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SENATE

{ REPORT
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MARRIAGE TAX RELIEF RECONCILIATION ACT OF 2000

JULY 5, 2000.—Ordered to be printed

Filed, under authority of the order of the Senate of June 30, 2000

Mr. ROTH, from the Committee on Finance,
submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 2839]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance reported an original bill (S. 2839) to amend the Internal Revenue Code of 1986 to provide marriage tax relief by adjusting the basic standard deduction, the 15-percent and 28-percent rate brackets, and the earned income credit, and to fully allow the nonrefundable personal credits against regular and alternative minimum tax liability, having considered the same, reports favorably thereon and recommends that the bill do pass.

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I. LEGISLATIVE BACKGROUND

Committee markup

The Senate Committee on Finance marked up an original bill (the “Marriage Tax Relief Reconciliation Act of 2000”) on June 28, 2000, and approved the provisions on June 28, 2000 by a roll call vote of 10 yeas and 5 nays, with a quorum present.¹

II. EXPLANATION OF THE BILL

A. STANDARD DEDUCTION FOR MARRIED COUPLES SET AT TWO TIMES THE STANDARD DEDUCTION FOR SINGLE INDIVIDUALS

(sec. 2 of the bill and sec. 63 of the Code)

PRESENT LAW

Marriage penalty and marriage bonus in general

A married couple generally is treated as one tax unit that must pay tax on the couples total taxable income. Although married couples may elect to file separate returns, the rate schedules and other provisions are structured so that filing separate returns usually results in a higher tax than filing a joint return. Other rate schedules apply to single persons and to single heads of households.

A “marriage penalty” exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A “marriage bonus” exists when the combined tax liability of a married couple filing a joint return is less than the sum of the tax liabilities of each individual computed as if they were not married.

While the size of any marriage penalty or bonus under present law depends upon the individuals’ incomes, number of dependents, and itemized deductions, as a general rule married couples whose incomes are split more evenly than 70–30 suffer a marriage penalty. Married couples whose incomes are largely attributable to one spouse generally receive a marriage bonus.

Under present law, the size of the standard deduction and the tax bracket breakpoints follow certain customary ratios across filing statuses. The standard deduction and tax bracket breakpoints for single filers are roughly 60 percent of those for joint filers.² Thus, two single individuals have standard deductions whose sum

¹The Senate Finance Committee ordered to be reported a similar bill (the “Marriage Tax Relief Act of 2000”) on March 30, 2000 (S. Rept. 106–253, April 4, 2000).

²This is not true for the 39.6-percent rate. The beginning point of this rate bracket is the same for all taxpayers regardless of filing status.

exceeds the standard deduction for a married couple filing a joint return.

*Basic standard deduction*³

Taxpayers who do not itemize deductions may choose the basic standard deduction (and additional standard deductions, if applicable), which is subtracted from adjusted gross income (“AGI”) in arriving at taxable income. The size of the basic standard deduction varies according to filing status and is indexed for inflation. For 2000, the size of the basic standard deduction for each filing status is shown in the following table:

Table 1.—Basic Standard Deduction Amounts

<i>Filing status</i>	<i>Amount</i>
Single return	\$4,400
Head of household return	6,450
Married, joint return	7,350
Married, separate return	3,675

For 2000, the basic standard deduction for joint returns is 1.67 times the basic standard deduction for single returns.

REASONS FOR CHANGE

The Committee is concerned that the present-law income tax code treats married couples unfairly. This inequitable treatment, commonly referred to as the marriage tax penalty, may undermine respect for the family and discourage formation of families. In attempting to alleviate the marriage tax penalty, the Committee is forced to balance several competing principles, such as equal tax treatment of married couples with the same overall income level as well as the relative tax burdens of single individuals and married couples with the same income.

The Committee believes that an increase in the standard deduction for married couples filing a joint return along with the other provisions of the bill is a responsible first step towards alleviating the marriage tax penalty and providing marriage tax relief. When fully effective, this provision provides tax relief to approximately 25 million couples filing joint returns, including more than six million returns filed by senior citizens.⁴

This provision also has the added benefit of simplifying the tax code. Approximately three million couples who currently itemize their deductions will realize the simplification benefits of using the increased basic standard deduction under the bill.⁵

EXPLANATION OF PROVISION

The provision increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for a single individual beginning in 2001. The basic standard deduction for a married taxpayer filing separately will continue to equal one-half of the basic standard deduction for a married couple filing jointly.

³ Additional standard deductions are allowed with respect to any individual who is elderly (age 65 or over) or blind.

⁴ Source: Joint Committee on Taxation staff projections of the number of tax returns affected.

⁵ Source: Joint Committee on Taxation staff projections of the number of tax returns affected.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

B. 15-PERCENT AND 28-PERCENT RATE TAX BRACKETS FOR MARRIED COUPLES SET AT TWO TIMES THE CORRESPONDING TAX BRACKETS FOR SINGLE INDIVIDUALS

(sec. 3 of the bill and sec. 1 of the Code)

PRESENT LAW

To determine regular income tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. The income bracket amounts are indexed for inflation. Separate rate schedules apply based on an individual's filing status. In order to limit multiple uses of a graduated rate schedule within a family, the net unearned income of a child under age 14 may be taxed as if it were the parent's income. For 2000, the individual regular income tax rate schedules are shown below. These rates apply to ordinary income; separate rates apply to capital gains.

TABLE 2.—FEDERAL INDIVIDUAL INCOME TAX RATES FOR 2000

If taxable income is:	Then income tax equals:
<i>Single individuals</i>	
\$0–\$26,250	15 percent of taxable income.
\$26,250–\$63,550 ...	\$3,937.50, plus 28% of the amount over \$26,250.
\$63,550–\$132,600	\$14,381.50 plus 31% of the amount over \$63,550.
\$132,600–\$288,350	\$35,787 plus 36% of the amount over \$132,600.
Over \$288,350	\$91,857 plus 39.6% of the amount over \$288,350.
<i>Heads of households</i>	
\$0–\$35,150	15 percent of taxable income.
\$35,150–\$90,800 ...	\$5,272.50 plus 28% of the amount over \$35,150.
\$90,800–\$147,050	\$20,854.50 plus 31% of the amount over \$90,800.
\$147,050–\$288,350	\$38,292 plus 36% of the amount over \$147,050.
Over \$288,350	\$89,160 plus 39.6% of the amount over \$288,350.
<i>Married individuals filing joint returns⁶</i>	
\$0–\$43,850	15 percent of taxable income.
\$43,850–\$105,950	\$6,577.50 plus 28% of the amount over \$43,850.

TABLE 2.—FEDERAL INDIVIDUAL INCOME TAX RATES FOR 2000—Continued

If taxable income is:	Then income tax equals:
\$105,950–\$161,450	\$23,965.50 plus 31% of the amount over \$105,950.
\$161,450–\$288,350	\$41,170.50 plus 36% of the amount over \$161,450.
Over \$288,350	\$86,854.50 plus 39.6% of the amount over \$288,350.

⁶Married individuals filing separately must apply a separate rate structure with tax rate brackets one-half the width of those for married individuals filing joint returns.

REASONS FOR CHANGE

The rate structure in the Code is responsible for causing the greatest dollar amount of marriage tax penalty. After weighing the principles of equal treatment of married couples with the same overall income level and the relative tax burdens of singles and couples with the same income, the Committee believes that the rate structure for married couples filing a joint return should be modified. The expansion of the 15-percent and 28-percent rate brackets, along with the other provisions of the bill, will greatly alleviate the effects of the marriage tax penalty and provide marriage tax relief.

When fully effective, this provision will provide tax relief to 21 million couples filing joint returns, including 3 million returns filed by senior citizens.⁷

EXPLANATION OF PROVISION

The provision increases the size of the 15-percent and 28-percent regular income tax rate brackets for a married couple filing a joint return to twice the size of the corresponding rate brackets for a single individual. This increase is phased in over six years as shown in the following table. Therefore, this provision is fully effective (*i.e.*, the size of the 15-percent and 28-percent regular income tax rate brackets for a married couple filing a joint return is twice the size of the corresponding regular income tax rate brackets for an single individual) for taxable years beginning after December 31, 2006.

<i>Taxable year</i>	<i>Joint Return Rate Bracket as a Percentage of Single Return Rate Bracket</i>
2002	170.3
2003	173.8
2004	180.0
2005	183.2
2006	185.0
2007 and thereafter	200.0

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

⁷Source: Joint Committee on Taxation staff projections on the number of tax returns affected.

C. INCREASE THE BEGINNING POINT AND ENDING POINT OF THE
EARNED INCOME CREDIT PHASEOUT FOR MARRIED COUPLES

(sec. 4 of the Bill and sec. 32 of the Code)

PRESENT LAW

Certain eligible low-income workers are entitled to claim a refundable earned income credit ('EIC') on their income tax return. A refundable credit is a credit that not only reduces an individual's income tax liability but allows refunds to the individual of amounts in excess of income tax liability. The amount of the credit an eligible individual may claim depends upon whether the individual has one, more than one, or no qualifying children, and is determined by multiplying the credit rate by the individual's earned income up to an earned income amount. The maximum amount of the credit is the product of the credit rate and the earned income amount. The credit is phased out above certain income levels. For individuals with earned income (or modified AGI, if greater) in excess of the beginning of the phaseout, the maximum credit amount is reduced by the phase-out rate multiplied by the earned income (or modified AGI, if greater) in excess of the beginning of the phaseout. For individuals with earned income (or modified AGI, if greater) in excess of the end of the phaseout, no credit is allowed. In the case of a married individual who files a joint return, the income for purposes of these tests is the combined income of the couple.

The parameters of the credit for 2000 are provided in the following table.

TABLE 3.—EARNED INCOME CREDIT PARAMETERS (2000)

	Two or more qualifying children	One qualifying child	No qualifying children
Credit rate (percent)	40.00	34.00	7.65
Earned income amount	\$9,720	\$6,920	\$4,610
Maximum credit	\$3,888	\$2,353	\$353
Phase-out begins	\$12,690	\$12,690	\$5,770
Phase-out rate (percent)	21.06	15.98	7.65
Phase-out ends	\$31,152	\$27,413	\$10,380

REASONS FOR CHANGE

The Committee believes that the present-law EIC phaseout unfairly penalizes some individuals because they receive a smaller EIC when they marry than if they had not married. The Committee believes that this provision will help alleviate the marriage tax penalty and provide marriage tax relief to many families receiving the EIC. Reducing this inequity will help approximately four million couples. This includes an extension of the EIC to almost one million married couples who do not currently qualify for the credit.⁸

EXPLANATION OF PROVISION

The provision increases the beginning and ending income levels of the phase-out of the EIC for married couples filing a joint return

⁸Source: Joint Committee on Taxation staff projections of the number of tax returns affected.

by \$2,500. The beginning and ending income levels of the phase-out of the EIC (including the \$2,500 increase for joint returns) will continue to be indexed for inflation, as under present law. The effect of the provision is to increase the EIC for taxpayers in the income phase-out by an amount up to \$2,500 times the phase-out rate. For example, for couples with two or more qualifying children, the maximum increase in the EIC as a result of the proposal is \$2,500 times 21.06 percent, or \$526.50. The provision also expands the number of married couples eligible for the EIC. Specifically, the \$2,500 increase makes married couples with earnings up to \$2,500 beyond the present-law phase-out eligible for the EIC.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

D. PRESERVE FAMILY TAX CREDITS FROM THE ALTERNATIVE MINIMUM TAX

(sec. 5 of the Bill and secs. 24, 26, 32, and 904 of the Code)

PRESENT LAW

In general

Present law provides for certain nonrefundable personal tax credits (i.e., the dependent care credit, the credit for the elderly and disabled, the adoption credit, the child credit, the credit for interest on certain home mortgages, the HOPE Scholarship and Lifetime Learning credits, and the D.C. homebuyer's credit). Except for taxable years beginning during 1998–2001, these credits are allowed only to the extent that the individual's regular income tax liability exceeds the individual's tentative minimum tax, determined without regard to the minimum tax foreign tax credit. For taxable years beginning during 1998 and 1999, these credits are allowed to the extent of the full amount of the individual's regular tax (without regard to the tentative minimum tax). For taxable years beginning during 2000 and 2001, the nonrefundable personal credits may offset both the regular tax and the minimum tax.⁹

An individual's tentative minimum tax is an amount equal to (1) 26 percent of the first \$175,000 (\$87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income ("AMTI") in excess of a phased-out exemption amount plus (2) 28 percent of the remaining AMTI, if any. The maximum tax rates on net capital gain used in computing the tentative minimum tax are the same as under the regular tax. AMTI is the individual's taxable income adjusted to take account of specified preferences and adjustments. The exemption amounts are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of other unmarried individuals; and (3) \$22,500 in the case of married individuals filing a separate return, estates and trusts. The exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) \$150,000 in the case of married individuals

⁹The foreign tax credit is allowed before the personal credits in computing the regular tax for these years.

filing a joint return and surviving spouses, (2) \$112,500 in the case of other unmarried individuals, and (3) \$75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

Reduction of refundable credits by alternative minimum tax

Refundable credits may offset tax liability determined under present-law tax rates and allow refunds to an individual in excess of income tax liability. However, the refundable child credit (beginning in taxable years beginning after December 31, 2001) and the earned income credit are reduced by the amount of the individual's alternative minimum tax.

REASONS FOR CHANGE

The Committee is concerned that many family tax credits are being cut back or eliminated because of the alternative minimum tax. The Committee believes that these nonrefundable personal credits (e.g., the child credit or the HOPE and Lifetime Learning credits) should be preserved from the effects of the minimum tax. Families also should be able to use the refundable credits without limitation by reason of the minimum tax.

This provision will also have the added benefit of simplifying the tax Code. Millions of taxpayers will no longer face the burden of making minimum tax computations for the purpose of determining their personal credits.

EXPLANATION OF PROVISION

The provision permanently extends the present-law temporary provision that allows the nonrefundable personal credits to offset both the regular tax and the minimum tax.¹⁰

Also, the provision permanently repeals the reduction of the refundable credits by the amount of an individual's alternative minimum tax.

EFFECTIVE DATE

The provisions are effective for taxable years beginning after December 31, 2001.

E. COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

(sec. 6 of the bill)

PRESENT LAW

Reconciliation is a procedure under the Congressional Budget Act of 1974 ("the Budget Act") by which Congress implements spending and tax policies contained in a budget resolution. The Budget Act contains numerous rules enforcing the scope of items permitted to be considered under budget reconciliation process. One such rule, the so-called "Byrd rule," was incorporated into the Budget Act in 1990. The Byrd rule, named after its principal sponsor, Senator Robert C. Byrd, is contained in section 313 of the Budget Act. The Byrd rule is generally interpreted to permit members to make a

¹⁰The foreign tax credit will continue to be allowed before the personal credits in computing the regular tax.

motion to strike extraneous provisions (those which are unrelated to the deficit reduction goals of the reconciliation process) from either a budget reconciliation bill or a conference report on such bill.

Under the Byrd rule, a provision is considered to be extraneous if it falls under one or more of the following six definitions:

- (1) it does not produce a change in outlays or revenues;
- (2) it produces an outlay increase or revenue decrease when the instructed committee is not in compliance with its instructions;
- (3) it is outside of the jurisdiction of the committee that submitted the title or provision for inclusion in the reconciliation measure;
- (4) it produces a change in outlays or revenues which is merely incidental to the non-budgetary components of the provision;
- (5) it would increase the deficit for a fiscal year beyond those covered by the reconciliation measure; and
- (6) it recommends changes in Social Security.

REASONS FOR CHANGE

The Committee intends to comply with the Budget Act.

EXPLANATION OF PROVISION

To ensure compliance with the Budget Act, the provision provides that all provisions of, and amendments made by, this bill shall cease to apply for taxable years beginning after December 31, 2004.

EFFECTIVE DATE

The provision is effective on date of enactment.

III. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATES

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following statement is made concerning the estimated budget effects of the provisions of the bill as reported.

The bill, as reported, is estimated to have the following budget effects for fiscal years 2001–2010.

ESTIMATED BUDGET EFFECTS OF THE "MARRIAGE TAX RELIEF RECONCILIATION ACT OF 2000," AS REPORTED BY THE COMMITTEE ON FINANCE

[By fiscal years, in millions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-05	2001-10
1. \$2,500 increase to the beginning and ending income levels for the EIC phaseout for married filing jointly; sunset 12/31/04 ¹ .	tyba 12/31/00	-8	-1,570	-1,541	-1,558	-1,580	.....	.....	.....	.....	.....	-6,257	-6,257
2. Standard deduction set at 2 times single for married filing jointly; sunset 12/31/04.	tyba 12/31/00	-4,105	-6,003	-6,383	-6,523	1,959	.....	.....	.....	.....	.....	-24,973	-24,973
3. 15% and 28% rate bracket set at 2 times single for married filing jointly, phased in over 6 years; sunset 12/31/04.	tyba 12/31/01 .....	.....	-1,717	-4,370	-8,464	-2,972	.....	.....	.....	.....	.....	-17,523	-17,523
4. Permanent extension of AMT treatment of refundable and nonrefundable personal credits; sunset 12/31/04.	tyba 12/31/01 .....	.....	-305	-1,638	-2,312	-2,591	.....	.....	.....	.....	.....	-6,846	-6,846
Net Total .....	.....	-4,113	-9,595	-13,932	-18,857	-9,102	.....	.....	.....	.....	.....	-55,599	-55,599

¹ Estimate includes the following effects on fiscal year outlays: 2001—7; 2002—1,345; 2003—1,311; 2004—1,321; 2005—1,336; 2006—; 2007—; 2008—; 2009—; 2010—; 2001-05—5,320; 2001-10—5,320. 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. BUDGET AUTHORITY AND TAX EXPENDITURES

Budget authority

In compliance with section 308(a)(1) of the Budget Act, the Committee states that the provisions of the bill as reported involve no new or increased budget authority.

Tax expenditures

In compliance with section 308(a)(2) of the Budget Act, the Committee states that the revenue-reducing income tax provisions involve increased tax expenditures (See revenue table in Part III.A., above.)

C. CONSULTATION WITH THE CONGRESSIONAL BUDGET OFFICE

In accordance with section 403 of the Budget Act, the Committee advises that the Congressional Budget office has [has not] submitted a statement on this bill.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 30, 2000.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for the Marriage Tax Relief Reconciliation Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Hester Grippando.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

Marriage Tax Relief Reconciliation Act of 2000

Summary: The Marriage Tax Relief Reconciliation Act of 2000 would increase the basic standard deduction for a married couple filing a joint return to twice that of a taxpayer filing a single return. The bill would also expand the 15-percent and 28-percent regular income tax rate brackets for a married couple filing a joint return. In addition, the bill would extend the current Alternative Minimum Tax (AMT) treatment of refundable and non-refundable personal credits. Finally, the bill would increase by \$2,500 the beginning and ending income levels for phasing out the Earned Income Credit (EIC) for married couples filing jointly. All provisions in the bill would expire on December 31, 2004.

The Joint Committee on Taxation (JCT) estimates that the bill would decrease revenues by \$4 billion in 2001 and by \$50 billion over the 2001–2005 period. In addition, JCT estimates that the bill would increase direct spending—the outlay effect of the EIC changes—by about \$7 million in 2001 and by \$5 billion over the 2001–2005 period. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

Estimated cost to the Federal Government: The estimated budgetary impact of the bill is shown in the following table. JCT provided all revenue and outlay estimates of provisions for the bill. Because the bill's provisions would expire on December 31, 2004, there would not be any budgetary effect after 2005.

	By fiscal year, in millions of dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN REVENUES						
Estimated revenues	0	-4,106	-8,250	-12,621	-17,536	-7,766
CHANGES IN DIRECT SPENDING						
Estimated budget authority	0	7	1,345	1,311	1,321	1,336
Estimated outlays	0	7	1,345	1,311	1,321	1,336

Source: Joint Committee on Taxation.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table.

	By fiscal year, in millions of dollars					
	2000	2001	2002	2003	2004	2005
Changes in receipts	0	-4,106	-8,250	-12,621	-17,536	-7,766
Changes in outlays	0	7	1,345	1,311	1,321	1,336

Intergovernmental and private-sector impact: As estimated by JCT, the bill contains no intergovernmental or private-sector mandates as defined in UMRA.

Estimate prepared by: Hester Grippando.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

IV. VOTES OF THE COMMITTEE

In compliance with paragraph 7(b) of Rule XXVI of the Standing Rules of the Senate, the following statements are made concerning the roll call votes in the Committee's consideration of the bill.

Motion to report the bill

The bill was ordered favorably reported by a roll call vote of 10 yeas and 5 nays on June 28, 2000. If proxies were allowed in reporting a measure, the vote would have been 11 yeas and 9 nays. A quorum was present. The vote was as follows:

Yeas—Senators Roth, Grassley, Hatch (proxy), Murkowski, Nickles, Gramm, Lott, Jeffords, Mack, Thompson, Coverdell.

Nays—Senators Moynihan, Baucus (proxy), Rockefeller, Breaux (proxy), Conrad, Graham (proxy), Bryan, Kerrey (proxy), Robb.

Votes on other amendments

An amendment in the nature of a substitute by Senator Moynihan to allow married couples with AGI below \$150,000 to file as two single filers on the same return was defeated by a roll call vote of 9 yeas and 11 nays. The vote was as follows:

Yeas—Senators Moynihan, Baucus, Rockefeller, Breaux, Conrad, Graham (proxy), Bryan, Kerrey, Robb.

Nays—Senators Roth, Grassley, Hatch (proxy), Murkowski, Nickles, Gramm, Lott, Jeffords, Mack, Thompson, Coverdell.

An amendment by Senators Conrad and Baucus to create a lockbox for the Social Security and Medicare Trust Funds was ruled by the chair to be non-germane under the Committee rules. Senator Conrad moved to waive the ruling of the Chairman and a procedural roll call vote was ordered. Under the Committee rules, two-thirds of the members present are required to vote to overturn the ruling of the Chairman. The motion failed, by a vote of 6 yeas and 11 nays. The vote was as follows:

Yeas—Senators Moynihan, Rockefeller, Conrad, Bryan, Kerrey, Robb.

Nays—Senators Roth, Grassley, Hatch, Murkowski, Nickles, Gramm, Lott, Jeffords, Mack, Thompson, Coverdell.

V. REGULATORY IMPACT AND OTHER MATTERS

A. REGULATORY IMPACT

Pursuant to paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of the bill as reported.

Impact on individuals and businesses

The bill: (1) increases the basic standard deduction for married couples filing a joint return; (2) increases the width of the 15-percent and 28-percent rate brackets for married couples filing a joint return; (3) increases the beginning and ending points of the phase-out of the earned income credit for married couples filing a joint return; (4) permanently extends the provision that allows the non-refundable personal credits to offset both the regular tax and the minimum tax and permanently repeals the reduction of the refundable credits by the amount of an individual's alternative minimum tax; and (5) sunsets the provisions of the bill to comply with the Congressional Budget Act. These provisions will reduce the tax burden on affected individual taxpayers for taxable years beginning before January 1, 2005. The bill will have no impact on businesses.

Impact on personal privacy and paperwork

The bill should not have any adverse impact on personal privacy. No additional paperwork will be required by the provisions of the bill.

B. UNFUNDED MANDATES STATEMENT

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.

C. 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 the 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 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. STANDARD DEDUCTION TAX RELIEF (SEC. 2 OF THE BILL)

Summary description of provision

The bill increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual for taxable years beginning after December 31, 2000.

Number of affected taxpayers

It is estimated that the provision will affect approximately twenty-five million individual tax returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. The higher basic standard deduction 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 individuals’ tax preparation costs.

Some taxpayers who currently itemize deductions may respond to the provision by claiming the increased standard deduction in lieu of itemizing. According to estimates by the staff of the Joint Committee on Taxation, approximately three million individual tax returns will realize greater tax savings from the increased standard deduction than from itemizing their deductions. In addition to the tax savings, such taxpayers will no longer have to file Schedule A to Form 1040 or need to engage in the record keeping inherent in itemizing below-the-line deductions. Moreover, by claiming the standard deduction, such taxpayers may qualify to use simpler versions of the Form 1040 (i.e., Form 1040EZ or Form 1040A) that are not available to individuals who itemize their deductions. These forms simplify the return preparation process by eliminating from

the Form 1040 those items that do not apply to a particular taxpayer.

This reduction in complexity and record keeping may also result in a decline in the number of individuals using a tax preparation service (or a decline in the cost of using such a service). Furthermore, if the provision results in a taxpayer qualifying to use one of the simpler versions of the Form 1040, the taxpayer may be eligible to file a paperless Federal tax return by telephone. The provision also should reduce the number of disputes between taxpayers and the IRS regarding substantiation of itemized deductions.

2. EXPANSION OF THE 15-PERCENT AND 28-PERCENT RATE BRACKET FOR MARRIED COUPLES FILING A JOINT RETURN (SEC. 3 OF THE BILL)

Summary description of provision

The provision increases the size of the 15-percent and 28-percent regular income tax rate brackets for married couple filing a joint return to twice the size of the corresponding rate brackets for an unmarried individual. This increase is phased in over six years beginning for taxable years beginning after December 31, 2001. It is fully effective for taxable years beginning after December 31, 2006.

Number of affected taxpayers

It is estimated that the provision will affect approximately twenty-one million individual tax returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. The increased size of the 15-percent and 28-percent regular income tax rate brackets for married couples filing joint returns should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision.

3. INTERACTIVE EFFECT OF THE ALTERNATIVE MINIMUM TAX RULES

Both provisions (*i.e.*, the standard deduction tax relief and the expanded 15-percent and 28-percent rate brackets) are affected by the alternative minimum tax (“AMT”) rules. Specifically, because neither provision makes corresponding changes to the alternative minimum tax regime other than the allowance of the nonrefundable personal credits against the AMT, 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 2005, less than two million additional individual income tax returns who benefit from the provisions will be required to include a calculation of the tentative minimum tax and file the appropriate alternative minimum tax forms. By the year 2009, this number is expected to rise to over seven million additional individual income tax returns. At the same time, however, by 2009, there will be approximately two million individual income tax returns that will be relieved of the burden of the AMT calculations by virtue of the extension of the nonrefundable personal credits against the AMT.

For taxpayers who have to calculate the tentative minimum tax and file the appropriate alternative minimum tax forms, it could be

expected that the interaction of the provisions with the alternative minimum tax rules would result in an increase in tax preparation costs and in the number of individuals using a tax preparation service.

4. SUNSET THE PROVISIONS OF THE ACT (SEC. 6 OF THE BILL)

Summary description of provision

The provision sunsets the provisions and amendments made by this Act for taxable years beginning after December 31, 2004.

Number of affected taxpayers

It is estimated that the provision would affect almost all individuals affected by the other provisions of the bill.

Discussion

The provision would reverse any simplification achieved under the other provisions of the bill. Specifically, two categories of individuals would have additional record keeping and tax return filing complexity. First, individuals, who switch from itemized deductions to the increased standard deduction under the bill, would likely switch back to more complicated itemized deductions when the increased standard deduction sunsets. Second, individuals, who are relieved of the AMT calculations under the bill, would be required to make such AMT calculations after the sunset. The sunset provision also can be expected to result in an increase in the tax preparation cost of individuals using a tax preparation service.

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, June 29, 2000.

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

DEAR MS. PAULL: I am enclosing our comments and those of the Treasury Department on the two provisions from the Senate Committee on Finance markup of "The Marriage Tax Relief Reconciliation Act of 2000" that you identified for complexity analysis in your letter of June 26, 2000. Our comments are based on the description of those provisions in JCX-64-00, Joint Committee on Taxation, Description of a Chairman's Mark of The Marriage Tax Relief Reconciliation Act of 2000, June 26, 2000.

Because of the short turnaround time, our comments are provisional and may change after we've completed our analysis.

Sincerely,

CHARLES O. ROSSOTTI.

Enclosure.

COMPLEXITY ANALYSIS OF PROVISIONS FROM THE
MARRIAGE TAX RELIEF ACT OF 2000

STANDARD DEDUCTION

Provision: Increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual (effective

for taxable years beginning after December 31, 2000, and terminated for taxable years beginning after December 31, 2004).

IRS and Treasury Comments:

- The increase in the basic standard deduction for married taxpayers would be incorporated in the 2001–2004 Forms 1040, 1040A, 1040EZ, and 1040–ES. No new forms would be required.

- Programming changes would be required to reflect the increased standard deduction for married taxpayers in tax years 2001–2004, and termination of the increase in tax year 2005. Currently, IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.

- The provision would increase the number of alternative minimum tax (AMT) filers, and would also cause additional taxpayers to perform AMT calculations only to determine that they do not have any AMT liability. Treasury estimates that if made applicable at tax year 2010 levels, the separate provision to make permanent the temporary provision to eliminate restrictions on the use of nonrefundable personal tax credits would decrease the number of taxpayers incurring liability due to the AMT by 3.7 million. With the AMT provision in place, if fully phased in the increase in the standard deduction together with the provision to increase the width of the 15-percent and 28-percent income tax rate brackets for married persons would increase the number of taxpayers with liability due to the AMT by 9.9 million. Thus, the net effect of the proposal is to increase the number of taxpayers with liability due to the AMT by 6.2 million.*

15-PERCENT AND 28-PERCENT RATE BRACKETS

Provision: Increase the maximum taxable income in the 15-percent and 28-percent regular income tax rate brackets for a married couple filing a joint return to twice the maximum taxable income in those rate brackets for an unmarried individual (phased in over 6 years beginning in 2002 but terminated for taxable years beginning after December 31, 2004).

IRS and Treasury Comments:

- The phased in increase in the width of the 15-percent and 28-percent rate brackets for married taxpayers would be incorporated into the tax tables and the tax rate schedules shown in the instructions for Form 1040, 1040A, 1040EZ, and 1040NR, and on Form 1040–ES, for tax years 2002–2004. No new forms would be required.

- Programming changes would be required to reflect the increased width of the 15-percent and 28-percent rate brackets for married taxpayers in tax years 2002–2004, and termination of the increase in tax year 2005. Cur-

*These Treasury estimates reflect the updated economic assumptions used in the Mid-Session Budget Review. Hence, the AMT impact reported here differs from the AMT impact reported in our March 31, 2000 comments on similar provisions in the “Marriage Tax Relief Act of 2000.”

rently, IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.

- The provision would increase the number of AMT filers, and would also cause additional taxpayers to perform AMT calculations only to determine that they do not have any AMT liability. See comments on standard deduction for Treasury's estimate of the combined impact of this provision on the increase in the standard deduction on AMT filing when fully phased in and at tax year 2010 levels.

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

In the opinion of the Committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of Rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee).

VII. MINORITY VIEWS

For the second time in three months, the Finance Committee is considering a marriage penalty relief bill that only partly addresses the marriage penalty. While Democratic members of the Committee strongly support marriage penalty relief, we cannot support the Chairman's proposal because it continues to be costly and inefficient, and it fails to eliminate the marriage penalty. Democratic members of the Committee have the following specific objections to the bill.

First, many Democratic members believe the best thing we can do with on-budget surpluses is to pay down the federal debt. All Democratic members agree that if we are going to have tax cuts, however, we should consider them in a comprehensive fashion that allows us to balance priorities. Instead, this Congress is considering tax cuts in piecemeal fashion. Although the magnitude of any one individual proposal may not threaten our expected 10-year budget surplus, Congress has already passed—in one chamber or the other—\$551 billion in tax cuts (including the marriage tax proposal passed earlier this year by this Committee). The 10-year price tag on these cuts, however, is not exhaustive. The cuts come with an additional cost. For every dollar that goes toward cutting taxes rather than paying down debt, there is a corresponding interest cost. For example, the interest cost associated with the \$551 billion in tax cuts already passed is \$127 billion. The country wants a responsible Congress that allocates the surplus to provide sufficient funds for reducing the national debt, bolstering Medicare and Social Security, and investing in other priority programs such as a prescription drug benefit. With that in mind, we would like to thank the Chairman for committing to mark up a Medicare reform bill, in the next few weeks, that includes a prescription drug benefit. It is a commitment we share, and we pledge to work on a bipartisan basis toward that goal.

Second, while several of the marriage penalty bill's provisions have merit as tax policy matters, the bill is not targeted at eliminating the marriage penalty. Instead, the standard deduction and bracket expansion proposals would increase the marriage *bonus* for millions of couples. The Department of Treasury's analysis of the bill instructs that less than half of the benefits would actually reduce marriage penalties.

Third, the bill does not comprehensively address the marriage penalty. Of the 65 known provisions in the Internal Revenue Code that have a marriage penalty effect, the Committee-passed bill eliminates only one and partially addresses only two more. If the committee bill is enacted, we will have made little progress in eliminating discrimination in the tax code based on marital status.

Finally, because the bill does not completely exempt its marriage penalty relief benefits from the alternative minimum tax ("AMT")

calculation, some 5 million taxpayers would immediately lose those benefits as a consequence of becoming newly subject to the AMT.

In March of this year, Democratic members of the Committee proposed an alternative marriage penalty relief bill which was more comprehensive, more targeted, and more generous to those actually experiencing a marriage penalty than the majority proposal. However, Committee Republicans rejected it, opting for a flawed proposal identical to the one they have passed. In this markup, Finance Committee Democrats made another good faith proposal that varies slightly from the March proposal. The new version directs its marriage penalty relief to lower and middle income couples, who need relief most. It caps the benefit according to income, beginning to phase out at adjusted gross income of \$100,000 and phasing out completely at AGI of \$150,000.

The Finance Committee Democrats' marriage penalty relief proposal is a comprehensive, targeted, and fiscally responsible approach. Democrats believe, first of all, that if we are going to address the marriage penalty, we must do it comprehensively. The Democratic alternative would give married couples the option of calculating their tax liability as single individuals or as a couple. When fully phased in by 2004, this approach would *eliminate* the penalty for eligible couples by allowing them to choose whichever marital status is more beneficial. Optional separate tax liability calculations would address all aspects of the marriage penalty, including penalties associated with such divergent matters as the taxation of social security benefits, education tax incentives, and retirement savings. Moreover, this proposal would eliminate the penalty inherent in the earned income tax credit (the "EITC")—the most severe marriage penalty in the tax code—which creates a substantial disincentive to marry for EITC beneficiaries. Finally, the benefits of this approach would also be available under the AMT.

Perhaps the most striking difference between this approach and the Republican plan is the targeting of benefits. The Democratic alternative would dedicate 100 percent of its benefits to fixing the marriage penalty problem and would not spend resources on expanding marriage bonuses.

Permitting married couples to calculate tax liability as if they were two single individuals is not a new concept. Nine states and the District of Columbia allow married couples to pay taxes on their separate incomes as if they were single. And in 1994, 19 of the 27 OECD countries provided one rate schedule whether taxpayers were married or single. Countries such as Canada, Australia and the United Kingdom treat each individual as a tax-paying unit. Thus, in those countries marriage has little effect on the couple's tax liability.

Optional separate filing is the correct approach. We urge the Senate to consider the alternative proposed by Finance Committee Democrats.

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MAX BAUCUS.
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KENT CONRAD.
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