107TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
107–7

ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001

MARCH 6, 2001.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 3]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3) to amend the Internal Revenue Code of 1986 to reduce individual income tax rates, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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89–006

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the "Economic Growth and Tax Relief Act of 2001".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) SECTION 15 NOT TO APPLY.—No amendment made by section 2 shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

SEC. 2. REDUCTION IN INCOME TAX RATES FOR INDIVIDUALS.

(a) IN GENERAL.—Section 1 is amended by adding at the end the following new subsection:

"(i) RATE REDUCTIONS AFTER 2000.—

"(1) NEW LOWEST RATE BRACKET.—

"(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2000—

"(i) the rate of tax under subsections (a), (b), (c), and (d) on taxable income not over the initial bracket amount shall be 12 percent (as modified by paragraph (2)), and

"(ii) the 15 percent rate of tax shall apply only to taxable income over the initial bracket amount.

"(B) INITIAL BRACKET AMOUNT.—For purposes of this subsection, the initial bracket amount is—

"(i) $12,000 in the case of subsection (a),

"(ii) $10,000 in the case of subsection (b), and

"(iii) ½ the amount applicable under clause (i) in the case of subsections (c) and (d).

"(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2001—

"(i) the Secretary shall make no adjustment to the initial bracket amount for any taxable year beginning before January 1, 2007,

"(ii) the cost-of-living adjustment used in making adjustments to the initial bracket amount for any taxable year beginning after December 31, 2006, shall be determined under subsection (f)(3) by substituting '2005' for '1992' in subparagraph (B) thereof, and

"(iii) such adjustment shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

"(2) REDUCTIONS IN RATES AFTER 2001.—In the case of taxable years beginning in a calendar year after 2001, the corresponding percentage specified for such calendar year in the following table shall be substituted for the otherwise applicable tax rate in the tables under subsections (a), (b), (c), (d), and, to the extent applicable, (e).

"In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:				
	12%	28%	31%	36%	39.6%
2002	12%	27%	30%	35%	38%
2003	11%	27%	29%	35%	37%
2004	11%	26%	28%	34%	36%
2005	11%	26%	27%	34%	35%
2006 and thereafter	10%	25%	25%	33%	33%

"(3) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection."

(b) REPEAL OF REDUCTION OF REFUNDABLE TAX CREDITS.—

(1) Subsection (d) of section 24 is amended by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

(2) Section 32 is amended by striking subsection (h).

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 1(g)(7) is amended—

(A) by striking "15 percent" in clause (ii)(II) and inserting "the first bracket percentage", and

(B) by adding at the end the following flush sentence:

"For purposes of clause (ii), the first bracket percentage is the percentage applicable to the lowest income bracket in the table under subsection (c)."

(2) Section 1(h) is amended—

(A) by striking "28 percent" both places it appears in paragraphs (1)(A)(ii)(I) and (1)(B)(i) and inserting "25 percent", and

(B) by striking paragraph (13).

(3) Section 15 is amended by adding at the end the following new subsection:

"(f) RATE REDUCTIONS ENACTED BY ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001.—This section shall not apply to any change in rates under subsection (i) of section 1 (relating to rate reductions after 2000)."

(4) Section 531 is amended by striking "equal to" and all that follows and inserting "equal to the product of the highest rate of tax under section 1(c) and the accumulated taxable income.".

(5) Section 541 is amended by striking "equal to" and all that follows and inserting "equal to the product of the highest rate of tax under section 1(c) and the undistributed personal holding company income.".

(6) Section 3402(p)(1)(B) is amended by striking "7, 15, 28, or 31 percent" and inserting "7 percent, any percentage applicable to any of the 3 lowest income brackets in the table under section 1(c),".

(7) Section 3402(p)(2) is amended by striking "equal to 15 percent of such payment" and inserting "equal to the product of the lowest rate of tax under section 1(c) and such payment".

(8) Section 3402(q)(1) is amended by striking "equal to 28 percent of such payment" and inserting "equal to the product of the third to the lowest rate of tax under section 1(c) and such payment".

(9) Section 3402(r)(3) is amended by striking "31 percent" and inserting "the third to the lowest rate of tax under section 1(c)".

(10) Section 3406(a)(1) is amended by striking "equal to 31 percent of such payment" and inserting "equal to the product of the third to the lowest rate of tax under section 1(c) and such payment".

(11) Section 13273 of the Revenue Reconciliation Act of 1993 is amended by striking "28 percent" and inserting "the third to the lowest rate of tax under section 1(c) of the Internal Revenue Code of 1986".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) AMENDMENTS TO WITHHOLDING PROVISIONS.—The amendments made by paragraphs (6), (7), (8), (9), (10), and (11) of subsection (c) shall apply to amounts paid after the 60th day after the date of the enactment of this Act.

SEC. 3. PROTECTION OF SOCIAL SECURITY AND MEDICARE.

The amounts transferred to any trust fund under the Social Security Act shall be determined as if this Act had not been enacted.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The bill, H.R. 3, as amended (the "Economic Growth and Tax Relief Act of 2001") provides income tax relief to American taxpayers.

The bill provides net tax reductions of over $363 billion over fiscal years 2001–2006. This will provide needed income tax relief for over 100 million American taxpayers, return the tax revenues not needed to fund government programs, and foster economic prosperity in the 21st century.

The bill creates a new low-rate regular income tax bracket for a portion of the taxable income that is currently taxed at 15 percent. The bill reduces the other income tax rates and consolidates rate brackets. By 2006, the present-law rate structure of five regular income tax rates (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) are reduced to four rates of 10 percent, 15 percent, 25 percent, and 33 percent. The bill also repeals the provisions that reduce the refundable child credit and the earned income credit by the amount of the individual's alternative minimum tax. The bill is generally effective for taxable years beginning after December 31, 2000, and is fully effective for taxable years beginning after December 31, 2005.

B. Background and Need for Legislation

The provisions approved by the Committee reflect the need for tax relief for American taxpayers in a fiscally prudent matter. The provisions also should serve to improve the economy and return an appropriate amount of the projected budget surplus to the American taxpayer. The estimated revenue effects of the provision comply with the most recent Congressional Budget Office revisions of budget surplus projections, and represent a prudent first step in reducing overall levels of Federal taxation.

C. Legislative History

The Committee on Ways and Means marked up the provisions of the bill on March 1, 2001, and approved the provisions, as amended, on March 1, 2001, by a roll call vote of 23 yeas and 15 nays, with a quorum present.

II. EXPLANATION OF THE BILL

PRESENT LAW

Under the Federal individual income tax system, an individual who is a citizen or resident of the United States generally is subject to tax on worldwide taxable income. Taxable income is total gross income less certain exclusions, exemptions, and deductions. An individual may claim either a standard deduction or itemized deductions.

An individual's income tax liability is determined by computing his or her regular income tax liability and, if applicable, alternative minimum tax liability.

Regular income tax liability

Regular income tax liability is determined by applying the regular income tax rate schedules (or tax tables) to the individual's taxable income and then is reduced by any applicable tax credits. The regular income tax rate schedules are divided into several ranges of income, known as income brackets, and the marginal tax rate increases as the individual's income increases. The income bracket amounts are adjusted annually for inflation. Separate rate schedules apply based on filing status: single individuals (other than heads of households and surviving spouses), heads of households, married individuals filing joint returns (including surviving spouses), married individuals filing separate returns, and estates and trusts. Lower rates may apply to capital gains.

For 2001, the regular income tax rate schedules for individuals are shown in Table 1., below. The rate bracket breakpoints for married individuals filing separate returns are exactly one-half of the rate brackets for married individuals filing joint returns. A separate, compressed rate schedule applies to estates and trusts.

TABLE 1.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2001

If taxable income is	Then regular income tax equals
Single individuals	
$0–27,050	15 percent of taxable income.
$27,050–$65,550	$4,057.50, plus 28% of the amount over $27,050.
$65,550–$136,750	$14,837.50, plus 31% of the amount over $65,550.
$136,750–$297,350	$36,909.50, plus 36% of the amount over $136,750.
Over $297,350	$94,725.50, plus 39.6% of the amount over $297,350.
Heads of households	
$0–$36,250	15 percent of taxable income.
$36,250–$93,650	$5,437.50, plus 28% of the amount over $36,250.
$93,650–$151,650	$21,509.50, plus 31% of the amount over $93,650.
$151,650–$297,350	$39,489.50, plus 36% of the amount over $151,650.
Over $297,350	$91,941.50, plus 39.6% of the amount over $297,350.
Married individuals filing joint returns	
$0–$45,200	15 percent of taxable income.
$45,200–$109,250	$6,780.00, plus 28% of the amount over $45,200.
$109,250–$166,500	$24,714.50, plus 31% of the amount over $109,250.
$166,500–$297,350	$42,461.50, plus 36% of the amount over $166,500.
Over $297,350	$89,567.50, plus 39.6% of the amount over $297,350.

Alternative minimum tax liability

In general

An individual's alternative minimum tax equals the excess of the individual's tentative alternative minimum tax liability over his or her regular income tax liability. Tentative alternative minimum tax liability is determined by applying specified rates (shown in Table 2., below) to alternative minimum taxable income in excess of specified exemption amounts. Alternative minimum taxable income generally is the individual's regular taxable income increased by certain preference items and other adjustments. The basic structure of the alternative minimum tax (such as exemption amounts and rate brackets) is not adjusted annually for inflation. The lower regular income tax rates on capital gains also apply under the alternative minimum tax.

TABLE 2.—INDIVIDUAL ALTERNATIVE MINIMUM TAX RATES

If alternative minimum taxable income in excess of the applicable exemption amount is	Then tentative alternative minimum tax equals
$0–175,000	26 percent of alternative minimum taxable income in excess of the applicable exemption amount.
Over $175,000	$45,500, plus 28% of the amount over $175,000.

LIMITATION ON NONREFUNDABLE CREDITS

Through 2001, an individual generally may reduce his or her tentative alternative minimum tax liability by nonrefundable personal tax credits (such as the $500 child tax credit and the adoption tax credit). For taxable years beginning after December 31, 2001, nonrefundable personal tax credits may not reduce an individual's income tax liability below his or her tentative alternative minimum tax.

AMT OFFSET OF REFUNDABLE TAX CREDITS

An individual's alternative minimum tax liability reduces the amount of the refundable earned income credit and, for taxable years beginning after December 31, 2001, the amount of the refundable child credit for families with three or more children.

REASONS FOR CHANGE

The Committee bill makes the first down payment on President Bush's pledge to deliver $1.6 trillion in tax relief to the American people. The Committee bill provides immediate tax relief to American taxpayers in the form of a new rate bracket for the first $6,000 of taxable income for single individuals and the first $12,000 of taxable income for married couples filing a joint return. This new 10-percent rate bracket will be phased in, beginning in 2001. In addition, the Committee bill phases in reductions in all individual income tax rates over five years. The Committee bill will provide tax relief to more than 100 million income tax returns of individuals, including at least 16 million returns of individuals with business income.

The Committee believes that providing tax relief to the American people is appropriate for a number of reasons. The Congressional Budget Office ("CBO") projects budget surpluses of $5.0 trillion over the next 10 fiscal years (2001–2010). Federal revenues have been rising as a share of the gross domestic product ("GDP"). CBO projects that, during the fiscal year 2001–2010 period, Federal revenues will be more than 20 percent of the GDP annually. By contrast, during the early 1990's, Federal revenues generally were only 17–18 percent of the GDP. Individual income taxes account for most of the recent rise in revenues as a percentage of GDP. Federal individual income tax revenues rose to over 10 percent of GDP in fiscal year 2000 for the first time in history and are projected by the CBO to exceed 10 percent of GDP for each of the fiscal years 2001–2010. The CBO projects that the growth of Federal revenues will, for fiscal year 2001, outstrip the growth of GDP for the ninth consecutive year. Moreover, the CBO states that "[t]he most significant source of the growth of income taxes relative to GDP was the increase in the effective tax rate." [1]

The Federal income tax is intended to collect revenues to fund the programs of the Federal government. If more tax revenues are collected than are needed to fund the government, the Committee believes that at least a portion of the excess should be returned to the taxpayers who are paying Federal income taxes. A portion of the surplus can be returned while still retaining enough to pay down the public debt, fund priorities such as education and defense and secure the future of Social Security and Medicare. Thus, the Committee believes that it is appropriate to provide relief from the high individual income tax rates of present law.

The Committee believes that high individual income tax rates reduce incentives for taxpayers to work, to save, and to invest and, thereby, have a negative effect on the long-term health of the economy. The higher that marginal tax rates are, the greater is the disincentive for individuals to increase their work effort. In addition,

[1] Congressional Budget Office, Congress of the United States, The Budget Economic Outlook: Fiscal Years 2002–2011, January 2001, p. 56.

the Committee has received testimony from tax experts that high marginal tax rates lead to reduced confidence in the Federal tax system and lower rates of voluntary compliance by taxpayers. Lower marginal tax rates provide greater incentives to taxpayers to be entrepreneurial risk takers; the Committee believes that the high marginal tax rates of present law discourage success. The Committee bill provides a tax cut to more than 16 million owners of businesses—sole proprietorships, partnerships, and S corporations. The Committee believes that this tax cut will lead to increased investment by these businesses, promoting long-term growth and stability in the economy and rewarding the businessmen and women who provide a foundation for our country's success.

In addition, lower marginal tax rates help remove the barriers that lower-income families face as they try to enter the middle class. The lower the marginal tax rates for those taxpayers in the lowest income tax brackets, the greater is the incentive to work. The new 10-percent rate bracket in the Committee bill delivers more benefit as a percentage of income to low-income taxpayers than high-income taxpayers and provides an incentive for these taxpayers to increase their work effort.

Finally, there are signs that the economy is slowing. The Committee believes that immediate tax relief may encourage short-term growth in the economy by providing individuals with additional cash to spend. However, the Committee recognizes that it is important to act quickly so that taxpayers are aware of the commitment of the President and the Congress to enact this tax cut and to adjust income tax withholding tables. It is important that taxpayers immediately see the benefits of this tax relief in the form of more money in their pockets.

The Committee bill also repeals the present-law provision reducing the refundable child credit and the earned income credit by the amount of the alternative minimum tax. This provision ensures that no taxpayer will face an increase in net income tax liability as a result of the interaction of the alternative minimum tax with the rate reductions in the Committee bill.

The Committee finds it appropriate to ensure that present-law transfers to the Social Security and Medicare trust funds will not be reduced as a result of the tax relief being provided under the Committee bill.

EXPLANATION OF PROVISION

In general

The bill creates a new low-rate regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The bill reduces other regular income tax rates and consolidates rate brackets. By 2006, the present-law structure of five regular income tax rates (15 percent, 28 percent, 31 percent, 36 percent and 39.6 percent) will be reduced to fur rates of 10 percent, 15 percent, 25 percent, and 33 percent. The bill repeals the present-law provisions that offset the refundable child credit and the earned income credit by the amount of the alternative minimum tax.

New low-rate bracket

The bill establishes a new regular income tax rate bracket for a portion of taxable income that is currently taxed at 15 percent, as shown in Table 3, below. The taxable income levels for the new low-rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2006.

TABLE 3.—PROPOSED NEW LOW-RATE BRACKET

Calendar year	Taxable income			
	Single individuals	Heads of household	Married filing joint returns	Proposed new rate (percent)
2001–2002	0–$6,000	0–$10,000	0–$12,000	12
2003–2005	0–$6,000	0–$10,000	0–$12,000	11
2006	0–$6,000	0–$10,000	0–$12,000	10
2007 and later	Adjust annually for inflation[1]			10

[1] The new low-rate bracket for joint returns and head of household returns will be rounded down to the nearest $50. The bracket for single individuals and married individuals filing separately will be one-half the bracket for joint returns (after adjustment of that bracket for inflation).

Modification of 15-percent bracket

The 15-percent regular income tax bracket is modified to begin at the end of the new low-rate regular income tax bracket. The 15-percent regular income tax bracket ends at the same level as under present law.

Reduction of other rates and consolidation of rate brackets

The present-law regular income tax rates of 28 percent and 31 percent are phased down to 25 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 25-percent rate bracket begins at the level at which the 28-percent rate bracket begins under present law and ends at the level at which the 31-percent rate bracket ends under present law.

The present-law regular income tax rates of 36 percent and 39.6 percent are phased down to 33 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 33-percent rate bracket begins at the level at which the 36-percent rate bracket begins under present law.

Table 4., below, shows the schedule of proposed regular income tax rate reductions.

TABLE 4.—PROPOSED REGULAR INCOME TAX RATE REDUCTIONS

Calendar year	28% rate reduced to	31% rate reduced to	36% rate reduced to	39.6% rate reduced to
2002	27	30	35	38
2003	27	29	35	37
2004	26	28	34	36
2005	26	27	34	35
2006 and later	25	25	33	33

Projected regular income tax rate schedules under the proposal

Table 5., below, shows the projected individual regular income tax rate schedules when the rate reductions are fully phased in (i.e., for 2006). As under present law, the rate brackets for married taxpayers filing separate returns under the bill are one half the

rate brackets for married individuals filing joint returns. In addition, appropriate adjustments are made to the separate, compressed rate schedule for estate and trusts.

TABLE 5.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2006 (PROJECTED)

If taxable income is	Then regular income tax equals
Single individuals	
$0–6,000	10 percent of taxable income.
$6,000–$30,950	$600, plus 15 percent of the amount over $6,000.
$30,950–$156,300	$4,342.50, plus 25% of the amount over $30,950.
Over $156,300	$35,680, plus 33% of the amount over $156,300.
Heads of households	
$0–$10,000	10 percent of taxable income.
$10,000–$41,450	$1,000 plus 15% of the amount over $10,000.
$41,450–$173,300	$5,717.50, plus 25% of the amount over $41,450.
Over $173,300	$38,680, plus 33% of the amount over $173,300.
Married individual filing joint returns	
$0–$12,000	10 percent of taxable income.
$12,000–$51,700	$1,200 plus 15% of the amount over $12,000.
$51,700–$190,300	$7,155, plus 25% of the amount over $51,700.
$190,300	$41,805, plus 33% of the amount over $190,300.

AMT offset of refundable tax credits

The bill repeals the present-law provision that offsets the refundable child credit and the earned income credit by the amount of the alternative minimum tax.

Revised wage withholding for 2001

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate income tax withholding tables or computational procedures for the withholding of income taxes from wages paid by employers. The Secretary is expected to make appropriate revisions to the wage withholding tables to reflect the proposed rate reduction for calendar year 2001 as expeditiously as possible.

Transfer to Social Security and Medicare trust funds

Under the bill, the amounts transferred to the Social Security and Medicare trust funds are determined as if the rate reductions in the bill were not enacted. Thus, there will be no reduction in transfers to these funds as a result of the bill.

EFFECTIVE DATE

The provisions of the bill generally apply to taxable years beginning after December 31, 2000, except that the conforming amendments to certain withholding provisions under the bill are effective for amounts paid more than 60 days after the date of enactment.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 3.

MOTION TO REPORT THE BILL

The bill, H.R. 3, as amended, was ordered favorably reported by a rollcall vote of 23 yeas to 15 nays (with a quorum being present). The vote was as follows:

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

VOTES ON AMENDMENTS

A rollcall vote was conducted on the following amendments to the Chairman's amendment in the nature of a substitute.

An amendment by Mr. Jefferson and Mrs. Thurman, to provide that if in any year the Secretary of the Treasury determines that the Social Security and Medicare surplus would be used for anything other than debt reduction, the trigger would be activated, was defeated by a roll call vote of 16 yeas to 22 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Shaw		X		Mr. Matsui	X		
Mrs. Johnson		X		Mr. Coyne	X		
Mr. Houghton		X		Mr. Levin	X		
Mr. Herger		X		Mr. Cardin	X		
Mr. McCrery		X		Mr. McDermott			
Mr. Camp		X		Mr. Kleczka	X		
Mr. Ramstad		X		Mr. Lewis (GA)	X		
Mr. Nussle				Mr. Neal	X		
Mr. Johnson		X		Mr. McNulty	X		
Ms. Dunn				Mr. Jefferson	X		
Mr. Collins		X		Mr. Tanner	X		
Mr. Portman		X		Mr. Becerra	X		
Mr. English		X		Mrs. Thurman	X		
Mr. Watkins		X		Mr. Doggett	X		
Mr. Hayworth		X		Mr. Pomeroy	X		
Mr. Weller		X					
Mr. Hulshof		X					
Mr. McInnis		X					
Mr. Lewis (KY)		X					

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Foley		X					
Mr. Brady		X					
Mr. Ryan		X					

A substitute amendment by Mr. Rangel was defeated by a rollcall vote of 12 yeas to 26 nays. The vote was as follows:

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

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 3 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2001–2006:

ESTIMATED REVENUE EFFECTS OF H.R. 3, THE "ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001," AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

[Fiscal years 2001–2011, in billions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2006	2001–06
1. Create new bracket for first $6,000 of taxable income for singles, first $10,000 for heads of households, and first $12,000 for married couples; no indexing bracket for inflation until 2007; rate set at 12% in 2001 and 2002, 11% in 2003 through 2005, and 10% in 2006.	tyba 12/31/00	−5.6	−35.7	−30.0	−32.4	−32.3	−37.9	−174.0

ESTIMATED REVENUE EFFECTS OF H.R. 3, THE ''ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001,'' AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS—Continued

[Fiscal years 2001–2011, in billions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2006	2001–06
2. Reduce the various income tax rates (39.6% rate reduced to 38% in 2002, 37% in 2003, 36% in 2004, 35% 2005 and 33% in 2006; 36% rate reduced to 35% in 2002 and 2003, 34% in 2004 and 2005, and 33% in 2006; 31% rate reduced to 30% in 2002, 29% in 2003, 28% in 2004, 27% in 2005, and 25% in 2006; and 28% rate reduced to 27% in 2002 and 2003, 26% in 2004 and 2005, and 25% in 2006); repeal the AMT offset to refundable tax credits.	tyba 12/31/01	(1)	−13.4	−24.4	−38.4	−48.5	−65.2	−189.8
3. Transfer to Social Security and Medicare trust funds.	tyba 12/31/00	No Revenue Effect						
Net Total [2]		−5.6	−49.1	−54.4	−70.8	−80.8	−103.1	−363.8

[1] Loss of less than $50 million.
[2] Includes the following effect on fiscal year outlays—2001: (3); 2002: 0.7; 2003: 0.7; 2004: 0.9; 2005: 1.0; 2006: 1.0; 2001–06: 4.2.
[3] Less than $50 million.

Legend for ''Effective'' column: tyba = taxable years beginning after.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves new or increased budget authority (as detailed in the statement by the Congressional Budget Office ("CBO"); see Part IV.C., below). The Committee further states that the revenue reducing income tax provisions do not involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. Congress,
Congressional Budget Office,
Washington, DC, March 6, 2001.

Hon. Bill Thomas,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3, the Economic Growth and Tax Relief Act of 2001.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Erin Whitaker, who can be reached at 226–2720.

Sincerely,

DAN L. CRIPPEN.

Enclosure.

H.R. 3—Economic Growth and Tax Relief Act of 2001

Summary: H.R. 3 would decrease personal income taxes and increase direct spending by reducing statutory income tax rates and altering the income brackets at which those rates apply. In addition, the bill would reduce taxes and increase direct spending by repealing certain elements of the alternative minimum tax. The Joint Committee on Taxation (JCT) has determined that these changes would reduce revenues by $5.6 billion in 2001, by $359.5 billion over the 2001–2006 period, and by $947.4 billion over the 2001–2011 period. In addition, JCT estimates that the bill would increase direct spending by $4.3 billion over the 2001–2006 period and by $10.8 billion over the 2001–2011 period. Because H.R. 3 would affect both direct spending and receipts, pay-as-you-go procedures would apply.

H.R. 3 would establish a new regular income tax bracket for a portion of taxable income that is taxed at a rate of 15 percent under current law. In 2001, the new rate would be 12 percent, effective retroactive to the beginning of the year. By 2006, the rate applied to that bracket would be phased down to a rate of 10 percent. H.R. 3 also would modify the bracket subject to a rate of 15 percent under current law to begin at the end of the new lowest income bracket and end at the same income level as under current law. In addition, starting in 2002, the bill would consolidate the four remaining income brackets (which bear rates of 28 percent, 31 percent, 36 percent, and 39.6 percent) into two income brackets. By 2006, the two lower brackets would bear a rate of 25 percent; the income level for the 25 percent bracket would begin at the level at which the 28 percent bracket begins and end at the level at which the 31 percent bracket ends under current law. Also by 2006, the two higher brackets would bear a rate of 33 percent; the income level for the 33 percent bracket would begin at the level at which the 36 percent bracket begins under current law.

Under current law, individuals also must calculate their income taxes under the alternative minimum tax (AMT), a parallel system of taxation with its own set of income items, exclusions, exemptions, and rates. The taxpayer, in effect, pays the greater of the tax calculated under the AMT structure and regular tax structure. The AMT reduces the amount of the earned income credit and the amount of the child credit provided to families with three or more children. H.R. 3 would repeal the provisions that reduce the amount of these credits. That change reduces the tax payments of individuals receiving those credits and increases outlays to the extent that those credits are refundable.

H.R. 3 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 3 is shown in the following table. All estimates were provided by JCT.

	By fiscal year in millions of dollars—					
	2001	2002	2003	2004	2005	2006
	CHANGES IN REVENUES					
Estimated Revenues	−5,642	−48,431	−53,650	−69,898	−79,887	−101,977
	CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	*	700	700	900	1,000	1,000
Estimated Outlays	*	700	700	900	1,000	1,000

*=Less than $500,000.

Source: Joint Committee on Taxation.

Most of the budgetary effects of H.R. 3 are to reduce revenues. However, H.R. 3 also increases outlays by changing the bracket amounts and reducing the rates of taxation. By reducing the amount of taxes owed, these changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. H.R. 3 would also repeal the provision of current law that reduces earned income and child credits by the amount of the alternative minimum tax. This provision of H.R. 3 would also increase tax credits, namely the earned income credit and the child credit, that are refundable under the tax code and counted as outlays in the budget.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up procedures for legislation affecting receipts or direct spending. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	−5,642	−48,431	−53,650	−69,898	−79,887	−101,977	−112,076	−114,656	−117,473	−120,386	−123,369
Changes in outlays	*	700	700	900	1,000	1,000	1,300	1,300	1,300	1,300	1,300

*=Less than $500,000.

Intergovernmental and private-sector impact: H.R. 3 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal Costs: Erin Whitaker. Impact on State, Local, and Tribal Governments: Leo Lex. Impact on the Private Sector: Paige Piper-Bach.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis. Robert A. Sunshine, Assistant Director for Budget Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance and objectives for which any measure authorizes funding is required.

C. Constitutional Authority Statement

With respect to clause 3(d)(1) of the rule XIII of the Rules of House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have no Power To lay and collect Taxes, Duties, Imposts and Excises * * *"), and from the 16th Amendment to the Constitution.

D. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, and tribal governments.

E. Applicability of House Rule XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. Tax Complexity Analysis

The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service ("IRS") and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and the Treasury Department regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

1. Reduction in income tax rates for individuals (sec. 2 of the bill)

Summary description of provision

The bill creates a new low-rate regular income tax bracket for a portion of the taxable income that is currently taxed at 15 percent. The bill reduces the other income tax rates and consolidates rate brackets. By 2006, the present-law rate structure of five regular income tax rates (15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent) are reduced to four rates of 10 percent, 15 percent, 25 percent, and 33 percent.

Number of affected taxpayers

It is estimated that the provision will affect approximately 100 million individual tax returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. It should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision. In addition, the provision should not increase individual's tax preparation costs.

The Secretary of the Treasury is expected to make appropriate revisions to the wage withholding tables to reflect the proposed rate reduction for calendar year 2001 as expeditiously as possible. To implement the effects of the rate cut for 2001, employers would be required to use a new (second) set of withholding rate tables to determine the correct withholding amounts for each employee. Switching to the new withholding rate tables during the year can be expected to result in a one-time additional burden for employers (or additional costs for employers that rely on a bookkeeping or payroll service).

2. Interactive effect of the alternative minimum tax rules

Because the bill makes no changes to the computation of the tentative minimum tax or to the tax liability limitation on the use of nonrefundable credits, additional individual taxpayers will need to make the necessary calculations to determine the applicability of the alternative minimum tax rules. It is estimated that for the year 2002, more than two million additional individual income tax returns that benefit from the provision will be required to include a calculation of the tentative minimum tax and file the appropriate alternative minimum tax forms. By the year 2011, this number is expected to rise to approximately 15 million additional individual income tax returns. For these taxpayers, it could be expected that the interaction of this bill with the alternative minimum tax rules would result in an increase in tax preparation costs and in the number of individuals using tax preparation services.

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, March 5, 2001.

MS. LINDY L. PAULL,
Chief of Staff, Joint Committee on Taxation,
Washington, DC.

DEAR MS. PAULL: Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the provisions from the House Committee on Ways and Means markup of the "Economic Growth and Tax Relief Act of 2001" that you identified for complexity analysis in your letter of February 28, 2001. Our comments are based on the description of those provisions in JCX–03–01, Joint Committee on Taxation, Description of the Economic Growth and Tax Relief Act of 2001, February 27, 2001.

Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provisions.

Sincerely,

CHARLES O. ROSSOTTI.

Enclosures.

COMPLEXITY ANALYSIS OF ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001

Provision

Create a new regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The new bracket is phased in over 6 years beginning in 2001: (1) 12 percent in 2001 and 2002; (2) 11 percent in 2003, 2004, and 2005; and (3) 10 percent in 2006 and thereafter. The 15-percent bracket would be modified to begin at the end of the new tax bracket and end at the same level as under present law.

Reduce the present-law regular income tax rates of 28 and 31 percent to 25 percent and the 36 and 39.6 percent rates to 33 percent. The reduction is phased in over 5 years beginning in 2002.

IRS and Treasury Comments

• The new tax bracket and the reduced tax rates would be incorporated into the tax table and the tax rate schedules shown in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, 1040NR–EZ and 1041, and on Forms W–4V and 8814 for 2001 and later years. Other forms (e.g., Form 8752 and Schedule D (Form 1040)) would also be affected. No new forms would be required.

• The new tax bracket and the reduced tax rates would also be incorporated into the tax rate schedules shown on Form 1040–ES for 2002 and later years. Subsequent to enactment, the IRS would have to advise taxpayers who make estimated tax payments for 2001 how they can adjust their estimated tax payments for 2001 to reflect the reduced rates.

• Programming changes would be required to reflect the new tax bracket and rates for tax years 2001 through 2006. Currently, the IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by the provision would be included during that process.

• The alternative minimum tax (AMT) is projected to apply to an increasing number of taxpayers over time. The provision would increase the number of taxpayers, particularly in the later years of the budget period (2006–2011), whose liability is affected by the AMT, and would also cause additional taxpayers to perform AMT calculations to determine whether their liability is affected by the AMT.

Provision

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate withholding rate schedules and computational procedures for the withholding of income taxes from wages paid by employers. The Secretary would be expected to make appropriate revisions to the wage withholding tables to reflect the rate reduction for calendar year 2001 as expeditiously as possible.

IRS and Treasury comments

• Revised 2001 withholding rate schedules can be developed within one week of enactment. The revised withholding rate schedules and wage bracket tables can be released immediately thereafter, including postage on the IRS' web site.

• Printing and distributing physical copies of the revised 2001 withholding rate schedules and tables (in a revised Publication 15 or an abbreviated version thereof) will take 5 to 6 weeks. Thus, most employers will not receive physical copies of the revised 2001 withholding tables until 6 weeks after enactment.

• Many employees and payroll agents will need to make programming changes in order to implement the revised

2001 withholding rates. IRS staff have been advised that some employees and payroll agents may not be able to implement the withholding changes for up to 8 weeks. The additional, mid-year change will represent an additional burden for employers and payroll processors.

- Withholding changes will be implemented so as to minimize the burdens on taxpayers and the IRS research' administrative burdens that arise when there is full-year underwithholding for employees.
- IRS will provide guidance to employees on how they can adjust their withholding via Form W–4 changes in order to minimize withholding mismatches caused by the 2001 changes. In the past, IRS has included a notice to employees with the revised withholding publication for employers (Publication 15) and has asked employers to distribute that notice to their employees. Completing the additional Forms W–4 represents an additional burden for workers. Processing the additional Forms W–4 and the included requests for withholding adjustments represents an additional cost for employers.

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

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

* * * * * * *

Subtitle A—Income Taxes

* * * * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

Subchapter A—Determination of tax liability

* * * * * * *

PART I—TAX ON INDIVIDUALS

* * * * * * *

SEC. 1. TAX IMPOSED.

(a) * * *

* * * * * * *

(g) CERTAIN UNEARNED INCOME OF MINOR CHILDREN TAXED AS IF PARENT'S INCOME.—

(1) * * *

* * * * * * *

(7) ELECTION TO CLAIM CERTAIN UNEARNED INCOME OF CHILD ON PARENT'S RETURN.—

(A) * * *

(B) INCOME INCLUDED ON PARENT'S RETURN.—In the case of a parent making the election under this paragraph—

(i) * * *

(ii) the tax imposed by this section for such year with respect to such parent shall be the amount equal to the sum of—

(I) * * *

(II) for each such child, ❲15 percent❳ *the first bracket percentage* of the lesser of the amount described in paragraph (4)(A)(ii)(I) or the excess of the gross income of such child over the amount so described, and

* * * * * * *

For purposes of clause (ii), the first bracket percentage is the percentage applicable to the lowest income bracket in the table under subsection (c).

(h) MAXIMUM CAPITAL GAINS RATE.—

(1) IN GENERAL.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of—

(i) * * *

(ii) the lesser of—

(I) the amount of taxable income taxed at a rate below ❲28 percent❳ *25 percent*; or

* * * * * * *

(B) 10 percent of so much of the adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of—

(i) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below ❲28 percent❳ *25 percent*, over

* * * * * * *

❲(13) SPECIAL RULES.—

❲(A) DETERMINATION OF 28-PERCENT RATE GAIN.—In applying paragraph (5)—

❲(i) the amount determined under subparagraph (A) of paragraph (5) shall include long-term capital gain (not otherwise described in such subparagraph)—

❲(I) which is properly taken into account for the portion of the taxable year before May 7, 1997; or

❲(II) from property held not more than 18 months which is properly taken into account for the portion of the taxable year after July 28, 1997, and before January 1, 1998;

⟦(ii) the amount determined under subparagraph (B) of paragraph (5) shall include long-term capital loss (not otherwise described in such subparagraph)—

⟦(I) which is properly taken into account for the portion of the taxable year before May 7, 1997; or

⟦(II) from property held not more than 18 months which is properly taken into account for the portion of the taxable year after July 28, 1997, and before January 1, 1998; and

⟦(iii) subparagraph (B) of paragraph (5) (as in effect immediately before the enactment of this clause) shall apply to amounts properly taken into account before January 1, 1998.

⟦(B) DETERMINATION OF UNRECAPTURED SECTION 1250 GAIN.—The amount determined under paragraph (7)(A)(i) shall not include gain—

⟦(i) which is properly taken into account for the portion of the taxable year before May 7, 1997; or

⟦(ii) from property held not more than 18 months which is properly taken into account for the portion of the taxable year after July 28, 1997, and before January 1, 1998.

⟦(C) SPECIAL RULES FOR PASS-THRU ENTITIES.—In applying this paragraph with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

⟦(D) CHARITABLE REMAINDER TRUSTS.—Subparagraphs (A) and (B)(ii) shall not apply to any capital gain distribution made by a trust described in section 664.⟧

(i) RATE REDUCTIONS AFTER 2000.—

(1) NEW LOWEST RATE BRACKET.—

(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2000—

(i) the rate of tax under subsections (a), (b), (c), and (d) on taxable income not over the initial bracket amount shall be 12 percent (as modified by paragraph (2)), and

(ii) the 15 percent rate of tax shall apply only to taxable income over the initial bracket amount.

(B) INITIAL BRACKET AMOUNT.—For purposes of this subsection, the initial bracket amount is—

(i) $12,000 in the case of subsection (a),

(ii) $10,000 in the case of subsection (b), and

(iii) 1/2 the amount applicable under clause (i) in the case of subsections (c) and (d).

(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2001—

(i) the Secretary shall make no adjustment to the initial bracket amount for any taxable year beginning before January 1, 2007,

(ii) the cost-of-living adjustment used in making adjustments to the initial bracket amount for any taxable year beginning after December 31, 2006, shall be deter-

mined under subsection (f)(3) by substituting "2005" for "1992" in subparagraph (B) thereof, and

(iii) such adjustment shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(2) REDUCTIONS IN RATES AFTER 2001.—In the case of taxable years beginning in a calendar year after 2001, the corresponding percentage specified for such calendar year in the following table shall be substituted for the otherwise applicable tax rate in the tables under subsections (a), (b), (c), (d), and, to the extent applicable, (e).

In the case of taxable years beginning during calendar year:	***The corresponding percentages shall be substituted for the following percentages:***				
	12%	***28%***	***31%***	***36%***	***39.6%***
2002	*12%*	*27%*	*30%*	*35%*	*38%*
2003	*11%*	*27%*	*29%*	*35%*	*37%*
2004	*11%*	*26%*	*28%*	*34%*	*36%*
2005	*11%*	*26%*	*27%*	*34%*	*35%*
2006 and thereafter	*10%*	*25%*	*25%*	*33%*	*33%*

(3) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection.

* * * * * * *

PART III—CHANGES IN RATES DURING A TAXABLE YEAR

* * * * * * *

SEC. 15. EFFECT OF CHANGES.

(a) * * *

* * * * * * *

(f) RATE REDUCTIONS ENACTED BY ECONOMIC GROWTH AND TAX RELIEF ACT OF 2001.—This section shall not apply to any change in rates under subsection (i) of section 1 (relating to rate reductions after 2000).

* * * * * * *

PART IV—CREDITS AGAINST TAX

* * * * * * *

Subpart A—Nonrefundable personal credits

* * * * * * *

SEC. 24. CHILD TAX CREDIT.

(a) * * *

* * * * * * *

(d) ADDITIONAL CREDIT FOR FAMILIES WITH 3 OR MORE CHILDREN.—

(1) * * *

【(2) REDUCTION OF CREDIT TO TAXPAYER SUBJECT TO ALTERNATIVE MINIMUM TAX.—For taxable years beginning after December 31, 2001, the credit determined under this subsection for the taxable year shall be reduced by the excess (if any) of—

【(A) the amount of tax imposed by section 55 (relating to alternative minimum tax) with respect to such taxpayer for such taxable year, over

【(B) the amount of the reduction under section 32(h) with respect to such taxpayer for such taxable year.】

【(3)】 *(2)* SOCIAL SECURITY TAXES.—For purposes of paragraph (1)—

(A) * * *

* * * * * * *

Subpart C—Refundable credits

* * * * * * *

SEC. 32. EARNED INCOME.

(a) * * *

* * * * * * *

【(h) REDUCTION OF CREDIT TO TAXPAYERS SUBJECT TO ALTERNATIVE MINIMUM TAX.—The credit allowed under this section for the taxable year shall be reduced by the amount of tax imposed by section 55 (relating to alternative minimum tax) with respect to such taxpayer for such taxable year.】

* * * * * * *

Subchapter G—Corporations used to avoid income tax on shareholders

* * * * * * *

PART I—CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS

* * * * * * *

SEC. 531. IMPOSITION OF ACCUMULATED EARNINGS TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the accumulated taxable income (as defined in section 535) of each corporation described in section 532, an accumulated earnings tax 【equal to 39.6 percent of the accumulated taxable income.】 *equal to the product of the highest rate of tax under section 1(c) and the accumulated taxable income.*

* * * * * * *

PART II—PERSONAL HOLDING COMPANIES

* * * * * * *

SEC. 541. IMPOSITION OF PERSONAL HOLDING COMPANY TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the undistributed personal holding company income (as defined in section 545) of every personal holding company (as defined in section 542) a personal holding company tax [equal to 39.6 percent of the undistributed personal holding company income.] *equal to the product of the highest rate of tax under section 1(c) and the undistributed personal holding company income.*

* * * * * * *

Subtitle C—Employment Taxes

* * * * * * *

CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

* * * * * * *

SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) * * *

* * * * * * *

(p) VOLUNTARY WITHHOLDING AGREEMENTS.—

(1) CERTAIN FEDERAL PAYMENTS.—

(A) * * *

(B) AMOUNT WITHHELD.—The amount to be deducted and withheld under this chapter from any payment to which any request under subparagraph (A) applies shall be an amount equal to the percentage of such payment specified in such request. Such a request shall apply to any payment only if the percentage specified is [7, 15, 28, or 31 percent] *7 percent, any percentage applicable to any of the 3 lowest income brackets in the table under section 1(c),* or such other percentage as is permitted under regulations prescribed by the Secretary.

(2) VOLUNTARY WITHHOLDING ON UNEMPLOYMENT BENEFITS.—If, at the time a payment of unemployment compensation (as defined in section 85(b)) is made to any person, a request by such person is in effect that such payment be subject to withholding under this chapter, then for purposes of this chapter and so much of subtitle F as relates to this chapter, such payment shall be treated as if it were a payment of wages by an employer to an employee. The amount to be deducted and withheld under this chapter from any payment to which any request under this paragraph applies shall be an amount [equal to 15 percent of such payment] *equal to the product of the lowest rate of tax under section 1(c) and such payment.*

* * * * * * *

(q) EXTENSION OF WITHHOLDING TO CERTAIN GAMBLING WINNINGS.—

(1) GENERAL RULE.—Every person, including the Government of the United States, a State, or a political subdivision thereof,

or any instrumentalities of the foregoing, making any payment of winnings which are subject to withholding shall deduct and withhold from such payment a tax in an amount [equal to 28 percent of such payment] *equal to the product of the third to the lowest rate of tax under section 1(c) and such payment*.

* * * * * * *

(r) EXTENSION OF WITHHOLDING TO CERTAIN TAXABLE PAYMENTS OF INDIAN CASINO PROFITS.—

(1) * * *

* * * * * * *

(3) ANNUALIZED TAX.—For purposes of paragraph (1), the term "annualized tax" means, with respect to any payment, the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of [31 percent] *the third to the lowest rate of tax under section 1(c)*) on an amount of taxable income equal to the excess of—

(A) * * *

* * * * * * *

SEC. 3406. BACKUP WITHHOLDING.

(a) REQUIREMENT TO DEDUCT AND WITHHOLD.—

(1) IN GENERAL.—In the case of any reportable payment, if—

(A) the payee fails to furnish his TIN to the payor in the manner required,

(B) the Secretary notifies the payor that the TIN furnished by the payee is incorrect,

(C) there has been a notified payee underreporting described in subsection (c), or

(D) there has been a payee certification failure described in subsection (d),

then the payor shall deduct and withhold from such payment a tax [equal to 31 percent of such payment] *equal to the product of the third to the lowest rate of tax under section 1(c) and such payment*.

* * * * * * *

SECTION 13273 OF THE REVENUE RECONCILIATION ACT OF 1993

SEC. 13273. INCREASE IN WITHHOLDING FROM SUPPLEMENTAL WAGE PAYMENTS.

If an employer elects under Treasury Regulation 31.3402 (g)–1 to determine the amount to be deducted and withheld from any supplemental wage payment by using a flat percentage rate, the rate to be used in determining the amount to be so deducted and withheld shall not be less than [28 percent] *the third to the lowest rate of tax under section 1(c) of the Internal Revenue Code of 1986*. The preceding sentence shall apply to payments made after December 31, 1993.

VII. DISSENTING VIEWS

The Democratic Members of the Committee on Ways and Means support meaningful tax reductions so long as the tax reductions are fiscally responsible, fair, and honest. We support an overall budget framework first, then a tax reduction plan that meets those standards. The bill reported by the Committee does not meet those standards and we can not support it.

FISCAL RESPONSIBILITY

The last eight years were a period of unprecedented economic growth. That growth in part was made possible by the deficit reduction efforts of the last 10 years which resulted in lower interest rates, increased investment and greater productivity growth. Those deficit reduction efforts began when, in 1990, President George Bush recognized that the deficits resulting from the 1981 tax legislation were damaging our economy. His 1990 budget agreement was the first step to reverse those deficits. The 1993 Budget Act was the vital next step on the road to the surpluses that we now enjoy. Both of those measures were opposed overwhelmingly by the Republican Members of the House.

Now the House Republican Leadership is threatening to return this country to deficits by rushing through large tax reductions based on uncertain budget projections. An article in the Washington Post on March 1, 2001, laid out the current Republican strategy. In 1995, the Republican Congress attempted to enact large tax reductions at the same time as it proposed the spending reductions necessary to fund those tax reductions. The American people rejected the strategy of funding tax reductions through cuts in Medicare and other popular programs. Because that strategy failed, the Republicans now are following a strategy of enacting the tax reductions first, saving for later the unhappy news of spending reductions and lack of funds for prescription drug benefits for older Americans, education spending, farm programs, defense and other bipartisan priorities. We saw that strategy succeed politically in 1981, when the Congress enacted large tax reductions based on promised, but unspecified, spending reductions. The success of that strategy in 1981 led to unprecedented budget deficits with high interest rates and sluggish growth. We fear that we are about to repeat that experience.

The Republican tax cut plans are based on optimistic budget projections that may never be realized. Budget projections are inherently uncertain because they are an attempt to predict the future. Even small errors in those projections will create dramatic changes in projected surpluses. If long-term economic growth is one-tenth of one percent lower than currently projected, $245 billion of projected surpluses will immediately disappear. Cutting taxes is easy. Once the Congress has agreed upon a budget framework, we should enact sensible tax reductions this year. If the projections remain favorable in the future, it will be very easy for the Congress to enact further tax reductions. If the projections prove to be optimistic and deficits reappear, our ability to meet our commitments to the Medicare and Social Security system will not be threatened if we have not been hasty and excessive in our actions.

The Republicans are now following the strategy of enacting President Bush's tax proposals on a piecemeal basis because the sum of the promised tax reductions are far greater than his $1.6 trillion target. The Committee bill includes only the marginal income tax rate reductions proposed by the President. This part of the President's overall tax proposal would cost almost $1 trillion over the next years even before extra debt service costs are added in, leaving little room for a long list of other tax reductions proposed by the President or supported in the Congress. The list includes—

- $300 billion for phasing out the estate tax proposed by President Bush.
- $200 billion for the child credit expansion proposed by President Bush.
- $300 billion of marriage penalty relief passed by the Congress last year.
- $55 billion for repeal of the telephone excise tax passed by the Congress last year.
- $125 billion for pension legislation.
- $300–$500 billion for structural reform of the Alternative Minimum Tax, as promised by the Chairman of the Committee.

In addition to revenue costs of specific proposals, less in Federal debt payment would add billions more in debt service costs.

FAIRNESS

The bill reported by the Committee is unfair. It is the first installment of President Bush's campaign tax reduction proposals. It is estimated that 43% of the total benefits of his plan will be provided to the wealthiest 1% of our society. The upper income groups in recent years have enjoyed greater income growth than any other segment of our society. There is no reason why they should be further rewarded with a disproportionate share of tax relief.

Secretary of the Treasury Paul O'Neil has disputed the fact that 43% of the Bush tax reductions will go the wealthiest 1% of our society. However, he has refused to provide his own distributional analysis of those tax reduction plans. In the past, the Treasury Department has done distributional analysis of tax legislation based on the fully phased-in impact of the legislation and has included distribution of estate and corporate tax reductions. A distributional analysis of President Bush's plan using that methodology would probably be very unfavorable.

Secretary O'Neill has the resources to prove the critics wrong. Failure to provide a Treasury distributional analysis using its traditional methodology suggests that the critics are correct.

HONESTY

The big print of the bill reported by the Committee Republicans promises far larger tax reductions than will be delivered to taxpayers after the application of the fine print of the Alternative Minimum Tax. According to an analysis done by the Joint Committee on Taxation, in the big print the Committee bill promised $1.25 trillion in tax reductions over the next 10 years. However the fine print of the minimum tax will deny $300 billion of that promised relief.

According to the Joint Committee, under present law 3.5 million individual taxpayers will be affected by the minimum tax in 2002 and 20.7 million individual taxpayers will be affected by the minimum tax in the year 2011. Substantially all of those taxpayers will receive no tax relief from the Committee bill. President Bush and the Republican Leadership have advertised their tax reduction plans as benefiting all individual taxpayers. In testimony during the Committee markup of the legislation, the Chief of Staff of the Joint Committee made it clear that the advertising is false.

In addition, millions of other individuals will receive some, but not all, of the promised benefits. The total number of individuals who either will receive nothing or less than the total promised benefits will be 5.3 million in 2001 reaching 35.7 million by 2011.

Many people assume that only individuals with tax preferences are affected by the minimum tax. That assumption is erroneous. The minimum tax does not allow the deduction for State and local income and property taxes and it does not permit families to claim personal exemptions, including those for children. The disallowance of those two benefits accounts for approximately 80% of all minimum tax liability. Taxpayers with children and taxpayers residing in States with incomes taxes, like California, New York, and Massachusetts, are the ones most likely to suffer because of the decision to use the alternative minimum tax to mask the true cost of the Committee bill. It is surprising that the Chairman of the Committee would design and defend legislation when the residents of his own State would be among those most likely not to receive the promised benefits.

For millions of Americans, the Committee bill effectively repeals the deduction for State and local taxes and for personal exemptions. The Reagan/Bush Administration proposed repeal of the deduction for State and local taxes as part of its 1985 tax reform plans. That proposal was met with overwhelming opposition in the Congress. When people understand the implications of the Committee bill, it is reasonable to expect President Bush's proposal for indirect repeal of the deduction for State and local taxes and the deduction for personal exemptions will be faced with the same overwhelming opposition that defeated the Reagan/Bush proposal.

The Republicans are not even honest about the rationale for their tax reduction plans. Last year, when economic growth was strong, the plan was promoted as a way to return the surpluses created by that economic growth. Now, that the economy is slowing, the same plan is being promoted for the opposite reason. The plan has hardly changed. The Committee bill, which is being advertised as a necessary fiscal stimulus, will only provide $5.6 billion to taxpayers before October 1. No reasonable economist would dare suggest that a stimulus of such a size would have any affect on an economy like ours, which exceeds $10.3 trillion.

The Republicans use discredited supply-side theories to claim that their tax reductions will benefit the economy. They fail to mention that their optimistic projections of the economic benefits of the Reagan/Bush 1981 tax reduction plan failed to materialize. They also fail to mention that their predictions that President Clinton's 1993 Budget Act would create a recession were extraordinarily inaccurate. They have been wrong consistently in the past, and there is little reason to bet the economic future of this country on the chance that they might be right this time.

DEMOCRATIC ALTERNATIVE

The Congressional Democrats have united in support of a plan providing dramatic tax relief for Americans, including working families with payroll tax liabilities but not income tax liabilities. The plan would substantially eliminate the marriage penalty for most couples and it would immediately eliminate the estate tax for all of the wealthiest of Americans. The substitute offered in the Committee did not include estate tax relief for parliamentary reasons.

The Democratic plan provides substantial, effective, fiscally responsible, and fair tax relief. As such, it provides more immediate benefits for working Americans than the larger, riskier Bush proposal.

- Substantial.

(1) The Democratic proposal provides a new, lower 12% tax rate on a couple's first $20,000 of taxable income ($10,000 on a single return). This would provide a maximum tax cut of $600 annually for couples and $300 for single taxpayers. Couples who use the standard deduction also would receive "marriage penalty" relief of $225, yielding a total maximum tax cut of $825.

(2) The proposal also provides a refund for lower-income working families worth as much as $320 annually for a couple with two children. Marriage penalty relief would total $528 for this family, yielding a maximum tax cut of $848.

(3) Finally, under the plan over two-thirds of all currently taxable estates would no longer owe any Federal estate tax. (While under current law only 2% of estates are taxed, under the Democratic proposal only .6% of all estates would be taxed.)

- Effective. The income tax provisions of the Democratic plan begin immediately and are fully effective on January 1, 2003. Unlike the Bush plan, there is no lengthy, five-year phase in, with the full promised relief not being provided until 2006. Also beginning January 1, 2002, the Democratic plan provides that estates below $4 million for a married couple would be exempt from federal tax. This exemption amount will increase to $5 million over time. Additionally, in contrast to the Bush proposal, none of the reductions provided in the Democratic proposal would be reduced by the Alternative Minimum Tax.
- Fiscally Responsible. The Democratic plan uses one third of the projected budget surpluses for tax cuts, after the Social Security and Medicare trust funds have been protected. This prudent tax

cut will allow other urgent national short- and long-term needs to be addressed in a manner which does not risk pushing our country back into deficits, if budget projections prove to be inaccurate.

- Fair. The Democratic plan focuses its relief on working couples and families with children by providing an average tax cut over $500. For upper income couples who itemize deductions, the tax cut is limited to $600—a fair share of this tax relief. The top 1% (i.e. those making over about $319,000 per year) will not receive a disproportionate share of the cut under this plan, as opposed to the 43% of benefits they would get under the Bush plan.
- Honesty. In contrast to the Bush proposal, none of the tax reductions promised by the Democratic plan would be denied through technicalities such as the alternative minimum tax.

We are hopeful that the Republican Leadership will abandon its strategy of enacting excessive tax reductions on a partisan basis before locking in place a long-term budget plan. If it abandons that strategy, we would be enthusiastic about working together to enact tax reductions. Working together on a bipartisan basis is the only way we can quickly enact tax relief.

CHARLES B. RANGEL.
ROBERT T. MATSUI.
BEN CARDIN.
JIM TURNER.
JERRY KLECZKA.
WILLIAM J. JEFFERSON.
LLOYD DOGGETT.
XAVIER BECERRA.
MICHAEL R. MCNULTY.
PETE STARK.
WILLIAM J. COYNE.
JOHN LEWIS.
SANDER M. LEVIN.
KAREN L. THURMAN.
RICHARD E. NEAL.
EARL POMEROY.
JIM MCDERMOTT.