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Summary of Amendment to Senator Roth's Mark
Offered by the Democratic Members of the Finance Committee

Very Preliminary Estimate
Total Costs: $317 billion
Offsets: $ 27 billion
Net Cost: $290 billion

Broad-Based Relief *(very preliminary estimate -- $168 billion)*
Increases the standard deduction (phased-in) by $4,350 (60%) for joint filers, $2,150 (34%) for heads of household, and $1,300 (30%) for single filers; and increases the phase-out levels for married EITC recipients to provide a similar benefit for joint filers claiming EITC.

Marriage Penalty *(very preliminary estimate -- $21 billion)*
Allows an itemized deduction equal to the lesser of $4,350 or 20% of the lower earning spouse's earned income for taxpayers with incomes less than $95,000.

Health *(very preliminary estimate -- $27 billion)*
Allows a 30% tax credit for individuals without employer-sponsored plans; 50% deduction for long-term care insurance; $500 tax credit for long-term care; and 100% deductibility of health insurance for self-employed individuals.

Estate Tax *(very preliminary estimate -- $10 billion)*
Accelerates the increase of the unified credit exemption amount to $1 million and increases the exemption for family-owned farms and businesses by $450,000 (up to $1.75 million).

AMT *(very preliminary estimate -- $10 billion)*
Extends for five years the provision allowing taxpayers to claim their nonrefundable personal tax credits (e.g., HOPE, child credit) without regard to the AMT; repeals 90% foreign tax credit limitation; coordinates income averaging for farmers; and allows long-term AMT credits to offset up to 20% of corporate tentative minimum tax.

Extenders *(very preliminary estimate -- $4 billion)*
Provides two year extension of expiring provisions -- work opportunity tax credit, welfare-to-work, wind and biomass, subpart F exemption for active financing, brownfields environmental remediation. Increases the Puerto Rico and Virgin Islands rum cover-over and modifies the wage credit for corporations based in Puerto Rico.

Education *(very preliminary estimate -- $17 billion)*
Permits credits for school modernization bonds; provides tax-free prepaid tuition plans; eliminates 60 month rule for student loan interest deduction; increases arbitrage rebate exception for bonds used for school construction; establishes private activity bonds for education facilities; permanently extends section 127 employer-provided tuition assistance for higher education and expands to graduate assistance; enhances charitable deduction for computer donations; establishes credit for information technology training expenses; provides 20% credit for conversion of public TV networks to higher definition technology; and raises charitable deduction for contributions to low-income elementary schools.

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Environment *(very preliminary estimate -- $5 billion)*
Establishes Better America Bonds for acquisition of land for open space, wetlands, and improving access to public lands; promotes endangered species conservation, urban revitalization, and waste utilization through cost-share payments and a 50% AGI limitation charitable deduction for easements; extends estate tax benefits for lands within 25 miles of a National Park to lands within 25 miles of a National Wildlife Refuge; excludes 50% of gain from certain conservation sales; promotes use of alternative fuels and alternative fuel vehicles; extends section 29 nonconventional fuels credit; and increases employer subsidy of employees commuting via mass transit.

Savings/Pensions *(very preliminary estimate -- $9 billion)*
Offers small businesses a tax credit to start pension plans; permits portability of 401(k) and similar plans from one job to another; and increases protection of assets. Provides a modified cash balance disclosure proposal and requires a Treasury study of the distribution of tax benefits for pension arrangements.

Agriculture *(very preliminary estimate -- $5 billion)*
Establishes tax-deferred risk management accounts; increases the volume cap for agriculture bonds; clarifies that rental income from farmland is not self-employment income; gives farmers the full advantage of the $500,000 capital gains tax break by extending it to farmland; and provides capital gains relief for farmers leaving the business.

Technology and Economic Development *(very preliminary estimate -- $30 billion)*
Expands R&E credit to include the alternative incremental research credit and the Puerto Rico economic activity credit and makes credit permanent; establishes a tax credit for new markets community development; expands low-income housing tax credit from $1.25 to $1.50 per capita; accelerates increase in private activity bond volume cap; permits qualified spaceport facilities to qualify as exempt-facility bonds; and increases to $25,000 the small business expensing cap.

Other Targeted Initiatives *(very preliminary estimate -- $10 billion)*
Provides oil and gas incentives (geological and geophysical cost deduction, rental payment allowable delays, suspension of 65% depletion limitation) and electricity deregulation incentives (electric cooperative 85-15 test modification, liberalize tax-exempt bond private business restrictions, repeal cost of service requirement for nuclear decommissioning funds). Increases child care credit; establishes 25% worksite child care credit; reduces the 39-year depreciation to 15-year for leasehold improvements; grants tax-exempt status to State-chartered, not-for-profit insurers; permits employers to file payroll taxes on a single form; increases the 30% deduction limitation to 50% for certain charitable contributions; and modifies REIT provisions.

Offsets *(very preliminary estimate -- $27 billion)*
Revenue raisers from the Affordable Education Act; reinstate superfund taxes; restore phase-out of unified credit for large estates; repeal lower-of-cost-or market inventory accounting method; modify treatment of start-up and organizational expenditures; corporate tax shelter package (pending review of Joint Committee on Taxation report); and ~~modify structure of businesses indirectly conducted by REITS and~~ modify treatment of closely held REITs.

Senate Finance Democratic Alternative

Broad-Based and Marriage Penalty Relief

1. **Increase the Standard Deduction.** Increase the standard deduction according to the following schedule:

	Single	Head of Household	Joint
2001	$4600 (+300)	$6850 (+500)	$8200 (+1000)
2003	$4900 (+300)	$7350 (+500)	$9200 (+1000)
2005	$5200 (+300)	$7850 (+500)	$10,200 (+1000)
2007	$5600 (+400)	$8500 (+650)	$11,550 (+1350)

For joint filers claiming the earned income tax credit, provide a comparable reduction in modified AGI for purposes of computing the phase-out of the earned income tax credit. Accordingly, for purposes of computing the EITC phase-out for a couple in 2001, the couple's modified AGI is deemed to be $1000 lower than it would be but for this proposal. For similar taxpayers in 2006, the couple's modified AGI is deemed to be $3000 less than it would be but for this proposal.

2. **Two-Earner Couple Deduction.** Provide an itemized deduction for two-earner couples equal to 20% of the earned income of the lower earning spouse. The maximum deduction that could be claimed would be $4350, and that amount would be phased in over the same schedule as the increase in the standard deduction outlined above. Accordingly, the maximum deduction in 2001 and 2002 would be $1,000. For 2003 and 2004, the maximum deduction would be $2000. For 2005 and 2006, the maximum deduction would be $3000. For 2007 and beyond, the maximum deduction would be $4350. In addition, the deduction would phase out for joint filers with incomes between $75,000 and $95,000. Effective date: TYBA 12-31-00.

Health Provisions

1. **Accelerate 100% Deduction for Self-Employed.** Allow deduction for 100% self-employed health insurance deduction beginning in 2001.

2. **30% Tax Credit For Health Insurance Premiums.** Eligible taxpayers would receive a 30% credit for expenditures on health insurance (but not long-term care insurance), not to exceed $1,000 for single coverage and $2,000 for family coverage. The amount of the credit would be limited to the sum of the taxpayer's income tax liability and the payroll taxes paid by or on behalf of the taxpayer. Medicare premiums, Champus premiums, other Federally-subsidized health plan premiums, and premiums for employer-sponsored health plans would not qualify for

the credit. Self-employed taxpayers would have the option of claiming the credit or the present-law deduction for self-employed health insurance premiums. Taxpayers would be ineligible for the credit if their modified adjusted gross income ("AGI") exceeds specified limits. The modified AGI limits would be $40,000 for married taxpayers filing joint returns and $20,000 for all other taxpayers. The modified AGI limits would be indexed for changes in the Consumer Price Index. Effective date: taxable years beginning after December 31, 2000.

3. **Long-Term Care Insurance Deduction.** Provide an above-the-line deduction for long-term care insurance expenses for which the taxpayer pays at least 50% of the premium, phased-in as follows: 10% in 2001 and 2002, 25% in 2003 and 2004, 35% in 2005 and 2006, and 50% in 2007 and thereafter. Deductible premiums would be capped at the limits provided in section 213.

4. **Long-Term Care Credit.** Provide a $250 credit ($500 for years 2007 and thereafter) for taxpayers, spouses, and qualifying dependents who have long-term care needs. Except for the size of the credit, all of the details of the proposal are the same as those contained in the Administration's FY2000 budget request. Effective date: taxable years beginning after 12-31-02.

Estate Tax Provisions

1. **Estate Tax Exemption Amount.** Accelerate the increase in the estate tax exemption to $740,000 in 2003 and $1 million in 2004 and thereafter.

2. **Family-Owned Farms and Businesses.** Increase the qualified family-owned business interest deduction from $1.3 million to $1.75 million in 2003 and thereafter.

Alternative Minimum Tax Provisions

1. **Allow Personal Credits.** Extend through 2003 the 1998 provision to allow taxpayers to claim nonrefundable credits under the alternative minimum tax.

2. **Repeal 90% Foreign Tax Credit Limitation.** Repeal the limitation on the use of foreign tax credits under the AMT to offsetting 90% of alternative minimum tax. Effective date: taxable years beginning after 12-31-00.

3. **Income Averaging for Farmers.** Provide that a farmer's use of income averaging for a particular taxable year may not increase a farmers' liability under the alternative minimum tax. Effective date: taxable years beginning after 12-31-00.

4. **Corporate AMT Modifications.** Permit corporations with unused AMT credits that are

more than five years old to reduce tentative minimum tax by up to 20 percent. Effective date: taxable years beginning after 12-31-00.

Extension of Certain Expiring Provisions

1. **Work Opportunity Tax Credit.** Extend the work opportunity tax credit through June 30, 2001.

2. **Welfare-To-Work Tax Credit.** Extend the welfare-to-work tax credit through June 30, 2001.

3. **Wind and Biomass.** Extend the credits for electricity produced from wind and biomass through June 30, 2001.

4. **Active Financing.** Extend the exemption from Subpart F for active financing through December 31, 2001.

5. **Brownfields.** Extend the provision allowing expensing of brownfields environmental remediation costs through June 30, 2001.

6. **Rum Cover Over.** Increase the amount of rum excise tax that is covered over to Puerto Rico and the U.S. Virgin Islands from $10.50 per proof gallon to $13.50 per proof gallon through June 30, 2001.

7. **Puerto Rico Economic Activity Tax Credit.** Modify the temporary wage credit for corporations based in Puerto Rico by: (1) removing the limitation for newly established business operations and (2) removing the base period cap which, beginning in 2002, limits the size of the credit for existing claimants (sunsets taxable years beginning after 12-31-02).

Education Provisions

1. **School Modernization Bonds.** Provide for the issuance of up to $24.8 billion in qualified school modernization bonds, with bondholders receiving tax credits in lieu of an interest payment from the issuer of the bond. Any taxpayer may hold these bonds, the term of which will be 15 years. The issuance shall occur as follows: $12.4 billion in 2001 and $12.4 billion in 2005. For those states or localities that do not issue their entire allocation amount, the unused portion of the allocation may be carried over to the next year. Schools funded by the Bureau of Indian Affairs shall be qualified to issue bonds under this proposal.

2. **Qualified Tuition Plans.** Permit tax-free distributions from qualified State tuition

plans; allow private institutions to offer prepaid tuition plans with tax-free distributions beginning in 2004; allow taxpayers to exclude State plan distributions from gross income and claim the HOPE or Lifetime learning credits as long as they are not used for the same expenses. Effective date: taxable years beginning after 12-31-99.

3. **Student Loan Interest.** Eliminate the rule limiting deductibility of student loan interest to interest paid in the first 60 months for which payments are required. Effective date: interest on student loans paid after December 31, 1999.

4. **Small Issuer Arbitrage Rebate.** Increase the amount of governmental bonds that may be issued by governments qualifying for the "small governmental unit" arbitrage rebate exception. The additional amount of bonds for public schools that the governmental unit may issue without being subject to the arbitrage rebate rule would be increased from $5 million to $10 million. Effective date: bonds issued on or after 1-1-01.

5. **Private Activity Bonds.** The private activities for which tax-exempt bonds may be issued are expanded to include elementary and secondary public school facilities. The facilities for which these bonds are issued must be operated by a public educational agency as part of a system of public schools. Issuance of these bonds is subject to a separate annual per-State volume limit equal to the greater of $10 per resident or $5 million. States decide how to allocate the bond authority to State and local government agencies. Effective date: bonds issued on or after 1-1-01.

6. **Extension of Section 127.** Make permanent section 127, which allows taxpayers to exclude the value of employer-provided educational assistance, and allow for graduate coursework to qualify. Effective date: courses beginning after 12-31-99.

7. **Enhanced Charitable Deduction for Computer Donations.** Extend and modify section 170(e)(6)(B) relating to the enhanced charitable deduction for computer donations to schools. The modification eliminates the existing limitation of the deduction to twice the basis in the computer. In addition, allow the deduction to equal 90% of the difference between the basis in the computer and the property's fair market value. Finally, give the same treatment currently afforded new property to reacquired property that is refurbished to a standard equivalent to newly constructed property. The modifications would be effective January 1, 2000 and the provision is extended through December 31, 2001.

8. **Tax Credit for Information Technology Training Expenses.** Provide for a tax credit against income tax for information technology training expenses. The tax credit would be equal to 20 percent of information technology training expenses, not to exceed $6,000 per employee in a taxable year. The percentage would increase by 5 percent to 25 percent for a business that operates or initiates a training program in an empowerment zone, an enterprise community, a school district where at least 50 percent of the students are eligible to participate in the school

lunch program, a tribal collage, a small business employer, or in an area designated by the President or Secretary of Agriculture as a disaster zone. The tax credit would apply to businesses providing the IT training directly, or through certified commercial information technology training providers. Effective date: taxable years beginning after 12-31-00.

9. **Tax Credit for Educational Television Conversions.** Provide a 20 percent vendor tax credit for equipment, structures, and software used to convert the 28 statewide public television networks from analog broadcasting to the higher definition digital transmission technology. Effective date: taxable years beginning after 12-31-00.

10. **Charitable Contributions To Low-Income Schools.** Allows taxpayers to claim a charitable contributions deduction for donations to public, private, and parochial low-income elementary and secondary school made after the end of the taxable year and on or before the date of filing the taxpayer's Federal income tax return. For purposes of this proposal, low-income elementary schools are those where 50 percent or more of the students qualify for free or reduced price lunches. Effective date: contributions made after 12-31-99.

Environmental Provisions

1. **Better America Bonds.** State and local governments (including Indian tribal governments and U.S. possessions) would be able to issue Better America bonds (BABs) to the extent of authority to do so allocated by the BABs Board. The volume of authority to issue BABs that may be allocated by the Board in each of the five years, beginning in 2001, would be $1.9 billion. Bonds must be issued for qualifying purposes, which include acquisition of land for open space, wetlands, improving access to public lands, or public parks or greenways; construction or renovation of affiliated visitors centers; remediation of such land to enhance water quality by planting trees or other vegetation; acquisition of certain easements; and qualified environmental assessment and remediation. The holder of a BAB would receive annual income tax credits in lieu of interest from the issuer of the bond. Effective date: bonds issued on or after 12-31-00.

2. **Endangered Species.** Three proposals to protect endangered species:

a. **Cost-Share Payments.** Exclude from income the same portion of cost-share payments made to landowners under the Partners for Wildlife Program (authorized by the Fish and Wildlife Act of 1956) that is permitted for other qualified cost-sharing payments under section 126. Effective date: taxable years beginning after 12-31-00.

b. **Conservation Easement Donations.** Permit individuals to deduct the value of a qualified conservation contribution against 50 percent of the individual's AGI (rather than 30%), and to carry forward any unused deduction for up to 20 years (instead of five). Also, if the donor dies before all the deduction is used, the deduction can be used on the final income tax return or the estate tax return. Effective date: taxable years beginning after 12-31-00.

c. **National Wildlife Refuge Conservation Easements.** Provides landowners who place a conservation easement on property located near a National Wildlife Refuge the same estate tax benefits as lands located in or within 25 miles of a National Park or National Wilderness Area. Effective date: taxable years beginning after 12-31-00.

3. **Exclusion for Certain Conservation Sales.** Exclude from income 50 percent of any gain realized from private, voluntary sales of land, or interests in land, to government agencies or qualified conservation organizations. The land must be used to protect fish, wildlife, or plant habitat, or to preserve open space for agriculture, outdoor recreation or scenic beauty. Effective date: taxable years beginning after 12-31-00.

4. **Alternative Fuels Incentives.** Four provisions to promote the use of alternative fuels:

   a. **Extended Range Credit.** Increase electric vehicle tax credit for vehicles with extended range.

   b. **Credit Extension.** Extend the current electric vehicle credit through 2010.

   c. **Alternative Fueling Stations Deduction.** Permit deduction for up to $30,000 of cost of installing alternative fuel stations.

   d. **Per Gallon Credit for Sale of Clean Burning Fuels.** Provide a credit of 15 cents per gasoline equivalent gallon to sellers of clean burning alternative fuels.

   Effective date: taxable years beginning after 12-31-00.

5. **Section 29 Placed-In-Service Date. Modify section 29 of the code by striking "July 1, 1998" in subparagraph (g)(1)(A) and inserting "the date which is 8 months after the date of enactment of [this legislation]."**

6. **Transportation Tax Incentives.** Increase the limit on the income exclusion of public transportation and vanpool benefits to $175 per month. The proposal would eliminate the discrepancy between parking benefits and transit benefits. Effective date: taxable years beginning after 12-31-99.

<u>Savings and Pension Provisions</u> (unless otherwise indicated, all provisions are effective for taxable years beginning after 12-31-00.)

1. Plan Loans for Self-Employed Individuals

- Permit S corporation and unincorporated owners who own no more than 25% of the business to take plan loans under the same rules applicable to employees and owners of C corporations. (Section 101 of S. 741.)

2. IRA Contributions through Payroll Deduction

- Clarify that employers may establish automatic payroll deduction plans so their employees may contribute directly to an IRA account. (Section 102 of S. 741.)

3. SAFE Trusts

- Create a simplified defined benefit plan for small businesses. $100,000 pay limit for benefit considerations; calculate contributions using 5% interest rate; limit benefit accrual rate to 2%; replace past service credit with optional 3% accrual rate for first five years; no double-dipping in maximum benefit limits under Section 415. (Section 103 of S. 741, as modified.)

4. Modify Top Heavy Rules

- This form of nondiscrimination protection effectively applies only to small businesses. The proposal would lighten the burden of the top heavy rules through the following changes. Establish a one-year lookback period, exempt frozen plan from minimum accruals, and exempting any plan which is not top heavy, and is not expected to become top heavy, from top heavy plan document requirements. (Section 104 of S. 741, as modified.)

5. Small Business Pension Start Up Tax Credit

- Tax credit for small employer pension plan contributions and start-up costs; 25% credit on employer contributions for the first three taxable years for employers with 25 or fewer employees; 50% tax credit for the first three years on start-up costs for employers with 100 or fewer employees. (Section 106 of S. 741, as modified.) Effective for plans established after 12-31-00.

6. Increase SIMPLE 401(k) and SIMPLE IRA Limits

- Increase the maximum elective deferral to SIMPLE retirement plans from $6,000 to $8,000 per year. 1% employer nonelective contribution required. (Section 107 of S. 741, as modified.)

7. Elective deferrals not taken into account for purposes of limits.

- Elective deferrals would not be taken into account in applying the deduction limits to other contributions. (Section 112 of S. 741, modified to follow H.R. 2488, "The Financial Freedom Act of 1999.)

8. Allow More Contributions to Defined Contribution Plans by Increasing the "25% of Salary" rule to "50% of Salary" and Creating a $10,000 Annual Floor.

- A participant is limited in a DC plan to contributing not more than 25% of salary, even though the annual contribution limit is $10,000. The provision would increase the limitation to 50% and creating a floor of $10,000, which all participants could contribute regardless of compensation level. For nondiscrimination testing, only 25% of compensation considered.

9. Three Year Vesting for Matching Contributions

- Under current law, employers may require up to five years of service before an employee is entitled to employer contributions to a defined contribution plan. The proposal would reduce that maximum to three years with respect to matching contributions. (Section 202 of S. 741.)

10. Rights of Spouses of Government Employees

- The Federal Government retirement program (CSRS) will be changed so that if an employee dies before collecting benefits, the surviving spouse will be eligible for some benefit. (Section 203 of S. 741.)

11. Division of 457 Plan Benefits Upon Divorce

- This provision clarifies that, for purposes of taxation of distributions form 457 plans, the recipient of those funds is liable for income taxes. Enactment of this provision would prevent the case where a participant is taxed on retirement income that, under a divorce decree, belongs to an ex-spouse. (Section 204 of S. 741.)

12. Spousal Notice

- Require notification of a spouse when a participant is notified about a survivor and benefit option. (Section 205 of S. 741.)

13. Rollovers among Employer-Provided Plans

- Allow rollovers among various types of employer-provided plans. 457 plan rollovers limited to governmental 457 plans, and 10% excise tax applied to early distributions of monies rolled over to 457 plans. (Section 301 of S. 741, as modified.)

14. Rollovers from IRAs to Employer Provided Plans

- Allow rollovers of IRAs to employer provided plans. Institutional trustee required for qualified plan. (Section 302 of S. 741, with institutional trustee requirement, and as further modified by H.R. 2488, "The Financial Freedom Act of 1999.")

15. After Tax Rollovers; Waiver of 60-day Rule

- Where new employers are willing to accept them, individuals changing employers will be allowed to roll over after-tax contributions to the new employer's plan. IRA trustees accepting such rollovers would track basis. Also, in hardship exceptions, IRS could waive the 60-day limit on rolling over distribution to an IRA without incurring tax. (Section 303 of S. 741, with trustee tracking requirement, and as further modified by H.R. 2488, The Financial Freedom Act of 1999.)

16. Modify The Same Desk Rule

- Conform the treatment if 401(k) plans to the treatment of defined benefit plans and money purchase plans in "same desk" situations. That is, where an employee's company is acquired by another business, the employee would meet the "separation from service" definition required to allow portability of the 401(k) benefit to the new employer. (Section 304 of S. 741.)

17. Treatment of Forms of Distribution

- Employees would be allowed to waive section 411(d)(6) (anti-cut-back rules) under certain circumstances when rolling one defined contribution plan into another. The transferee plan would not be required to preserve the optional forms of benefits under the transferor plan if requirements are met to ensure the protection of participants' interests. Transfer must be in connection with a bona fide transaction or job change. (Section 305 of S. 741, with "bona fide" modification.)

18. Purchase of Service Credit in Governmental Defined Benefit Plans

- Ease rules allowing purchase of service credits when moving from one defined benefit plan to another. For example, many teachers purchase service credits when they move from one state to another. Under current law, individuals may not use defined contribution assets without penalty to purchase these credits. This provision would allow individuals to purchase these credits with other retirement assets, like monies from 401(k), 403(b), governmental 457 plans. (Section 306 of S. 741.)

19. Disregard Rollovers for Purposes of Cash-Out Amounts

- This provision permits an employer to disregard rollovers for purposes of making a cash-out. This provision removes a disincentive for employers to accept rollovers. (Section 307 of S. 741.)

20. Limited Relief for Multiemployer Plans

- Exempt multiemployer plans from the high-3-year-average compensation limit of 415(b)(1)(A). Also, exemption from aggregation rules between multiemployer and single employer plans. (Section 403 of S. 741.)

21. Expand PBGC Missing Participant Program

- PBGC's Missing Participant Program will be expanded to help find individuals who are eligible for benefits from multi-employer plans. (Section 404 of S. 741.)

22. Grant Department of Labor Discretion in Cases of Fiduciary Breach

- DOL would have discretion to waive certain penalties for fiduciary breaches. (Section 405 of S. 741.)

23. Regular Benefit Statements

- An annual benefit statement would be required to be sent every year to participants in DC plans. Participants in DB plans would receive a statement every 3 years, unless the employer automatically provided an annual notice to employees of the right to receive a benefit statement and how to go about obtaining one. (Section 501 of S. 2339, 105th Congress.)

24. Clarify that Employer Provided Retirement Planning is a Non-Taxable Benefit

- Employer provided retirement planning would be deemed not to constitute a taxable fringe benefit. To be eligible for the exclusion from taxable fringe benefit, the employer must sponsor a tax-qualified retirement plan, and the planning advice must be available on substantially the same terms to substantially all employees participating in the plan. The term "retirement planning" is defined to apply only to advice, not services (e.g., tax preparation, accounting, legal services, brokerage services, etc.) Annual limitation of $300 of value per participant. (Section 503 of S. 741, with definitional clarification of "retirement planning".)

25. Encourage ESOP Dividend Reinvestment

- In order for an employer to deduct dividends paid on stock held by an ESOP, the employer would be required to give employees a choice of whether to receive dividends in cash or allow them to be reinvested and grow tax-deferred until retirement. Nondiscrimination rules and annual contribution limits of 401(k) plans would apply. (Section 603 of S. 741, as modified.)

26. Plan Amendments Pursuant to this Proposal

- Plan amendments necessary to comply with this proposal would not be required to be made before the last day of the first plan year on or after January 1, 2002. For governmental plans, the date for amendments is extended to the first plan year beginning on or after January 1, 2004. Operational compliance would be required with respect to all plans as of the applicable effective date of any amendment made by the proposal.

27. Cash Balance Pension Disclosure

- Require employers converting to cash balance plans or otherwise significantly reducing future benefit accruals to provide employees with benefit comparisons under the old and new plans. Requirement applies only to vested employees who are likely to be adversely affected. Treasury directed to prepare guidance defining "significant reductions" (in addition to cash balance conversions) that require the enhanced disclosure. Effective for all conversions not announced in writing before 3-18-99.

28. Treasury Study of the Distribution of Pension Tax Benefits

- Require Treasury to prepare a distributional analysis of the tax benefits of major pension and retirement savings arrangements by income group to be concluded by June 30, 2000. A preliminary analysis is to be submitted within 60 days after enactment to the extent feasible.

29. Reduce PBGC Premium for Small Businesses

- The PBGC premium is normally set at $19 per participant. This proposal would set the premium for a small employer plan at $5 per participant for the first five years of a plan. (Section 109 of S. 741.)

30. Phase-in of Additional PBGC premium for new plans

- Any applicable variable rate premium would be phased in over a six year period as follows: 0% for year one; 20% for year two; 40% for year three; 60% for year four; 80%

for year five; and 100% for year six. (Section 108 of S. 741.)

31. **Eliminate the "New Plan Fee."**

- Employers who establish a pension plan must pay a fee, sometimes up to $1000, to receive a determination letter from the Internal Revenue Service stating that the plan is qualified. In order to decrease the costs of establishing retirement plans, the legislation eliminates this fee. (Section 110 of S. 741.)

Agricultural Provisions

1. **Farm and Ranch Accounts.** Allow farmers to contribute up to 20% of their annual active participation farm income to tax-deferred accounts. The funds would be taxed as regular income if withdrawn within five years. Funds not withdrawn within 5 years are subject to a 10% penalty. Effective date: taxable years beginning after 12-31-00.

2. **Farmland Rentals.** Clarify that rental income from farmland under a lease arrangement is not considered net income from self-employment for SECA purposes. Effective date: taxable years beginning after 12-31-00.

3. **Farm Residence Expanded Definition.** Exclude from capital gains tax up to 160 acres of farmland that is contiguous to and sold with a principal residence, provided the farmland was farmed in three of the five years prior to sale with material participation by the taxpayer or a members of the taxpayer's family. Effective date: taxable years beginning after 12-31-00.

4. **Agriculture Bonds.** Exempt small issue bonds for agriculture from the State volume cap. Effective date: taxable years beginning after 12-31-00.

5. **Capital Gains Relief for Farmers Leaving the Business.** Provide an exclusion from gross income of up to $300,000 (lifetime total) of capital gain from the transfer of property in complete or partial satisfaction of qualified farm indebtedness of a taxpayer: (1) whose gross receipts for six of the preceding ten years are at least 50 percent attributable to farming; and (2) whose equity in all property held after the transfer in question does not exceed the greater of $25,000 or 150 percent of income tax liability. The provision also applies a comparable exclusion with respect to the discharge of qualified farm indebtedness of solvent farmers who meet these requirements and whose indebtedness both before and after the relevant transfer equals at least 70 percent or more of equity. Effective date: taxable years beginning after 12-31-00.

Technology and Economic Development

1. **R&E Credit.** Extend the R&E credit permanently and modify the credit in two respects: (1) increase the alternative incremental research credit by one percentage point and (2) permit investment in Puerto Rico to meet the test for qualified R&E expenditures. Effective date: 7-1-99.

2. **New Markets Initiative.** A new tax credit for qualified investments made to acquire stock (or other equity interests) in selected community development entities. Taxpayers would receive a credit equal to six percent of the investment each year during each of the first five years after making the investment. The maximum investments that would qualify for the credit would be capped at an aggregate annual amount of $750 million (a maximum of $3.75 billion for the entire period of the tax credit) Effective date: investments made on or after 1-1-01. Except for the aggregate caps, the initiative tracks the Proposal included in the Administration's FY2000 budget.

3. **Low Income Housing Tax Credit.** Phase-in an increase in the per capita amount of low-income housing tax credit from $1.25 to $1.50 according to the following schedule:

2001	$1.30
2002	$1.30
2003	$1.30
2004	$1.40
2005	$1.40
2006 and thereafter	$1.50

4. **Private Activity Bonds.** Accelerate the scheduled increases in the per capita State volume cap for private activity bonds according to the following schedule:

2001	$55 per capita (minimum $165 million)
2002	$60 per capita (minimum $180 million)
2003	$65 per capita (minimum $195 million)
2004	$70 per capita (minimum $210 million)
2005 and thereafter	$75 per capita (minimum $225 million)

5. **Spaceport Bonds.** Permit spaceports to be treated like airports under the tax-exempt exempt-facility bond rules. The term "spaceport" would include facilities directly related and essential to servicing spacecraft, enabling spacecraft to take off or land, and transferring passengers or space cargo to, or from close proximity to, the launch site to perform these functions. Effective date: bonds issued on or after 1-01-01.

6. **Small Business Expensing.** Increase the limit on expenditures allowable under section

179 for immediate expensing by small businesses to $25,000 in 2001.

Other Targeted Initiatives

1. **Oil & Gas Incentives.**

A. **Geological and Geophysical Costs.** Allow geological and geophysical costs incurred in connection with oil and gas exploration in the United States to be deducted currently. Effective dare: geological and geophysical costs incurred or paid in taxable years beginning after December 31, 2000.

b. **Delay Rental Payments.** Allow delay rental payments for domestic oil and gas wells to be deducted currently. Effective date: delay rental payments incurred in taxable years beginning after 12-31-00.

c. **Suspend 65% of Taxable Income Limit.** For purposes of percentage depletion, suspend the 65-percent-of-taxable income limit on percentage depletion for five years. Effective date: taxable years beginning after 12-31-00 and before 1-01-06.

2. **Electricity Deregulation Provisions**

a. **Electric Cooperatives.** Modify the 85-15 test applicable to electric cooperatives (section 501(c)(12)) so that revenues received from nonmembers solely as a result of conforming operations to meet provisions of an applicable State or federal plan designed to provide for customer choice in electric power supply. Effective date: taxable years beginning after 12-31-99.

b. **Tax-Exempt Bonds.** Liberalize the private business restrictions to allow limited tax-exempt financed generation, transmission, and distribution facilities pursuant to electric restructuring plans, and to grandfather the tax status of previously issued debt. Under the proposal, electing utilities would forego the issuance of future tax-exempt debt for generation facilities, but could continue to issue such debt for transmission and distribution facilities. Non-electing utilities would continue to be subject to the current law restrictions on private business use. In addition, the tax-exempt status of debt issued by electing utilities would be grandfathered, so that utilities are not penalized for opening their systems to competitors. Effective date: date of enactment.

c. **Qualified Nuclear Decommissioning Funds.** Repeal the cost of service requirement for deductible contributions to nuclear decommissioning funds. Under the proposal, taxpayers, including unregulated taxpayers, would be allowed a deduction for amounts contributed to a qualified nuclear decommissioning fund. As under current law, the maximum contribution and deduction for a taxable year could not exceed the IRS ruling amount for that year. Effective date: generally effective for taxable years beginning after 12-31-99; the provision relating to transfers of non-qualified funds is effective for taxable years beginning after 12-31-01.

3. **Child Care Credit.** Increase the maximum amount of employment-related expenses eligible for the credit from $2,400 to $2,700 for expenses incurred for one qualifying individual and from $4,800 to $5,400 for two or more qualifying individuals. Effective date: taxable years beginning after 12-31-00.

4. **Worksite Child Care Credit.** Provide a 25% credit for qualified expenses of employers assisting employees with child care. Qualified expenses would include (1) child care facility start-up expenses, (2) child care facility operational expenses, and (3) payments or reimbursements for "off site" child care. The maximum credit an employer could claim in any year would be $90,000. Effective date: taxable years beginning after 12-31-00.

5. **Leasehold Improvement Depreciation.** Reduce the MACRS recovery period for qualifying leasehold improvements to nonresidential real property from 39 years to 15 years. Qualifying improvements would be restricted to those used exclusively by the lessee and would not include improvements made within the first three years after the date at which the building was first placed in service. Effective date: improvements made after 12-31-00

6. **Tax-Exempt Status for State-Chartered Underwriters.** Grant tax-exempt status to State-chartered, not-for profit insurers serving markets in which commercial insurance is not available. No part of the net earnings may inure to the benefit of any private shareholder or individual. Effective date: taxable years beginning after 12-31-00.

7. **Combined Employment Tax Reporting.** Permit employers to file both State and federal payroll taxes with a single form through a single point. This is accomplished by permitting the IRS to disclose the common data (name, identification number, address and the signature of the taxpayer) received on the form to the appropriate State. The program would be elective--each State would determine whether to participate. Effective date: date of enactment.

8. **Charitable Contributions.** Increase the percentage of AGI that individual taxpayer may contribute in cash to private foundations and certain other charitable organizations and in capital gain property to public charities from 30 percent to 50 percent.

9. **REITs Structure.** Modify structure of businesses indirectly conducted by REITs. Impose 10% vote or value test; modify treatment of income and services provided by taxable REIT subsidiaries, with a requirement that securities of taxable REIT subsidiaries may not exceed 15 percent of the total value of a REIT's assets; establish special foreclosure rule for health care REITs; conform REIT distributions rules to RIC 90% distribution rules; clarify definition of independent contractors for REITs; and modify earnings and profits rules. Effective

date: taxable years beginning after 12-31-00, with special transition rules for provisions relating to permitted ownership of securities of an issuer.

Revenue Offsets.

1. **Foreign Tax Credit**. One-year carryback and seven year carryforward of foreign tax credits. Effective date: credits arising in taxable years beginning after 12-31-99. Except for effective date, same as provision included in the Affordable Education Act.

2. **Non-Accrual Experience Method of Accounting**. Limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services. Effective date: Tax years ending after date of enactment. Same as provision included in the Affordable Education Act.

3. **Cancellation of Indebtedness Reporting**. Information reporting on cancellation of indebtedness by non-bank financial institutions. Effective date: cancellation of indebtedness after 12-31-99. Same as provision included in the Affordable Education Act.

4. **IRS User Fees**. Extension of IRS user fees through 9-30-09. Effective date: September 30, 2003. Same as provision included in the Affordable Education Act.

5. **Charitable Split Dollar Insurance**. Deny deduction for charitable split dollar life insurance. Effective date: transfers made after February 28, 1999 and for premiums paid after the date of enactment. Same as provision included in the Affordable Education Act.

6. **Retiree Health Benefits**. Allow employers to transfer excess defined benefit plan assets to a special account for health benefits of retirees (through September 30, 2009). Effective date: transfers made in taxable years beginning after 12-31-00. Same as provision included in the Affordable Education Act, except with maintenance of benefits, not maintenance of cost.

7. **Prefunding Employee Benefits**. Impose limitation on pre-funding of certain employee benefits. Effective date: Contributions paid after date of enactment. Same as provision included in the Affordable Education Act.

8. **Installment Method for Accrual Taxpayers**. Repeal the installment method of accounting for most accrual taxpayers; adjust the pledge rules. Effective date: installment sales entered into on or after date of enactment. Same as provision included in the Affordable Education Act.

9. **Streptococcus Pneumonia Vaccine**. Include the Streptococcus Pneumonia vaccine in the Federal vaccine insurance program. Effective date: vaccine purchases the day after the date on which the Centers for Disease Control make final recommendation for routine administration

of conjugated Streptococcus Pneumonia vaccines to children. Same as provision included in the Affordable Education Act.

10. **Restore Phase-Out of Unified Credit.** Restore the phase-out of the unified credit for large estates. Effective date: decedents dying after date of enactment. Same as President's FY2000 budget proposal.

11. **Lower-of-Cost-or-Market.** Repeal the lower-of-cost-or-market inventory accounting method. Effective Date: TYBA DOE. Same as President's FY2000 budget proposal.

12. **Start-Up and Organizational Expenses.** Modify treatment of start-up and organizational expenditures. Effective Date: Generally effective for start-up and organizational expenditures incurred after date of enactment. Same as President's FY2000 budget proposal.

13. **Corporate Environmental Tax.** Reinstate the environmental tax imposed on corporate taxable income and deposited in the Hazardous Substance Superfund. Effective Date: TYBA 12-31-99 through 12-31-09. Except for effective date, same as President's FY2000 budget proposal.

14. **Superfund Excise Taxes.** Reinstate excise taxes deposited in the Hazardous Substance Superfund. Effective Date: Date of enactment through 9-30-09. Same as President's FY2000 budget proposal.

15. **Corporate Tax Shelters.** Pending review of Joint Committee on Taxation report and recommendations, include restrictions on corporate tax shelters.

16. **Closely Held REITs.** Modify treatment of closely-held REITs. Effective Date: Taxable years beginning on or after date of first committee action. Same as President's FY2000 budget proposal.

CHC Members

Hon. Xavier Becerra (D-CA)
Hon. Henry Bonilla (R-TX)
Hon. Lincoln Diaz-Balart (R-FL)
Hon. Charles Gonzalez (D-TX)
Hon. Luis Gutierrez (D-IL)
Hon. Rubén Hinojosa (D-TX)
Hon. Matthew Martinez (D-CA)
Hon. Robert Menendez (D-NJ)
Hon. Grace Napolitano (D-CA)
Hon. Solomon P. Ortiz (D-TX)
Hon. Ed Pastor (D-AZ)
Hon. Silvestre Reyes (D-TX)
Hon. Ciro D. Rodriguez (D-TX)
Hon. Carlos Romero-Barcelo (D-PR)
Hon. Ileana Ros-Lehtinen (R-FL)
Hon. Lucille Roybal-Allard (D-CA)
Hon. Loretta Sanchez (D-CA)
Hon. Jose E. Serrano (D-NY)
Hon. Nydia Velazquez (D-NY)
Hon. Robert Underwood (D-Guam)

TAX CUT GUIDANCE 7/19

1. The Republicans scaled back their tax cut by $72 billion to $792 billion. Will you compromise with the Republicans on a tax cut package? And if you do, what number will you accept?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate and adequately funds education and our other domestic needs.

  The core of my plan is a commitment to use our surplus to pay down our debt and save to meet the enormous challenge of protecting Medicare and Social Security for future generations.

- The Republican plan moves in the opposite direction.

  Instead of saving our resources to meet the challenge that we face, their plan explodes the cost of the tax cut so much that it threatens our nation's ability to save in order to meet our Social Security and Medicare needs of the 21st century.

- Indeed, in the second decade just at the time our nation first confronts the demographic challenge of the baby boom; just at the time when Social Security's Trust Fund is first under strain; just at the time when Medicare Trust Fund is projected to become insolvent the Republican tax cut would explode and drain an unimaginable **$3 trillion.**

- If instead of paying down our debt, we allow for an exploding tax cut to drain **$3 trillion** of our savings we will not only threaten the fiscal discipline and economic stability that has recently blessed our economy, we will threaten our ability to find the resources to keep Medicare and Social Security strong for the next generation.

2. You are meeting later today with Senate Finance Committee Democrats who back a tax cut package closer to $300 million. Will you back their plan?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate and adequately funds education and our other domestic needs such as .

- After we take care of these key priorities, we can discuss other things.

- I look forward to working with the members of the Senate Finance Committee and any other member of Congress on a responsible budget framework that maintains our fiscal discipline and puts our nation on the path of prosperity as we enter the 21st century.

2. Could you support some of the elements of the Roth tax cut plan?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate, and adequately funds education and our other domestic needs.

- Any tax plan of a size that takes up the entire on-budget surplus, doesn't do a thing for the long-term solvency of Social Security and Medicare, and would leave dramatic cuts in the discretionary areas of education and health care is not something that I could responsibly sign.

7/20

Q: **Chairman Archer has claimed that his plan saves Medicare. What is your response to this?**

A: The Republicans' exploding tax cuts threaten both Social Security and Medicare. Because they devote the entire non-Social Security surplus ($996 billion over 10 years under CBO assumptions) and more to tax cuts, they set aside no new resources to extend Medicare or Social Security solvency. The tax cuts, which explode to a cost of $3 trillion in the second ten years, would drain funds from the budget just at the time when Medicare becomes insolvent and the retirement of the baby boom generation puts pressure on Social Security.

In light of the Republican budget resolution and the bipartisan consensus not to use any of the Social Security surplus ($1.899 trillion over 10 years under CBO) for any policies except for Social Security, we cannot imagine that there will be much support for using the Social Security surplus to fill the hole their tax cuts create.

I have demonstrated in my budget framework that it is possible to set aside the entire Social Security surplus for Social Security and still be able to devote non-Social Security surplus resources to strengthening Social Security and Medicare, providing for military readiness and funding investments in education, veterans, environment, and anti-crime efforts, while still providing a fair and substantial tax cut. Quite honestly, it surprises me that even after such strong bipartisan consensus, some Republicans still support using Social Security funds for programs other than Social Security.