

**COMPARISON OF REVENUE PROVISIONS OF H.R. 3734
(WELFARE REFORM RECONCILIATION ACT OF 1996)
AS PASSED BY THE HOUSE AND SENATE**

Prepared for the Use of the House and Senate Conferees

By the Staff

of the

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

H.R. 3734 ("Welfare Reform Reconciliation Act of 1996") was passed by the House of Representatives on July 18, 1996. H.R. 3734 ("Personal Responsibility, Work Opportunity, and Medicaid Restructuring Act of 1996") was passed by the Senate on July 23, 1996.

This document,¹ prepared by the Staff of the Joint Committee on Taxation, provides a comparison of the revenue provisions of the House and Senate bills.

¹ This document may be cited as follows, Joint Committee on Taxation, *Comparison of Revenue Provisions of H.R. 3734 (Welfare Reform Reconciliation Act of 1996) as Passed by the House and Senate* (JCX-39-96), July 25, 1996.

<i>Item</i>	<i>Present Law</i>	<i>House Bill</i>	<i>Senate Bill</i>
<p>COMPARISON OF DIFFERING REVENUE PROVISIONS</p> <p>A. Earned income credit provisions (sec. 4451 of the House bill and secs. 2451 and 2911-2913 of the Senate bill)</p>	<p>a. Certain eligible low-income workers are entitled to claim a refundable credit on their income tax return. 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. For individuals with earned income (or adjusted gross income (AGI), if greater) in excess of the beginning of the phaseout range, the maximum credit amount is reduced by the phaseout rate multiplied by the amount of earned income (or AGI, if greater) in excess of the beginning of the phaseout range. For individuals with earned</p>	<p>a. No provision.</p>	<p>a. Modifies the definition of AGI used for phasing out the credit by disregarding the following losses:</p> <ul style="list-style-type: none"> (1) net capital losses (if greater than zero), (2) net losses from trusts and estates, (3) net losses from nonbusiness rents and royalties, and (4) net losses from businesses. <p>and including the following items:</p> <ul style="list-style-type: none"> (1) tax-exempt interest, and (2) nontaxable distributions (that are not rolled over) from pensions, annuities, and individual retirement arrangements.

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	<p>income (or AGI, if greater) in excess of the end of the phaseout range, no credit is allowed.</p> <p>b. A qualifying child must meet a relationship test, an age test, an identification test, and a residence test. To satisfy the identification test, individuals must include on their tax return the name and age of each qualifying child. For returns filed with respect to tax year 1996, individuals must provide a taxpayer identification number (TIN) for all qualifying children born on or before November 30, 1996. For returns filed with respect to tax year 1997 and all subsequent years, individuals must provide TINs for all qualifying children, regardless of their age. An individual's TIN is generally that individual's social security number.</p>	<p>b. Individuals are not eligible for the credit if they do not include their taxpayer identification number (and, if married, their spouse's taxpayer identification number) on their tax return. Solely for these purposes a taxpayer identification number is defined as a social security number. If an individual obtains a social security number solely because that individual is an applicant for, or a recipient of, Federally funded benefits, the individual is ineligible to claim the credit.</p> <p>If an individual fails to provide a correct taxpayer identification number, such omission will be treated as a mathematical or clerical error.</p>	<p>Effective date. -- Generally taxable years beginning after December 31, 1995. For individuals receiving the credit on an advance basis as of June 26, 1996, effective for taxable years beginning after December 31, 1996.</p> <p>b. Same as the House bill.</p>

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	<p>The Internal Revenue Service may summarily assess additional tax due as a result of a mathematical or clerical error without sending the taxpayer a notice of deficiency and giving the taxpayer an opportunity to petition the Tax Court. Where the IRS uses the summary assessment procedure for mathematical or clerical errors, the taxpayer must be given an explanation of the asserted error and a period of 60 days to request that the IRS abate its assessment.</p> <p>c. For taxable years beginning after December 31, 1995, an individual is not eligible for the credit if the aggregate amount of "disqualified income" of the taxpayer for the taxable year exceeds \$2,350. This threshold is not indexed. Disqualified income is the sum of (1) interest (taxable and tax-exempt), (2) dividends, and (3) net rent and royalty income (if greater than zero).</p>	<p>If an individual who claims the credit with respect to net earnings from self-employment fails to pay the proper amount of self-employment tax on such net earnings, the failure will be treated as a mathematical or clerical error for purposes of the amount of credit allowed.</p> <p><u>Effective date.</u> -- Taxable years beginning after December 31, 1995.</p> <p>c. No provision.</p>	<p><u>Effective date.</u> -- Same as the House bill.</p> <p>c. Adds capital gain net income (if greater than zero) and net passive income (if greater than zero) that is not self-employment income to the definition of disqualified income. The threshold above which an individual is not eligible for the credit is reduced from \$2,350 to \$2,200, and the threshold is indexed for inflation after 1996.</p>

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	<p>d. To claim the credit, an individual must either have a qualifying child or meet other requirements. In order to claim a credit without a qualifying child, an individual must not be a dependent and must be over age 24 and under age 65. The earned income amount and the beginning of the phaseout range are indexed for inflation; because the end of the phaseout range depends on these amounts as well as the phaseout rate and the credit rate, the end of the phaseout range will also increase if there is inflation.</p>	<p>d. No provision.</p>	<p><u>Effective date.</u> -- Generally taxable years beginning after December 31, 1995. For individuals receiving the credit on an advance basis as of June 26, 1996, effective for taxable years beginning after December 31, 1996.</p> <p>d. In the case of individuals with no qualifying children there will be no adjustment for inflation after 1996 to the earned income amount or the beginning of the phaseout range.</p> <p><u>Effective date.</u> -- Taxable years beginning after December 31, 1996.</p>

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<p>B. Credit, exclusion and IRA withdrawals for qualified adoption expenses (sec. 2813 of the Senate amendment)</p>	<p>Present law provides no specific Federal tax benefits to encourage adoption.</p>	<p>No provision.</p>	<p><u>Credit</u>.--Provides individual taxpayers with a maximum refundable credit of \$5,000 per child for qualified adoption expenses. Qualified adoption expenses are reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to the legal and finalized adoption of a child by the taxpayer and that are not incurred in violation of State or Federal law or in carrying out any surrogate parenting arrangement. The term qualified adoption expenses does not include any expenses in connection with the adoption of a child who is the child of the taxpayer's spouse.</p> <p>The credit is phased out ratably between \$60,000 and \$100,000 of the taxpayer's adjusted gross income (AGI). The credit is not allowed for any expense that is the basis of another credit or deduction. It is also not allowed for any expense to the extent that funds for such expense are</p>

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			<p>received by the taxpayer under any Federal, State, or local grant program.</p> <p><u>Income exclusion.</u>--Provides an unlimited exclusion from the gross income of an employee for qualified adoption expenses (as defined above) paid by the employer. Qualified adoption expenses can be provided through a cafeteria plan. Military adoption assistance benefits are also excluded from income under the provision.</p> <p><u>IRA withdrawals.</u>-- Amounts withdrawn from an individual retirement arrangement for qualified adoption expenses (as defined above) are not includible in gross income and are not subject to the 10-percent tax on early withdrawals to the extent that the amount withdrawn exceeds the sum of : (1) the amount of excludable employer-provided adoption assistance (described above); and (2) the amount allowable under the adoption credit</p>

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			<p>(described above); provided that the amount withdrawn does not exceed the qualified adoption expenses paid or incurred by the taxpayer during the taxable year.</p> <p><u>Effective date.</u>--Taxable years beginning after December 31, 1996.</p>