

**SUMMARY OF PROVISIONS CONTAINED IN THE  
CONFERENCE AGREEMENT FOR H.R. 1836,  
THE ECONOMIC GROWTH AND TAX RELIEF  
RECONCILIATION ACT OF 2001**

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of the  
JOINT COMMITTEE ON TAXATION



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## INTRODUCTION

This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation, contains a summary of the provisions contained in the conference agreement for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001, as approved by the conference committee on May 25, 2001.

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Summary of Provisions Contained in the Conference Agreement for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001*, JCX-50-01 (May 26, 2001).

## I. MARGINAL TAX RATE REDUCTIONS

### A. Individual Income Tax Rate Structure

#### New 10-percent rate bracket

The conference agreement creates a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. The 10-percent rate bracket applies to the first \$6,000 of taxable income for single individuals (\$7,000 for 2008 and thereafter), \$10,000 of taxable income for heads of households, and \$12,000 for married couples filing joint returns (\$14,000 for 2008 and thereafter).

#### Reduction in individual income tax rates

The conference agreement also reduces the other regular income tax rates, effective July 1, 2001. The present-law regular income tax rates of 28 percent, 31 percent, 36 percent, and 39.6 percent are phased-down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001.

Table 1, below, shows the schedule of regular income tax rate reductions.

**Table 1.--Regular Income Tax Rate Reductions**

<b>Calendar Year</b>	<b>28% rate reduced to:</b>	<b>31% rate reduced to:</b>	<b>36% rate reduced to:</b>	<b>39.6% rate reduced to:</b>
2001 <sup>1</sup> -2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

<sup>1</sup> Effective July 1, 2001.

#### Rate reduction credit for 2001

The conference agreement includes a rate reduction credit for 2001 to deliver the benefit of the new 10-percent income tax rate bracket during calendar year 2001. Under the conference agreement, taxpayers would be entitled to a credit in tax year 2001 of 5 percent (the difference between the 15-percent rate and the 10-percent rate) of the amount of income that would otherwise be eligible for the new 10-percent rate. Thus, the maximum credit will be \$300 in the case of a single individual, \$500 in the case of a head of household, and \$600 in the case of a married couple filing a joint return. This credit is in lieu of the 10 percent rate bracket for 2001.

Most taxpayers will receive this credit in the form of a check issued by the Department of the Treasury. It is anticipated that the Department of the Treasury will make every effort to issue all checks before October 1, 2001, to taxpayers who timely filed their 2000 tax returns. Taxpayers who filed late or pursuant to extensions will receive their checks later in the fall.

## **B. Phase-Out of Itemized Deductions**

The conference agreement eliminates the overall limitation on itemized deductions for all taxpayers. The otherwise applicable overall limitation on itemized deductions is reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation is eliminated for taxable years beginning after December 31, 2009.

## **C. Phase-Out of Restrictions on Personal Exemptions**

The conference agreement phases out the restrictions on personal exemptions. Under the conference agreement, the otherwise applicable personal exemption phase-out is reduced by one-third in taxable years beginning in 2006 and 2007, and is reduced by two-thirds in taxable years beginning in 2008 and 2009. The provision is fully effective for taxable years beginning after December 31, 2009.

## **II. TAX BENEFITS RELATING TO CHILDREN**

### **A. Increase and Expand the Child Tax Credit**

The conference agreement increases the child tax credit to \$1,000, phased-in over ten years, effective for taxable years beginning after December 31, 2000.

Table 2, below, shows the increase of the child tax credit.

**Table 2.--Increase of the Child Tax Credit**

<b>Calendar Year</b>	<b>Credit Amount Per Child</b>
2001-2004	\$600
2005-2008	\$700
2009	\$800
2010 and later	\$1,000

The conference agreement makes the child credit refundable to the extent of 10 percent of the taxpayer's earned income in excess of \$10,000 for calendar years 2001-2004. The percentage is increased to 15 percent for calendar years 2005 and thereafter. The \$10,000 amount is indexed for inflation beginning in 2002. Families with three or more children are allowed a refundable credit for the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit (the present-law rule), if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of \$10,000. The conference agreement provides that the refundable portion of the child credit does not constitute income and shall not be treated as resources for purposes of determining eligibility or the amount or nature of benefits or assistance under any Federal program or any State or local program financed with Federal funds.

The conference agreement provides that the refundable child tax credit will no longer be reduced by the amount of the alternative minimum tax. In addition, the conference agreement allows the child tax credit to the extent of the full amount of the individual's regular income tax and alternative minimum tax.

The provision generally is effective for taxable years beginning after December 31, 2000. The provision relating to allowing the child tax credit against alternative minimum tax is effective for taxable years beginning after December 31, 2001.

### **B. Extension and Expansion of Adoption Tax Benefits**

The conference agreement permanently extends the adoption credit for children other than special needs children. The maximum credit is increased to \$10,000 per eligible child, including special needs children. A \$10,000 credit is provided in the year a special needs adoption is finalized regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range is increased to \$150,000 of modified adjusted gross income. Finally, the adoption credit is allowed against the alternative minimum tax permanently.

The conference agreement permanently extends the exclusion from income for employer-provided adoption assistance. The maximum exclusion is increased to \$10,000 per eligible child, including special needs children. In the case of a special needs adoption, the exclusion is provided regardless of whether the taxpayer has qualified adoption expenses. The beginning point of the income phase-out range is increased to \$150,000 of modified adjusted gross income. The conference agreement generally is effective for taxable years beginning after December 31, 2001. The provisions that extend the tax credit and exclusion from income for special needs adoptions regardless of whether the taxpayer has qualified adoption expenses are effective for taxable years beginning after December 31, 2002.

### **C. Expansion of Dependent Care Tax Credit**

The conference agreement increases the maximum amount of eligible employment-related expenses from \$2,400 to \$3,000, if there is one qualifying individual (from \$4,800 to \$6,000, if there are two or more qualifying individuals) and increases the maximum credit from 30 percent to 35 percent. The conference agreement modifies the phase-down of the credit so that it begins at \$15,000 of adjusted gross income. The provision is effective for taxable years beginning after December 31, 2001.

### **D. Tax Credit for Employer-Provided Child Care Facilities**

Under the Senate amendment, taxpayers receive a tax credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. The maximum total credit that may be claimed by a taxpayer cannot exceed \$150,000 per taxable year. The provision is effective for taxable years beginning after December 31, 2001.

### III. MARRIAGE PENALTY RELIEF PROVISIONS

#### A. Standard Deduction Marriage Penalty Relief

The conference agreement increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a single return. This increase is phased-in over five years beginning in 2005 and would be fully phased-in for 2009 and thereafter. Table 3, below, shows the standard deduction for married couples filing a joint return as a percentage of the standard deduction for single individuals during the phase-in period.

**Table 3.--Phase-In of Increase of Standard Deduction  
for Married Couples Filing Joint Returns**

<b>Calendar Year</b>	<b>Standard Deduction for Joint Returns as Percentage of Standard Deduction for Single Returns</b>
2005	174%
2006	184%
2007	187%
2008	190%
2009 and later	200%

#### B. Expansion of the 15-Percent Rate Bracket For Married Couples Filing Joint Returns

The conference agreement increases the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. The increase is phased-in over four years, beginning in 2005. Table 4, below, shows the increase in the size of the 15-percent bracket during the phase-in period.

**Table 4.--Increase in Size of 15-Percent Rate Bracket  
for Married Couples Filing a Joint Return**

<b><u>Taxable year</u></b>	<b><u>End point of 15-percent rate bracket for married couple filing joint return as percentage of end point of 15-percent rate bracket for unmarried individuals</u></b>
2005	180%
2006	187%
2007	193%
2008 and thereafter	200%

## **C. Marriage Penalty Relief and Simplification Relating to the Earned Income Credit**

For married taxpayers who file a joint return, the conference agreement increases the beginning and ending of the earned income credit phase-out by \$1,000 in the case of taxable years beginning in 2002-2004; by \$2,000 in the case of taxable years beginning in 2005-2007; and by \$3,000 in the case of taxable years beginning after 2007. The \$3,000 amount is to be adjusted annually for inflation after 2008.

The conference agreement simplifies the definition of earned income by excluding nontaxable employee compensation from the definition of earned income for earned income credit purposes. The conference agreement repeals the present-law provision that reduces the earned income credit by the amount of an individual's alternative minimum tax.

The conference agreement adopts a simplified definition of a child for purposes of the earned income credit and modifies the present-law tie-breaking rules. The conference agreement also simplifies the calculation of the earned income credit by replacing modified adjusted gross income with adjusted gross income.

The conference agreement authorizes the IRS, beginning in 2004, to use math error authority to deny the earned income credit if the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of the child with respect to whom the credit is claimed.

The conference agreement generally is effective for taxable years beginning after December 31, 2001. The provision to authorize the IRS to use math error authority if the Federal Case Registry of Child Support Orders indicates the taxpayer is the noncustodial parent is effective beginning in 2004.

## **IV. EDUCATION INCENTIVES**

### **A. Modifications to Education IRAs**

The conference agreement increases the annual limit on contributions to education IRAs from \$500 to \$2,000. The conference agreement expands the definition of qualified education expenses that may be paid tax-free from an education IRA to include elementary and secondary school expenses. The conference agreement increases the phase-out range for married taxpayers filing a joint return so that it is twice the range for single taxpayers. Thus, the phase-out range for married taxpayers filing a joint return is \$190,000 to \$220,000 of modified adjusted gross income.

The conference agreement provides that various age limitations do not apply to special needs beneficiaries.

The conference agreement clarifies that corporations and other entities (including tax-exempt organizations) are permitted to make contributions to education IRAs, regardless of the income of the corporation or entity during the year of the contribution.



The conference agreement allows a taxpayer to claim a HOPE credit or Lifetime Learning credit for a taxable year and to exclude from gross income amounts distributed (both the contributions and the earnings portions) from an education IRA on behalf of the same student as long as the distribution is not used for the same educational expenses for which a credit was claimed.

The conference agreement repeals the excise tax on contributions made by any person to an education IRA on behalf of a beneficiary during any taxable year in which any contributions are made by anyone to a qualified State tuition program on behalf of the same beneficiary.

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

### **B. Private Prepaid Tuition Programs; Exclusion From Gross Income of Education Distributions From Qualified Tuition Programs**

The conference agreement expands the definition of “qualified tuition program” to include certain prepaid tuition programs established and maintained by one or more eligible educational institutions (which may be private institutions) that satisfy the requirements under section 529 (other than the present-law State sponsorship rule). In the case of a qualified tuition program maintained by one or more private eligible educational institutions, persons are able to purchase tuition credits or certificates on behalf of a designated beneficiary (as set forth in sec. 529(b)(1)(A)(i)), but would not be able to make contributions to a savings account plan (as described in sec. 529(b)(1)(A)(ii)).

The conference agreement modifies the definition of qualified higher education expenses to include expenses of a special needs beneficiary that are necessary in connection with his or her enrollment or attendance at the eligible education institution.

Under the conference agreement, an exclusion from gross income is provided for distributions from qualified tuition programs to the extent that the distribution is used to pay for qualified higher education expenses.

The conference agreement allows a taxpayer to claim a HOPE credit or Lifetime Learning credit for a taxable year and to exclude from gross income amounts distributed (both the principal and the earnings portions) from a qualified tuition program on behalf of the same student as long as the distribution is not used for the same expenses for which a credit was claimed.

The conference agreement provides that a transfer of credits (or other amounts) from one qualified tuition program for the benefit of a designated beneficiary to another qualified tuition program for the benefit of the same beneficiary is not considered a distribution. This rollover treatment does not apply to more than one transfer within any 12-month period with respect to the same beneficiary.

The conference agreement eliminates the present-law penalty on distributions not used for higher education expenses and instead applies the same additional tax that applies to education IRAs. The conference agreement provides that assets of qualified tuition plans of private institutions must be held in trust.

The provisions are effective for taxable years beginning after December 31, 2001, except that the exclusion from gross income for certain distributions from a qualified tuition program established and maintained by an entity other than a State (or agency or instrumentality thereof) is effective for taxable years beginning after December 31, 2003.

### **C. Exclusion for Employer-Provided Educational Assistance**

The conference agreement extends the exclusion for employer-provided educational assistance to graduate education and makes the exclusion (as applied to both undergraduate and graduate education) permanent, effective with respect to courses beginning after December 31, 2001.

### **D. Modifications to Student Loan Interest Deduction**

The conference agreement increases the income phase-out ranges for eligibility for the student loan interest deduction to \$50,000 to \$65,000 for single taxpayers and to \$100,000 to \$130,000 for married taxpayers filing joint returns. These income phase-out ranges are adjusted annually for inflation after 2002. The conference agreement repeals both the limit on the number of months during which interest paid on a qualified education loan is deductible and the restriction that voluntary payments of interest are not deductible. The provision is effective for interest paid on qualified education loans after December 31, 2001.

### **E. Eliminate Tax on Awards Under the National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program**

The conference agreement provides that amounts received by an individual under the NHSC Scholarship Program or the Armed Forces Scholarship Program are eligible for tax-free treatment as qualified scholarships under section 117, without regard to any service obligation by the recipient. As with other qualified scholarships under section 117, the tax-free treatment does not apply to amounts received by students for regular living expenses, including room and board. The provision is effective for education awards received after December 31, 2001.

### **F. Tax Benefits for Certain Types of Bonds for Educational Facilities and Activities**

The additional amount of governmental bonds for public schools that small governmental units may issue without being subject to the arbitrage rebate requirements is increased from \$5 million to \$10 million. Thus, these governmental units may issue up to \$15 million of governmental bonds in a calendar year provided that at least \$10 million of the bonds are used to finance public school construction expenditures.

The private activities for which tax-exempt bonds may be issued are expanded to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local educational agency. The term school facility includes school buildings and functionally related and subordinate land (including stadiums or other athletic facilities primarily used for school events)<sup>2</sup> and depreciable personal property used in the school facility. The school facilities for which these bonds are issued must be operated by a public educational agency as part of a system of public schools.

The provisions are effective for bonds issued after December 31, 2001.

### **G. Deduction for Qualified Higher Education Expenses**

The conference agreement permits taxpayers an above-the-line deduction for qualified higher education expenses paid by the taxpayer during a taxable year. Qualified higher education expenses are defined in the same manner as for purposes of the HOPE credit.

In 2002 and 2003, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married couples filing joint returns) are entitled to a maximum deduction of \$3,000 per year. Taxpayers with adjusted gross income above these thresholds would not be entitled to a deduction. In 2004 and 2005, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000 in the case of married taxpayers filing joint returns) are entitled to a maximum deduction of \$4,000 and taxpayers with adjusted gross income that does not exceed \$80,000 (\$160,000 in the case of married taxpayers filing joint returns) are entitled to a maximum deduction of \$2,000.

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

## **V. ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAX PROVISIONS**

### **A. Phase-out and Repeal of Estate and Generation-Skipping Transfer Taxes; Increase in Gift Tax Unified Credit Effective Exemption**

Under the conference agreement, in 2002, the 5-percent surtax (which phases out the benefit of the graduated rates) and the rates in excess of 50 percent are repealed. In addition, in 2002, the unified credit effective exemption amount (for both estate and gift tax purposes) is increased to \$1 million. In 2003, the estate and gift tax rates in excess of 49 percent are repealed. In 2004, the estate and gift tax rates in excess of 48 percent are repealed, and the unified credit effective exemption amount for estate tax purposes is increased to \$1.5 million. (The unified credit effective exemption amount for gift tax purposes remains at \$1 million as increased in 2002.) In addition, in 2004, the family-owned business deduction is repealed. In 2005, the estate and gift tax rates in excess of

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<sup>2</sup> The present-law limit on the amount of the proceeds of a private activity bond issue that may be used to finance land acquisition does not apply to these bonds.

47 percent are repealed. In 2006, the estate and gift tax rates in excess of 46 percent are repealed, and the unified credit effective exemption amount for estate tax purposes is increased to \$2 million. In 2007, the estate and gift tax rates in excess of 45 percent are repealed. In 2009, the unified credit effective exemption amount is increased to \$3.5 million. In 2010, the estate and generation-skipping transfer taxes are repealed.

From 2002 through 2009, the estate and gift tax rates and unified credit effective exemption amount for estate tax purposes are as shown in Table 5, below.

**Table 5.--Estate and Gift Tax Rates and Unified Credit Exemption Amount**

<b>Calendar year</b>	<b>Estate and GST tax deathtime transfer exemption</b>	<b>Highest estate and gift tax rates</b>
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	N/A (taxes repealed)	top individual rate under the bill (gift tax only)

In 2010, the estate and generation-skipping transfer taxes are repealed. Also beginning in 2010, the top gift tax rate will be the top individual income tax rate as provided under the bill, and, except as provided in regulations, a transfer to trust will be treated as a taxable gift, unless the trust is treated as wholly owned by the donor or the donor's spouse under the grantor trust provisions of the Code.

After repeal of the estate and generation-skipping transfer taxes, the present-law rules providing for a fair market value (i.e., stepped-up) basis for property acquired from a decedent are repealed. A modified carryover basis regime generally takes effect, which provides that recipients of property transferred at the decedent's death will receive a basis equal to the lesser of the adjusted basis of the decedent or the fair market value of the property on the date of the decedent's death.

Under the conference agreement, from 2002 through 2004, the State death tax credit allowable under present law is reduced as follows: in 2002, the State death tax credit is reduced by 25 percent (from present law amounts); in 2003, the State death tax credit is reduced by 50 percent (from present law amounts); and in 2004, the State death tax credit is reduced by 75 percent (from present law amounts). In 2005, the State death tax credit is repealed, after which there will be a deduction for death taxes (e.g., any estate, inheritance, legacy, or succession taxes) actually paid to any State or the District of Columbia, in respect of property included in the gross estate of the decedent. Such

State taxes must have been paid and claimed before the later of: (1) four years after the filing of the estate tax return; or (2) (a) 60 days after a decision of the U.S. Tax Court determining the estate tax liability becomes final, (b) the expiration of the period of extension to pay estate taxes over time under section 6166, or (c) the expiration of the period of limitations in which to file a claim for refund or 60 days after a decision of a court in which such refund suit has become final.

The estate and gift rate reductions, increases in the estate tax unified credit exemption equivalent amounts and generation-skipping transfer tax exemption amount, and reductions in and repeal of the state death tax credit are phased-in over time, beginning with estates of decedents dying and gifts and generation-skipping transfers after December 31, 2001.

### **B. Expand Estate Tax Rule for Conservation Easements**

The conference agreement expands availability of qualified conservation easements by eliminating the requirement that the land be located within a certain distance from a metropolitan area, national park, wilderness area, or Urban National Forest. Thus, under the conference agreement, a qualified conservation easement may be claimed with respect to any land that is located in the United States or its possessions. The provisions are effective for estates of decedents dying after December 31, 2000.

### **C. Modify Generation-Skipping Transfer Tax Rules**

The conference agreement makes the following modifications to the generation-skipping transfer tax provisions:

- (1) Deemed allocation of the generation-skipping transfer tax exemption to lifetime transfers to trusts that are not direct skips;
- (2) Retroactive allocation of the generation-skipping tax exemption;
- (3) Severing of trusts holding property having an inclusion ratio of greater than zero;
- (4) Modification of certain valuation rules;
- (5) Relief from late elections; and
- (6) Substantial compliance.

The provisions are generally effective after December 31, 2000.

### **D. Availability of Installment Payment Relief**

The conference agreement expands the availability of installment payment rules to qualified lending and finance business interests and certain holding company stock. In addition, the conference agreement increases from 15 to 45 the number of partners of a

partnership or shareholders in a corporation eligible for installment payments of estate tax. The provisions are effective for decedents dying after December 31, 2001.

#### **E. Estate Tax Recapture from Cash Rents of Specially-Valued Property**

The conference agreement provides that, if on the date of enactment or at any time within one year after the date of enactment, a claim for refund or credit of any overpayment of tax resulting from the application of net cash lease provisions for spouses and lineal descendants (sec. 2032A(c)(7)(E)) is barred by operation of law or rule of law, then the refund or credit of such overpayment shall, nonetheless, be allowed if a claim therefore is filed before the date that is one year after the date of enactment. This provision is effective for refund claims filed prior to the date that is one year after the date of enactment.

### **VI. PENSION AND INDIVIDUAL RETIREMENT ARRANGEMENT PROVISIONS**

The conference agreement makes extensive changes to the rules relating to individual retirement arrangements (“IRAs”) and qualified pension plans. Among the changes included in the conference agreement are the following provisions:

- (1) Increased contribution limits and catch-up contributions to IRAs;
- (2) Provisions for expanding coverage, including increased contribution and benefit limits for qualified plans, increases in elective deferral limits, and a credit for certain elective deferrals and IRA contributions;
- (3) Provisions to enhance fairness for women, including additional catch-up contributions for individuals over age 50;
- (4) Provisions for increasing portability for plan participants;
- (5) Provisions for strengthening pension security and enforcement; and
- (6) Provisions for reducing regulatory burdens.

### **VII. AMT RELIEF**

The conference agreement increase the individual alternative minimum tax exemption amount by \$2,000 (for single taxpayers) and \$4,000 for married taxpayers filing joint returns for 2001 through 2004.

### **VIII. MISCELLANEOUS PROVISIONS**

#### **Corporate estimated tax**

The conference agreement provides that corporate estimated tax payments due on September 15, 2001, are delayed until October 1, 2001, and a portion of corporate estimated tax payments due on September 15, 2004, are delayed until October 1, 2004.

**Authority to postpone certain tax-related deadlines by reason of Presidentially declared disaster**

The conference agreement permits the Secretary of the Treasury to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a Presidentially declared disaster. The provision is effective upon enactment.

**Income tax treatment of certain restitution payments to Holocaust victims**

The conference agreement provides that excludable restitution payments made to an eligible individual (or the individual's heirs or estate) are: (1) excluded from gross income; and (2) not taken into account for any provision of the Code that takes into account excludable gross income in computing adjusted gross income (e.g., taxation of Social Security benefits). The provision is effective for amounts received on or after January 1, 2000, with no inference with respect to the income tax treatment of any amount received before January 1, 2000.

**IX. SUNSET**

To ensure compliance with the Congressional Budget Act of 1974, the conference agreement provides that all provisions of the bill generally do not apply for taxable, plan or limitation years beginning after December 31, 2010.