first-time homebuyers

Key

All numbers in billions of dollars
New proposals are in italics
Placeholders or guesstimates are shaded
* Would reduce the off-budget surpluses