

**DESCRIPTION OF THE ECONOMIC GROWTH
AND TAX RELIEF ACT OF 2001**

Scheduled for Markup

before the

HOUSE COMMITTEE ON WAYS AND MEANS

on March 1, 2001

Prepared by

the Staff of the

JOINT COMMITTEE ON TAXATION



JCX-03-01
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INTRODUCTION

The House Committee on Ways and Means has scheduled a markup for March 1, 2001, on the Economic Growth and Tax Relief Act of 2001.

This document,¹ prepared by the staff of the Joint Committee on Taxation, contains a description of the provisions of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of the Economic Growth and Tax Relief Act of 2001* (JCX-03-01), February 27, 2001.

Individual Income Tax Rate Structure

Present Law

Under the Federal individual income tax system, an individual who is a United States citizen or noncitizen resident generally is subject to tax on worldwide taxable income. Taxable income is total gross income less certain exclusions, exemptions, and deductions. An individual may claim either a standard deduction or itemized deductions.

An individual's income tax liability is determined by computing his or her regular income tax liability and, if applicable, alternative minimum tax liability.

Regular income tax liability

Regular income tax liability is determined by applying the regular income tax rate schedules (or tax tables) to the individual's taxable income and then is reduced by any applicable tax credits. The regular income tax rate schedules are divided into several ranges of income, known as income brackets, and the marginal tax rate increases as the individual's income increases. The income bracket amounts are adjusted annually for inflation. Separate rate schedules apply based on filing status: single individuals (other than heads of households and surviving spouses), heads of households, married individuals filing joint returns (including surviving spouses), married individuals filing separate returns, and estates and trusts. Lower rates may apply to capital gains.

For 2001, the regular income tax rate schedules for individuals are shown in Table 1., below. The rate bracket breakpoints for married individuals filing separate returns are exactly one-half of the rate brackets for married individuals filing joint returns. A separate, compressed rate schedule applies to estates and trusts.

Table 1.--Individual Regular Income Tax Rates for 2001

If taxable income is:	Then regular income tax equals:
<i>Single individuals</i>	
\$0-27,050.....	15 percent of taxable income
\$27,050-\$65,550.....	\$4,057.50, plus 28% of the amount over \$27,050
\$65,550-\$136,750.....	\$14,837.50, plus 31% of the amount over \$65,550
\$136,750-\$297,350.....	\$36,909.50, plus 36% of the amount over \$136,750
Over \$297,350.....	\$94,725.50, plus 39.6% of the amount over \$297,350
<i>Heads of households</i>	
\$0-\$36,250.....	15 percent of taxable income
\$36,250-\$93,650.....	\$5,437.50, plus 28% of the amount over \$36,250
\$93,650-\$151,650.....	\$21,509.50, plus 31% of the amount over \$93,650
\$151,650-\$297,350.....	\$39,489.50, plus 36% of the amount over \$151,650
Over \$297,350.....	\$91,941.50, plus 39.6% of the amount over \$297,350
<i>Married individuals filing joint returns</i>	
\$0-\$45,200.....	15 percent of taxable income
\$45,200-\$109,250.....	\$6,780.00, plus 28% of the amount over \$45,200
\$109,250-\$166,500.....	\$24,714.50, plus 31% of the amount over \$109,250
\$166,500-\$297,350.....	\$42,461.50, plus 36% of the amount over \$166,500
Over \$297,350.....	\$89,567.50, plus 39.6% of the amount over \$297,350

Alternative minimum tax liability

In general

An individual's alternative minimum tax equals the excess of the individual's tentative alternative minimum tax liability over his or her regular income tax liability. Tentative alternative minimum tax liability is determined by applying specified rates (shown in Table 2., below) to alternative minimum taxable income in excess of specified exemption amounts. Alternative minimum taxable income generally is the individual's regular taxable income increased by certain preference items and other adjustments. The basic structure of the alternative minimum tax (such as exemption amounts and rate brackets) is not adjusted annually for inflation. The lower regular income tax rates on capital gains also apply under the alternative minimum tax.

Table 2.--Individual Alternative Minimum Tax Rates

If alternative minimum taxable income in excess of the applicable exemption is:	Then tentative alternative minimum tax equals:
\$0-175,000	26 percent of alternative minimum taxable income in excess of applicable exemption amount
Over \$175,000.....	\$45,500, plus 28% of the amount over \$175,000

Through 2001, an individual generally may reduce his or her tentative alternative minimum tax liability by nonrefundable personal tax credits (such as the \$500 child tax credit and the adoption tax credit). For taxable years beginning after December 31, 2001, nonrefundable personal tax credits may not reduce an individual's income tax liability below his or her tentative alternative minimum tax.

AMT offset of refundable tax credits

An individual's alternative minimum tax liability reduces the amount of the refundable earned income credit and, for taxable years beginning after December 31, 2001, the amount of the refundable child credit for families with three or more children. This is known as the AMT offset of refundable credits.

Description of Proposal

In general

The proposal would create a new low-rate regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The proposal would reduce other regular income tax rates and consolidate rate brackets. By 2006, the present-law structure of five regular income tax rates (15 percent, 28 percent, 31 percent, 36 percent and 39.6 percent) would be reduced to four rates of 10 percent, 15 percent, 25 percent, and 33 percent. The proposal would repeal the present-law provisions that offset the refundable child credit and the earned income credit by the amount of the alternative minimum tax.

New low-rate bracket

The proposal would establish a new regular income tax rate bracket for a portion of taxable income that is currently taxed at 15 percent, as shown in Table 3., below. The taxable income levels for the new low-rate bracket would be adjusted annually for inflation for taxable years beginning after December 31, 2006.

Table 3.--Proposed New Low-Rate Bracket

Calendar Year	Taxable Income			Proposed New Rate
	Single Individuals	Heads of Household	Married Filing Joint Returns	
2001-2002	0-\$6,000	0-\$10,000	0-\$12,000	12%
2003-2005	0-\$6,000	0-\$10,000	0-\$12,000	11%
2006	0-\$6,000	0-\$10,000	0-\$12,000	10%
2007 and later	Adjust annually for inflation			10%

Modification of 15-percent bracket

The 15-percent regular income tax bracket would be modified to begin at the end of the new low-rate regular income tax bracket. The 15-percent regular income tax bracket would end at the same level as under present law.

Reduction of other rates and consolidation of rate brackets

The present-law regular income tax rates of 28 percent and 31 percent would be phased down to 25 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 25-percent rate bracket would begin at the level at which the 28-percent rate bracket begins under present law and end at the level at which the 31-percent rate bracket ends under present law.

The present-law regular income tax rates of 36 percent and 39.6 percent would be phased down to 33 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 33 percent-rate bracket would begin at the level at which the 36-percent rate bracket begins under present law.

Table 4., below, shows the schedule of proposed regular income tax rate reductions.

Table 4.--Proposed Regular Income Tax Rate Reductions

Calendar Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

Projected regular income tax rate schedules under the proposal

Table 5., below, shows the projected individual regular income tax rate schedules when the rate reductions are fully phased in (i.e., for 2006). As under present law, the rate brackets for married taxpayers filing separate returns would be one half the rate brackets for married individuals filing joint returns. In addition, appropriate adjustments would be made to the separate, compressed rate schedule for estate and trusts.

Table 5.--Individual Regular Income Tax Rates for 2006 (Projected)

If taxable income is:	Then regular income tax equals:
	<i>Single individuals</i>
\$0-6,000.....	10 percent of taxable income
\$6,000-30,950	\$600, plus 15 percent of the amount over \$6,000
\$30,950-\$156,300.....	\$4,342.50, plus 25% of the amount over \$30,950
Over \$156,300.....	\$35,680, plus 33% of the amount over \$156,300
	<i>Heads of households</i>
\$0-\$10,000.....	10 percent of taxable income
\$10,000-\$41,450.....	\$1,000, plus 15% of the amount over \$10,000
\$41,450-\$173,300.....	\$5,717.50, plus 25% of the amount over \$41,450
Over \$173,300.....	\$38,680, plus 33% of the amount over \$173,300
	<i>Married individuals filing joint returns</i>
\$0-\$12,000.....	10 percent of taxable income
\$12,000-\$51,700.....	\$1,200, plus 15% of the amount over \$12,000
\$51,700-\$190,300.....	\$7155, plus 25% of the amount over \$51,700
\$190,300.....	\$41,805, plus 33% of the amount over \$190,300

AMT offset of refundable tax credits

The proposal would repeal the present-law provisions that offset the refundable child credit and the earned income credit by the amount of the alternative minimum tax.

Revised wage withholding for 2001

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate income tax withholding tables or computational procedures for the withholding of income taxes from wages paid by employers. The Secretary would be expected to make appropriate revisions to the wage withholding tables to reflect the proposed rate reduction for calendar year 2001 as expeditiously as possible.

Effective Date

The proposals generally would apply to taxable years beginning after December 31, 2000.