



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Delivers Key Step Toward More Family Tax Relief

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today won Senate passage of a compromise version of his legislation to give Americans more family tax relief. The Senate’s vote resulted after Grassley worked this week to get a bipartisan consensus on a version of his legislation that could pass the Senate and has the best chance of House passage.

“There’s a strong feeling in the Senate that we need more family tax relief, especially for low-income families,” Grassley said. “My thought is, let’s strike while the iron is hot. We can help create jobs and help people provide for their families. I’d like to have even more family tax relief, and I’ll continue to work toward more, but some extra tax relief is better than none.”

Earlier this week, Grassley introduced legislation to restore several family tax relief items that House conferees wanted dropped from the just-passed jobs and economic growth tax relief package. He worked with his colleagues to adjust the bill as needed to produce a good package that could pass quickly, become law, and result in more Americans receiving government checks in the next few weeks. Grassley’s compromise legislation that passed the Senate today 94 to 2 has the following provisions:

(1) An acceleration of the refundability of the child tax credit, a significant benefit for lower income parents in 2003. Grassley agreed to include this provision in his manager’s amendment to the comprehensive tax relief bill, and it passed the full committee and the Senate, but House-Senate conferees dropped it, along with many other provisions.

Grassley said the 2001 tax relief legislation, which he led the Senate in producing, created the refundable child credit. The refundable child credit benefits working families who wouldn’t otherwise have received the child credit because they have too little or no income tax liability. Under refundability, these families receive a government check even though they have little or no income tax liability.

Under the 2001 law, the child credit is refundable to the extent of 10 percent of the taxpayer’s earned income in excess of \$10,000 for 2001 through 2005. The percentage is increased to 15 percent for 2005 and after. The \$10,000 amount was indexed for inflation beginning in 2002. Under the new tax relief law, a family with an eligible child making \$18,500 will get an \$800 check

this year – an increase from \$600 under previous law. Under the new Grassley legislation that passed the Senate today, that family would get a \$1,000 check this year.

Grassley said it's important to remember that the accelerated refundable child credit doesn't include the Earned Income Credit that a family might also receive. For example, under current law, a married couple with two children with income between \$10,350 and \$14,550 will receive a check for \$4,140 for their 2002 return from the Earned Income Credit alone. This couple likely has no federal income tax liability.

(2) Uniform definition of a child, a major tax simplification measure to make filing easier for just about anyone with a child and to increase child-related benefits for hundreds of thousands more taxpayers.

Under current law, a series of different eligibility tests for child-related benefits are a source of complexity for a significant number of taxpayers and for the Internal Revenue Service, Grassley said. Also, they are a source of errors for taxpayers. For more than a decade, tax experts such as those at the Joint Committee on Taxation have recommended a uniform definition of a child as a major tax simplification measure.

Under Grassley's new legislation passed today, the tax code would have a uniform definition of a qualifying child for the dependency exemption, the child credit, the earned income credit, the dependent care credit, and head of household filing status. Under the uniform definition, in general, a child is a qualifying child of a taxpayer if the child satisfies each of three tests: (1) the child has the same principal place of abode as the taxpayer for more than one half the taxable year; (2) the child has a specified relationship to the taxpayer; and (3) the child has not yet attained a specified age.

This simplified, uniform definition would make hundreds of thousands more taxpayers eligible for child-related tax benefits.

"There's a lot more work to do on making taxes easier," Grassley said. "But I'm glad to start with part of the tax code that causes headaches for many Americans every year. And making more families eligible for child-related benefits is important. Those benefits help families prosper, and people should have access to them."

(3) Marriage penalty relief under the child credit. The 2001 tax relief law, which Grassley authored in the Senate, increased the per-child tax credit to \$1,000 per year, phased in over 10 years. The new tax relief law significantly accelerates this credit, moving up the per-child tax credit of \$1,000 to 2003. The law also will make advance payments beginning in 2003, so taxpayers will get a government check in the next few weeks based on their 2002 returns filed in 2003.

Under the new tax relief law, the child tax credit is \$1,000 for 2003 and 2004 only; the child tax credit reverts to current law (from 2001) – \$700 in 2005 through 2008, \$800 in 2009; and \$1,000 in 2010. The entire 2001 package ends after 2010, per the Congressional Budget Act.

Taxpayers eligible for the per-child tax credit have incomes starting at \$10,500 (taxpayers with less income receive the refundable child tax credit and get a check). The per-child tax credit phases out at incomes of over \$75,000 for single individuals or heads of households and \$110,00 for married couples. Under the Grassley compromise proposal the Senate passed today, the phase-out amount for married couples becomes \$150,000 – \$75,000 for each parent – by 2010. This makes the child tax credit the same for married couples as it is for single individuals, thereby eliminating the marriage penalty.

The entire cost of the bill is offset by the extension of existing Customs Service user fees.

“Some tax relief is a no-brainer,” Grassley said. “Helping parents keep a little more money to raise their kids doesn’t require much analysis. I hope the House will act quickly and pass this legislation so we can get it to the President and get more checks out to taxpayers.”

Grassley said taxpayers who file as individuals and don’t claim any children on their tax returns should remember that they’ll receive a significant amount of tax relief in coming months. The new tax relief law contains broad individual tax relief. A significant part of the package’s cost was devoted to accelerating income tax reductions for individuals enacted in the tax cut of 2001 – a bill Grassley authored as Finance Committee chairman. Workers’ paychecks will be fatter after July 1 as companies reduce the amount of tax withheld to reflect reduced income tax rates.