

SUMMARY

OF

H.R. 3477

THE TAX REDUCTION

AND

SIMPLIFICATION ACT OF 1977

(As Agreed to by the Conferees)

PREPARED BY THE

STAFF OF THE

JOINT COMMITTEE ON TAXATION



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P R E F A C E

This document is a summary of the conference agreement on H.R. 3477, the Tax Reduction and Simplification Act of 1977, prepared for the use of Members of Congress and their staffs.

The Committee on Ways and Means favorably reported H.R. 3477 on February 24, 1977 (H. Rept. 95-27). The House of Representatives passed the bill on March 8, 1977. The Committee on Finance favorably reported the bill with amendments on March 28, 1977 (S. Rept. 95-66). The Senate passed the bill with further amendments on April 29, 1977. The Committee of Conference met on May 3, 1977, to resolve the differences between the two Houses and the conference report was filed in the House of Representatives on May 6, 1977 (H. Rept. 95-263).

In view of the significant revisions in the Internal Revenue Code contemplated by this legislation, the limitations of attempting to characterize such revisions properly in a "summary" should be borne in mind. In resolving any question of interpretation of the conference agreement, reference must be made to the conference report and to the respective House and Senate committee reports. These official reports are the ultimate source of legislative and interpretive authority. This document is intended to serve merely as a convenient condensation of the conference agreement's principal provisions.

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TITLE I—REDUCTION AND SIMPLIFICATION OF INDIVIDUAL INCOME TAXES

Sec. 101. Standard deduction changes

Under present law, the standard deduction is 16 percent of adjusted gross income with a minimum of \$1,700 for single persons and \$2,100 for joint returns; and a maximum of \$2,400 for single persons and \$2,800 for joint returns. Under the conference agreement, the standard deduction is a flat \$2,200 for single persons and \$3,200 for joint returns.

Sec. 102. Simplification changes

Under present law, taxpayers with taxable income of \$20,000 or less compute their taxable income and look up their tax (before credits) in a tax table. (Taxpayers with taxable income of \$20,000 or more use the tax rate schedules.) This requires that they compute and subtract from adjusted gross income their standard deduction (or itemized deductions) and their personal exemptions to obtain taxable income. After obtaining the tax from the tax table, taxpayers must compute the general tax credit, which is the greater of \$35 per person or 2 percent of taxable income up to \$9,000 (a maximum credit of \$180) and subtract that credit to obtain their tax after credit.

Under the conference agreement, the tax tables are revised to substantially reduce complication for most taxpayers. The new tax tables will be based on "tax table" income and the number of exemptions. For taxpayers using the standard deduction, "tax table" income is adjusted gross income. The personal exemptions, the standard deduction and the general tax credit will be built into the tax tables. The new tax look-up table will also be made available to taxpayers who itemize their deductions. They will have to subtract their itemized deductions in excess of the new standard deduction to obtain "tax table" income. About 96 percent of taxpayers will be able to use the new tables. For consistency, the tax rates are changed to apply above a "zero bracket amount" equal to the new standard deduction amount. (Under present law, the tax rate applies to the first dollar in the bracket.)

In order to base the tax table on the number of exemptions, the conference agreement makes the \$35 per capita tax credit available for the additional exemptions for age and blindness and limits married individuals filing separately to the \$35 per capita credit. These changes apply to taxable years beginning after December 31, 1976.

Sec. 103. Extension of individual tax reductions

The conference agreement extends both the general tax credit and the earned income credit through 1978. These two tax reductions, which were initially enacted in the Tax Reduction Act of 1975 and subsequently extended and modified, are scheduled to expire at the end of 1977.

The general tax credit equals \$35 for each taxpayer and dependent, or 2 percent of the first \$9,000 of taxable income, whichever is greater. The earned income credit equals 10 percent of the first \$4,000 of earned income and is generally phased out as income rises between \$4,000 and \$8,000. The earned income credit is available only to

families who maintain a household for a child who is either under 19 or a student or for an adult disabled dependent. The earned income credit (but not the general tax credit) is refundable, that is, it may exceed tax liability.

Sec. 104. Filing requirements

The conference agreement increases the income level at which a tax return must be filed from \$2,450 to \$2,950 for a single person and a head of household and from \$3,600 to \$4,700 for a joint return. These increases in the filing requirements conform to the increases in the standard deduction. These changes apply to taxable years beginning after 1976.

Sec. 105. Withholding changes

The conference agreement requires the Secretary of the Treasury to modify the withholding rates to reflect the changed standard deduction for wages paid after May 31, 1977, and to further modify them after December 31, 1978, to reflect the fact that the general tax credit is extended only through 1978.

TITLE II—REDUCTION IN BUSINESS TAXES

Sec. 201. Extension of corporate tax reductions

Prior to the Tax Reduction Act of 1975, corporate income was subject to a tax of 22 percent on the first \$25,000 of taxable income and 48 percent on taxable income above \$25,000. That Act reduced the corporate tax rate to 20 percent on the first \$25,000 of taxable income and 22 percent on the second \$25,000 of taxable income through 1976. Subsequent legislation extended these tax cuts through 1977.

The conference agreement extends these corporate tax rate reductions through 1978.

Sec. 202. New jobs credit

The conference agreement provides businesses a new jobs credit for 1977 and 1978. The credit is 50 percent of the increase in each employer's wage base under the Federal Unemployment Tax Act (FUTA) above 102 percent of that wage base in the previous year. The FUTA base for a year consists of wages paid up to \$4,200 per employee.

Under the conference agreement, the employer's deduction for wages is reduced by the amount of the credit. Therefore, although the maximum gross credit for each new employee is \$2,100, the effective credit ranges from \$1,806 (for a taxpayer in the 14-percent tax bracket) to \$630 (for a taxpayer in the 70-percent bracket).

The total amount of the credit has four limitations: (1) the credit cannot be more than 50 percent of the increase in total wages paid by the employer for the year above 105 percent of total wages paid by the employer in the previous year, (2) the credit must be no more than 25 percent of the current year's FUTA wages, (3) the credit for a year cannot exceed \$100,000, and (4) the credit cannot exceed the taxpayer's tax liability. Credits which exceed tax liability for a year may be carried back for 3 years and carried forward for 7 years.

Although most employers will be able to use the returns they file for purposes of complying with FUTA as a basis for claiming the credit, special rules are provided for businesses, such as farms and railroads, not covered under FUTA. Special rules are also provided for computation of the credit by groups of companies under common control, for businesses with employees working abroad, and for businesses affected by acquisitions, dispositions, and other changes in business form.

The conference agreement provides an additional nonincremental credit equal to 10 percent of the first \$4,200 of FUTA wages paid to handicapped individuals (including handicapped veterans) who receive vocational rehabilitation. The credit is based on the first \$4,200 of wages paid to a handicapped individual whose first FUTA wages from the employer are paid in 1977 or 1978. Only wages paid during the 1-year period beginning when the individual is first paid FUTA wages by the employer are taken into account in computing the 10-percent credit. The credit for handicapped workers cannot be greater than one-fifth of the regular 50-percent credit which would have been allowable without regard to the \$100,000 limitation. However, the special 10-percent credit is not itself subject to any specific dollar limitation.

TITLE III—PROVISIONS RELATING TO EFFECTIVE DATES AND OTHER PROVISIONS OF THE TAX REFORM ACT OF 1976

Sec. 301. Sick pay

The conference agreement generally postpones for one year (until 1977) the repeal of the sick pay exclusion provided under the Tax Reform Act of 1976.

The 1976 Act repealed the prior sick pay exclusion for 1976 and subsequent years and substituted a maximum disability exclusion of \$100 a week (\$5,200 a year) only for taxpayers under age 65 who have retired on disability and are permanently and totally disabled. The maximum amount excludable is reduced on a dollar-for-dollar basis by the amount of the taxpayer's adjusted gross income (including disability income) in excess of \$15,000. The 1976 Act also provided several transitional rules and elections for certain retired taxpayers who no longer qualify for the new disability exclusion, in general, either because they are not permanently and totally disabled or because of the application of the new income phaseout.

Taxpayers wishing to claim the prior law sick pay exclusion for 1976 must file amended returns. The conference agreement also permits taxpayers under age 65 who have already made elections for 1976 as allowed under the 1976 Act revisions, as well as those taxpayers age 65 and older who claimed their section 72 annuity exclusion because they believed the new disability exclusion unavailable, to benefit from the annuity exclusion "as if" the Tax Reform Act disability income exclusion still applied to 1976, if they wish. Those who wish to change their "irrevocable" elections or to undo their recoveries of contributions for 1976 are also permitted to do so under the conference agreement by filing amended returns.

Sec. 302. Exclusion of income earned abroad

The conference agreement postpones for one year, until taxable years beginning after 1976, the effective date of changes made by the Tax Reform Act of 1976 to the section 911 exclusion for income earned abroad.

For taxable years beginning after December 31, 1975, the 1976 Act modified the section 911 earned income exclusion by (1) reducing the limit to \$15,000 (\$20,000 for charitable employees) from \$20,000 (\$25,000 if resident overseas for more than 3 years), (2) taking the excluded income from the lowest rate brackets (additional income is taxed at the rates which would apply if the excluded income were also taxed), (3) disallowing the foreign tax credit for taxes attributable to the excluded amount, and (4) denying the exclusion for income received outside the country in which earned in order to avoid tax in that country. The 1976 Act also repealed, effective for taxable years beginning after 1975, the provision in prior law which prohibited taxpayers electing the standard deduction from also claiming the foreign tax credit.

Secs. 303, 304 and 305. Relief from interest, additions to tax, and penalties for underwithholding attributable to application to 1976 of provisions of the Tax Reform Act of 1976

The conference agreement relieves individual taxpayers for periods prior to April 16, 1977, and corporations for periods prior to March 16, 1977, from additions to tax and interest arising from changes in the tax law made applicable to 1976 by the Tax Reform Act of 1976. Employers are relieved of penalties for underwithholding in 1976 on remuneration which became taxable prior to January 1, 1976, as a result of the 1976 Act.

Under present law, additions to tax computed at 7 percent per annum are imposed for corporate and individual underpayments of quarterly estimated tax liabilities. Employers are subject to 5 percent additions to tax for the late deposit of taxes withheld from employees' wages and a 100 percent penalty for willful failure to withhold taxes from employees' wages. Interest at 7 percent per annum is charged for underpayments of tax liability from the last date for filing a return and paying tax.

A number of provisions of the Tax Reform Act of 1976, which was enacted on October 4, 1976, apply back to the beginning of the calendar year 1976. The conference agreement bars the imposition of additions to tax on account of underpayments of estimated tax for 1976 to the extent that these underpayments are attributable to changes made by the 1976 Act. The conference agreement also relieves employers of liability for failure to withhold income tax, during 1976, on any types of remuneration made taxable by the 1976 Act. In addition, the conference agreement provides relief from the requirement of paying interest on underpayments attributable to changes made by the 1976 Act, in the case of taxpayers with short taxable years or with fiscal years ending before December 31, 1976.

Sec. 306. Use of residence as day care facility

Under present law (as amended by the Tax Reform Act of 1976), a taxpayer is not permitted to deduct any expenses attributable to the use of his home for business purposes except to the extent attributable to the portion of the home that is used exclusively on a regular basis (1) as the taxpayer's principal place of business, (2) as a place of business which is used by patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of his trade or business, or (3) in the case of a separate structure which is not attached to his dwelling unit, in connection with his trade or business. In addition, the deductions for these expenses cannot exceed the income generated by the business activity of the taxpayer in his home.

The conference agreement provides that the exclusive use requirement for deducting business expenses attributable to the business use of a personal residence is not to apply in the case of a residence used to provide day care services to children, handicapped individuals, and the elderly. The deductible business expenses would be limited to the excess of the gross income from providing day care services over the allocable portion of property taxes, mortgage interest, etc., which are deductible in any event. The expenses allocable to the business activity would be determined on the basis of the space used to furnish the day care services and on the basis of the time that space is used to provide the services as compared to the total time that the space is available for all uses. After the first day of the first month beginning more than 90 days after enactment, the exception to the exclusive use test would

apply only if the day care services comply with any applicable State licensing, certification, or approval requirement. The provision would apply to taxable years beginning after December 31, 1975.

Sec. 307. State legislators' travel expenses

The conference agreement extends for one year (through 1976) the election provided in the Tax Reform Act of 1976 for the tax treatment of State legislators. Under this election, a State legislator may, for any such taxable year, treat his place of residence within his legislative district as his tax home for purposes of computing the deduction for away from home living expenses. If this election is made, the legislator is treated as having expended for living expenses an amount equal to the sum of the daily amount of per diem generally allowed to employees of the U.S. Government for traveling away from home, multiplied by the number of days during that year that the State legislature was in session.

Sec. 308. Minimum tax on intangible drilling costs

The Tax Reform Act of 1976 made intangible drilling costs which are deducted by individuals for a taxable year a preference for purposes of the minimum tax to the extent these costs exceeded the amount which would have been deductible had the costs been amortized and written off either over a 10-year period or through cost depletion. The provision was made effective for 1976 and subsequent years.

The conference agreement continues to include intangible drilling costs as a preference item for purposes of the minimum tax but reduces the amount of the preference by the income a taxpayer receives from all oil and gas properties. This change applies only to taxable years beginning in 1977.

Sec. 309. Charitable contributions of conservation easements

Under provisions added by the Tax Reform Act of 1976, deductions are allowable for charitable contributions, exclusively for conservation purposes, of (1) leases on, options to purchase, or easements with respect to real property of not less than 30 years' duration, and (2) remainder interests in real property, if contributed before June 14, 1977.

The conference agreement extends through June 13, 1981, the period during which deductions are allowable for charitable contributions of remainder interests in real property exclusively for conservation purposes. It also extends through June 13, 1981, the period during which deductions are allowable for charitable contributions exclusively for conservation purposes of leases on, options to purchase, and easements with respect to real property, but only if the lease, option, or easement is perpetual. The conference agreement does not allow any deduction for contributions made after June 13, 1977, of leases, options, and easements which are not perpetual.

TITLE IV—MISCELLANEOUS PROVISIONS

Sec. 401. Increased authorization for the Work Incentive (WIN) Program

The Work Incentive (WIN) Program is designed to assist families on welfare to become independent through training, placement, and other services. Federal funds pay 90 percent of the cost of the program. The Administration has included \$365 million in the 1978 budget for the Work Incentive Program. Present funding levels allow full participation in the program by one-fourth of WIN registrants. Seventy-five percent of the current 2.2 million persons registered during a given year receive no services other than registration and appraisal.

The conference agreement authorizes an additional \$435 million in each of fiscal years 1978 and 1979 for employment and supportive services for welfare recipients, with no requirement for State matching funds.

Sec. 402. Rapid amortization of child care facilities

The conference agreement extends the part of section 188 allowing five-year amortization of child care facilities for an additional 5-year period. This section, which was enacted for the first time in the Revenue Act of 1971, provided that a taxpayer may elect to amortize expenditures for child care facilities over a 5-year period instead of using other depreciation methods. The provision was enacted for a 5-year period and expired after 1976.

The conference agreement restores the provision for 5-year amortization of child care facilities as of January 1, 1977, for an additional five-year period through December 31, 1981.

Sec. 403. Retirement income credit election

The conference agreement provides an election for taxpayers who computed the retirement income credit on their 1976 income tax returns to use either prior law or the 1976 Tax Reform Act revision.

The Tax Reform Act of 1976 revised the retirement income credit and renamed it the credit for the elderly. The 15-percent credit was generally increased and simplified for taxable years beginning after December 31, 1975, for taxpayers age 65 and over. Under special rules, public retirees under age 65 may also claim the credit. The maximum amount of the credit base was increased from \$1,524 to \$2,500 for single persons and from \$2,286 to \$3,750 for married persons. These maximums are reduced by certain exempt income. As part of the 1976 changes, the credit is phased out by \$1 for every \$2 of adjusted gross income in excess of \$7,500 for a single person and \$10,000 for a joint return. However, this phaseout does not apply to public retirees under age 65.

The conference agreement allows taxpayers to elect the credit for 1976 either under the 1976 Act revision or under prior law. If a married couple files a joint return, both spouses must make the same election.

This election will generally benefit taxpayers who become ineligible for the full (or any) credit because of the income phaseout added by the 1976 Act.

Sec. 404. Accrual accounting for farm corporations

The conference agreement provides, for certain corporations, a one-year postponement of the effective date of the provision in the Tax Reform Act of 1976 that requires certain farming corporations to use the accrual method of accounting.

The 1976 Act generally requires corporations engaged in farming to use the accrual method of accounting and to capitalize preproductive period expenses for taxable years beginning after December 31, 1976. Exceptions to these requirements are provided for (1) subchapter S corporations, (2) family corporations (in which one family owns at least 50 percent of the stock), (3) nurseries, and (4) corporations with annual gross receipts of \$1 million or less.

The conference agreement postpones the effective date of the required accrual accounting provision until taxable years beginning after December 31, 1977, for any farm corporation if either (a) two families own at least 65 percent of the stock, or (b) three families own at least 50 percent of the stock and substantially all the rest of the stock is owned by employees, their families, or exempt retirement trusts established for the benefit of the employees.

Sec. 405. Withholding on certain gambling winnings

Prior law, as amended by the Tax Reform Act of 1976, required withholding of 20 percent of net winnings of more than \$1,000 from wagers placed in parimutuel pools.

The conference agreement modifies the withholding requirement for wagers placed in parimutuel pools involving horse racing, dog racing, and jai alai to provide that withholding is required on proceeds of more than \$1,000 only if the amount of the winnings is at least 300 times as large as the amount wagered, effective for payments made after April 30, 1977.

Sec. 406. Termination of 1975 special payment to social security recipients

The Tax Reduction Act of 1975 included a \$50 payment to social security, supplemental security income (SSI), and railroad retirement recipients. These payments are still being made in a few cases where a nonresident individual who received social security, SSI, or railroad retirement benefits in 1975 later returns to the United States.

The conference agreement terminates the 1975 special payment, effective upon enactment of the bill.

Sec. 407. Payments to governments of American Samoa, Guam and the Virgin Islands

American Samoa, Guam and the Virgin Islands have tax systems that are a "mirror image" of the U.S. tax system. Thus, whenever the United States reduces its taxes, these possessions automatically experience a tax reduction.

The conference agreement authorizes an appropriation for a payment to these possessions in an amount equal to the tax reduction for their residents for 1977 resulting from the increase in the standard deduction and the modifications in the general tax credit resulting from this Act.

Sec. 408. Withholding of county income or employment taxes from Federal employees

Under present law, Federal agencies are required to withhold city income or employment taxes from Federal employees if: (1) the compensation is earned in the city, (2) the regular place of employment is in the city and the employee is a resident of the State (unless a nonresident employee consents to withholding), (3) 500 or more persons are regularly employed in the city by all Federal agencies (including the U.S. Postal Service), and (4) the city requests such withholding. Such withholding is voluntary on the part of the Federal employee.

Under the conference agreement, these city tax rules are extended to county taxes. The provision is effective on the date of enactment. (Withholding begins after the Secretary of the Treasury enters into a withholding agreement, within 120 days after request from the proper local official.)

TITLE V—SOCIAL SECURITY ACT AMENDMENTS

There are five provisions in the conference agreement relating to the Social Security Act.

The first section of the agreement clarifies the law which provides for the garnishment of Federal payment for purposes of child support and alimony. This section: (1) specifically authorizes the issuance of regulations by the three branches of Government charged with administering the garnishment law; (2) specifically includes the District of Columbia under the garnishment provisions; (3) provides specific conditions and procedures to be followed under the garnishment provisions relating to service of legal processes; (4) defines the terms used in the garnishment provisions; and (5) sets a limit of 50 percent on the amount of wages subject to garnishment for child support and alimony for a person supporting a second family and 60 percent for a person who is not supporting a second family (plus an additional 5 percent in each situation if there are outstanding arrearages under 12 weeks old).

The second section of the agreement: (1) requires bonding of all State and local employees, or employees of contractors used by agencies, who handle the collection of child support payments; (2) provides that persons handling cash be separate from those in the accounting function.

The third section of the agreement sets at 15 percent the proportion of child support payments retained by the State in which the recipient family lives which will be paid as an incentive to the political subdivision within the State, or to another State, which makes the collections.

The fourth section of the agreement relates to the annual report on the child support program which must be submitted to the Congress by the Secretary of Health, Education and Welfare. The section: (1) lists the specific kinds of information to be included in the annual report; (2) requires that an annual report be submitted to the Congress within 3 months of the end of each fiscal year; and (3) requires a special supplemental report on fiscal year 1976 and the transitional quarter by June 30, 1977.

The fifth section of the agreement validates a January 22, 1976, letter of exception by the Department of Health, Education, and Welfare to the State of Georgia permitting that State until the end of calendar year 1976 to work out a problem of interpretation concerning the treatment of child support collections for purposes of reimbursement.

SENATE AMENDMENT IN DISAGREEMENT: EXTENSION OF COUNTERCYCLICAL REVENUE SHARING

Under current law, funds are set aside for State and local governments when the national, quarterly unemployment rate exceeds 6 percent. The amount set aside per quarter equals \$125 million plus \$62.5 million times the number of half percentage points by which the unemployment rate exceeds 6 percent. An unemployment rate of 7 percent would create a \$250 million set aside.

One-third of the money is set aside for State governments, and two-thirds for counties, cities and townships whose unemployment rate exceeds 4.5 percent. Allocation among State governments is based on two factors: (1) the extent to which their unemployment rates exceed 4.5 percent, and (2) their general revenue sharing payment in fiscal year 1976. The product of these two factors is compared to the sum of these products for all States (or all localities in the case of the allocation of the $\frac{2}{3}$ amount) in order to determine the actual payment.

Under the current authorization, a total of \$1.250 billion could be distributed. By the end of the April quarter, all of the \$1.250 billion will have been allocated.

The Senate amendment provides up to \$1 billion in additional funding in fiscal year 1977. It extends the program through fiscal year 1978 and provides authorizations of up to \$2.25 billion for that period. Payments to Puerto Rico and the Virgin Islands are made, and several technical improvements in the formula are provided. First, the formula must use the most recent data. Second, the national amount is to be determined on the basis of tenths of the unemployment percentage in excess of 6 percent rather than on the basis of the number of half percentage points of unemployment in excess of 6 percent.

REVENUE EFFECTS OF BILL

Table 1.—Conference Agreement on H.R. 3477, The Tax Reduction and Simplification Act of 1977

[In millions of dollars]

	Fiscal year—		
	1977	1978	1979
TITLE I—REDUCTION AND SIMPLIFICATION OF INDIVIDUAL INCOME TAXES			
Changes in the standard deduction.....	-1,493	-7,382	-5,424
Extension of individual income tax reductions:			
General tax credit ¹		-6,816	-3,910
Earned income credit.....			-1,296
Total (title I).....	-1,493	-14,198	-10,630
TITLE II—REDUCTION IN BUSINESS TAXES			
Extension of certain corporate income tax reductions.....		-1,045	-1,277
New jobs credit ²	-689	-2,458	-1,895
Total (title II).....	-689	-3,503	-3,172

TITLE III—PROVISIONS RELATING TO EFFECTIVE DATES
AND OTHER PROVISIONS OF THE TAX REFORM ACT OF 1976

1-year postponement of effective date of sick pay revisions made by the Tax Reform Act of 1976.....	-327		
1-year postponement of effective date for changes made by the Tax Reform Act of 1976 to the exclusion for income earned abroad.....	-38		
Relief from interest, additions to tax, and penalties attributable to application to 1976 of provisions of the Tax Reform Act of 1976.....	-11		
Eliminating exclusive use test in the case of residences used to provide day-care services.....	-19	-15	-12
Deduction for State legislators' travel expenses away from home.....	(³)		
1-year exclusion of intangible drilling costs from minimum tax base.....		-28	
Extension of termination date for charitable contributions of certain conservation easements, leases and options.....	(³)	(³)	(³)
Total (title III).....	-395	-43	-12

TITLE IV—MISCELLANEOUS PROVISIONS

Extension of 5-year amortization for child care facilities.....	(³)	(³)	(³)
Election for 1976 of former retirement income credit provision.....	30		
Accrual accounting for farm corporations.....	(³)	(³)	
Withholding tax on certain gambling winnings.....	(³)	-7	-5
Total (title IV).....	-30	-7	-5
Grand total.....	-2,607	-17,751	-13,819

¹ Includes the effect of making the general tax credit available for the extra age and blindness exemptions and limiting married individuals filing separately to the \$35 per capita credit.

² The amounts shown do not reflect most of the new jobs credit

carryforwards generated in 1977 and 1978. The carryovers to be claimed are estimated at \$200,000,000 in fiscal year 1980; at \$100,000,000 in 1981; and at smaller amounts in the next few years.

³ Less than \$5,000,000.

Table 2.—Effect of the Change in the Standard Deduction by Income Class

[Calendar year 1976 income levels]

Adjusted gross income class	Returns with tax decrease				Returns with tax increase			Net decrease in tax liability	
	Total number with tax decrease (thousands)	Number made nontaxable (thousands)	Number shifting to the standard deduction (thousands)	Decrease in tax liability (millions)	Total number with tax increase (thousands)	Number shifting to itemizing deductions (thousands)	Increase in tax liability (millions)	Net decrease in tax liability	
								Amount (millions)	Percent of net decrease
Under \$5,000.....	7,200	2,049	252	\$481	-----	-----	\$481	9.6	
\$5,000 to \$10,000.....	16,946	1,146	1,684	1,889	(¹)	(¹)	1,889	37.7	
\$10,000 to \$15,000.....	11,972	77	2,723	1,682	596	13	\$15	1,667	33.3
\$15,000 to \$20,000.....	6,125	5	1,248	656	1,094	4	64	592	11.8
\$20,000 to \$30,000.....	3,253	1	715	326	292	(¹)	21	305	6.1
\$30,000 to \$50,000.....	488	(¹)	100	67	70	(¹)	7	61	1.2
\$50,000 to \$100,000.....	65	-----	8	13	9	-----	1	12	.2
\$100,000 and over.....	5	-----	1	1	1	-----	(¹)	1	(¹)
Total.....	46,054	3,277	6,730	5,115	2,063	17	108	² 5,007	100.0

¹ Less than 500 returns, 0.05 percent, or \$500,000.

² This distributional table reflects, for the revised standard deduction, the net decrease in tax liability (\$5,000,000,000) for calendar year 1976, the latest year for which distributional data are available. The fiscal year data (in table 1) for fiscal years 1977 (\$1,500,000,000) and 1978 (\$7,400,000,000) reflect the late start on changed withholding in fiscal year 1977 and the consequent bunching up of

decreased receipts in fiscal year 1978. Thereafter, the calendar year liability figures and the fiscal year receipts figures approximate each other; the calendar year 1979 decrease in liability is \$5,500,000,000, fiscal year 1979 decrease in receipts is \$5,400,000,000; calendar year 1980 decrease in liability is \$5,600,000,000, fiscal year 1980 decrease in receipts is \$5,600,000,000, etc.

Note: Details may not add to totals because of rounding.

Table 3.—Federal Individual Income Tax Burden ¹ in Calendar Year 1977 Under Present Law and Under the Modification of the Standard Deduction—Single Person and Married Couple with Zero, 2, and 4 Dependents (Assuming Deductible Personal Expenses of 17 Percent of Income)

Adjusted gross income ²	Tax liability					
	Single person			Married couple with no dependents		
	Under present law	Under conference agreement	Tax reduction	Under present law	Under conference agreement	Tax reduction
\$3,000-----	\$43	0	\$43	0	0	0
\$5,000-----	364	\$279	85	\$130	0	\$130
\$6,000-----	534	449	85	284	\$115	169
\$8,000-----	905	810	95	608	431	177
\$10,000-----	1,331	1,221	110	948	761	187
\$12,500-----	1,816	1,798	19	1,395	1,186	209
\$15,000-----	2,369	2,369	0	1,849	1,706	143
\$17,500-----	2,965	2,965	0	2,336	2,280	56
\$20,000-----	3,604	3,604	0	2,855	2,855	0
\$25,000-----	5,050	5,050	0	3,990	3,990	0
\$30,000-----	6,670	6,670	0	5,288	5,288	0
\$35,000-----	8,445	8,445	0	6,758	6,758	0
\$40,000-----	10,335	10,335	0	8,363	8,363	0

	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under conference agreement	Tax reduction	Under present law	Under conference agreement	Tax reduction
\$3,000-----	-\$300	-\$300	0	-\$300	-\$300	0
\$5,000-----	-300	-300	0	-300	-300	0
\$6,000-----	-200	-200	0	-200	-200	0
\$8,000-----	294	120	\$174	0	0	0
\$10,000-----	651	446	205	308	128	\$180
\$12,500-----	1, 114	917	197	766	562	204
\$15,000-----	1, 519	1, 380	139	1, 161	1, 037	124
\$17,500-----	1, 976	1, 926	50	1, 616	1, 566	50
\$20,000-----	2, 480	2, 480	0	2, 075	2, 075	0
\$25,000-----	3, 570	3, 570	0	3, 120	3, 120	0
\$30,000-----	4, 808	4, 808	0	4, 298	4, 298	0
\$35,000-----	6, 218	6, 218	0	5, 648	5, 648	0
\$40,000-----	7, 778	7, 778	0	7, 163	7, 163	0

¹ Computed without reference to the tax tables.² Wage or salary and/or self-employment income.³ Negative figures are due to the refundable earned income credit.

Note: Details may not add to totals because of rounding.

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