109TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
109–304

TAX RELIEF EXTENSION RECONCILIATION ACT OF 2005

NOVEMBER 17, 2005.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

REPORT

together with

DISSENTING VIEWS

[To accompany H.R. 4297]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 4297) to provide for reconciliation pursuant to section 201(b) of the concurrent resolution on the budget for fiscal year 2006, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986. In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the staff of the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986.

This bill contains provisions that would temporarily lower the after-tax cost of capital, providing incentives for additional investment in productive capital, which will likely result in a small increase in economic growth. They include the two-year extensions of reductions in the rate of taxation of dividends and realized capital gains, the two-year extension of the changes to section 179 expensing, and the one-year extension and revision of the tax credit for research and experimentation. These provisions represent small changes in the after-tax cost of capital. The temporary nature of these incentives increases the amount of uncertainty associated with modeling the effects of these proposals on the macro-economy. Modeling the effects of such proposals requires making assumptions about taxpayers' expectations about the future of these proposals, as well as adjusting their responses in light of those assumptions. Empirical evidence on taxpayers' expectations about future tax policy and likely response to temporary incentives is inconclusive. The expected effects of these provisions on timing of investment have been incorporated in the conventional revenue estimates for these proposals. While we estimate that these provisions would have a positive effect on economic growth, that effect is small relative to the amount of uncertainty associated with this estimate.

In addition, this bill contains a number of provisions differentially affecting both corporate and non-corporate businesses as well as differentially affecting small sub-sectors of the economy. The resulting re-allocation of relative tax burden among these different business sectors could have positive or negative implications for economic efficiency, and hence, long-term growth. The size of these provisions is also small in relation to the U.S. economy. Finally, the net increase in the U.S. Federal government deficit is likely to crowd out some domestic investment in the long run.

Thus, we estimate that the effects of the bill on economic activity are so small relative to the size of the economy and the degree of uncertainty associated with the estimate as to be incalculable within the context of a model of the aggregate economy.

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

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that the bill was a result of the Committee's budget reconciliation instructions.