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Grassley Highlights Imminent Tax Relief

WASHINGTON -- The bipartisan tax relief bill Congress passed and the President signed into law last spring contains a significant number of tax-cutting provisions that will go into effect soon and should help to build consumer confidence, Sen. Chuck Grassley, ranking member of the Committee on Finance, said today.

"Parts of the economy may be uncertain, but the tax outlook is clear," Grassley said. "Under the law we passed, federal income taxes have declined and will continue to decline over the next 10 years. Taxpayers can take that knowledge to the bank. That doesn't mean Congress should stop there. Our huge economy needs a huge shot in the arm. The next steps to boost the economy should include an effective, tax-cutting economic stimulus package and trade promotion authority for the President to open new markets and to expand the economic pie."

Grassley was chairman of the Committee on Finance when the committee helped to draft the biggest tax cut in 20 years. The *Economic Growth and Tax Relief Reconciliation Act of 2001* contained a generous amount of relief for individual taxpayers. Some of the measure's tax cuts went into effect last year, and many other provisions became effective yesterday, Jan.1, 2002. Grassley said already effective or imminent tax relief provisions include:

A new 10 percent rate bracket. The act created a new 10 percent regular income tax bracket for a part of the taxable income that had been taxed at 15 percent. The 10 percent bracket applies to the first $6,000 of taxable income for single individuals, $10,000 of taxable income for heads of households, and $12,000 for married couples filing jointly. This is effective for taxable years beginning after Dec. 31, 2000. (This provision caused the tax refund checks last summer.)

A reduction in other individual tax rates. The regular income tax rates phase down over six years. Effective July 1, 2001, through 2003, the 28 percent rate is cut to 27 percent, the 31 percent rate is cut to 30 percent, the 36 percent rate is cut to 35 percent, and the 39.6 percent rate is cut to 38.6 percent. (Eventually, the rates become 25 percent, 28 percent, 33 percent and 35 percent, respectively.)

An increase and expansion of the child tax credit. The child credit was expanded to $600 per child for 2001 to 2004, $700 for 2005 to 2008, $800 for 2009 and finally $1,000 for 2010. Further, the child credit was made refundable to the extent of 10 percent of the taxpayer's earned income in excess of $10,000 for 2001 to 2004, increased to 15 percent after 2005. For example, for 2001, a single mother with two children making $15,000 received a credit of $500. This single mother likely will receive a bigger tax refund check when she files her 2001 tax return. This expansion of the child credit will ensure that millions of low-income families will now receive the benefit of the child credit.

An extension and expansion of adoption tax benefits. The tax credit for adoption of a child is increased from $5,000 ($6,000 in the case of a special needs child) to $10,000. This provision significantly eases the financial burden of adoption and encourages adoption. This is in effect for taxable years beginning after Dec. 31, 2001.

A tax credit for employers who provide child care for their employees. This new tax credit provides an incentive for employer-provided, on-site day care facilities. This is effective for taxable years beginning after Dec. 31, 2001.

Marriage penalty relief related to the earned income credit. The earned income credit (which is available only to low-income families) phase-out for married couples is increased by $1,000 immediately, and ultimately increased by $3,000 in 2008. This expansion of the earned income credit will help millions of low-income, married families with children by increasing the amount of earned income credit they receive.

Improvements to education savings accounts (education IRAs). The annual limit on contributions to education savings accounts increases from $500 to $2,000. The definition of qualified education expenses that may be paid tax-free from an education savings account is expanded to include elementary and secondary school expenses. The phase-out range for married taxpayers filing a joint return is increased to become twice the range of single taxpayers. Corporations and other entities, including tax-exempt groups, are permitted to make contributions to education savings accounts. These changes are effective for taxable years beginning after Dec. 31, 2001.

Expanded consideration of pre-paid tuition programs. Several provisions will encourage participation in pre-paid tuition programs for higher education. Investment gains will be tax-free, and private colleges and universities are now able to offer these plans. These provisions are effective for taxable years beginning after Dec. 31, 2001.

An exclusion for employer-provided educational assistance. This extends the exclusion to graduate education and makes the exclusion (for undergraduate and graduate education) permanent, effective for courses beginning after Dec. 31, 2001.

Improvements to the student loan interest deduction. This eliminates the 60-month limit on the deduction of interest from a student loan. The income phase-out ranges for eligibility for the student loan interest deduction increases to $50,000 to $65,000 for individual taxpayers and to $100,000 to $130,000 for married taxpayers filing joint returns. Repealed is the restriction that voluntary payments of interest are not deductible. These provisions are effective after Dec. 31, 2001.

Tax benefits for governmental bonds for public school construction. These benefits are effective for bonds issued after Dec. 31, 2001.

A deduction for college tuition. This provision allows an above-the-line deduction for college tuition expenses. It is intended to help low- and middle-income families pay for college. In 2002 and 2003, individuals with adjusted gross income of $65,000 ($130,000 in the case of a joint return) may deduct $3,000; in 2004 and 2005, for individuals with adjusted gross income of $65,000 ($130,000 in the case of a joint return), $4,000; in the case of a taxpayer with adjusted gross income that does not exceed $80,000 ($160,000 in the case of a joint return) the deduction amount would be $2,000.

Estate and gift tax provisions. The phase-out of the estate tax and the decrease of the gift tax begin in 2002. For example, decedents dying in 2002 will be able to pass on $1 million tax-free to their families.

Pension and retirement account provisions. Extensive changes to rules covering individual retirement arrangements (IRAs) and qualified pension plans include increased contribution limits and catch-up provisions for pensions and IRAs; increased contribution and benefit limits for qualified pension plans; and provisions to enhance fairness for women. This is in effect for taxable years beginning after Dec. 31, 2001. For example, starting yesterday, taxpayers will be able to contribute an additional $1,000 to an IRA.

______**Low- and middle-income saver credit**. The new law provides a non-refundable low- and middle-income credit for retirement savings to a 401(k), 403(b), 457 plan or an IRA. A credit of up to 50 percent of $2,000 in contributions for a married couple with income up to $30,000 ($15,000 for single individuals) is phased out for couples with incomes over $50,000 ($25,000 for single individuals). This is in effect for taxable years beginning after Dec. 31, 2001.

Relief from the individual alternative minimum tax. The individual alternative minimum tax exemption amount increases by $2,000 for single taxpayers and $4,000 for married taxpayers filing joint returns for 2001 through 2004.

For more information on the tax cut provisions, please see document "JCX-50-01" on the Joint Committee on Taxation's web site, www.house.gov/jct/.

Examples of how taxpayers will benefit under the new tax law in 2002:

A **married couple with two children** making $15,000 will pay no income tax. The family will receive $4,487 in tax refunds from changes to the earned income tax credit and from the newly refundable child credit. This amount will be an increase of $681 over the tax refund the family would have had before the new law. By 2006, a family with the same profile will receive a $5,117 refund from the government – an increase of $545 from current law.

A **married couple with two children** making $75,000 will receive the benefit of an $887 reduction in their taxes. But by 2006, their taxes will decline by $1,400. This couple could also make greater contributions to their retirement plan or IRA/Roth IRA. If either parent is age 50 or older, additional catch-up contributions are permitted. Parents (and grandparents) will be permitted to save for their children's elementary, secondary and post-secondary education in both an Education Savings Account and a Sec. 529 Pre-paid College Tuition plan in which investments increase on a tax-free basis *and* distributions are tax-free.

A **couple over age 65**, married and filing jointly, with $30,000 income will see a $600 cut in their taxes. Their tax under current law is $2,160. Their tax liability under the new tax law will reduce their taxes to $1,560. They will benefit from the new 10 percent rate bracket.

A **single mom with one child** and $25,000 income will receive a tax cut of $400. (She will receive an $800 tax cut when the per-child credit is fully phased in from $600 to $1,000. A credit offsets the amount of taxes paid; a deduction counts against taxable income.)