H.R. 1836
Economic Growth and Tax Relief Reconciliation Act of 2001

As cleared by the Congress on May 26, 2001

SUMMARY

The Economic Growth and Tax Relief Reconciliation Act of 2001 would amend numerous provisions of tax law to reduce taxes. Provisions of the act would take effect on different dates. The reductions in individual income tax rates and the increase in the child tax credit would begin in 2001 and phase in over time. The creation of a new income tax bracket with a tax rate of 10 percent would also begin in 2001, and would include an advance refund mechanism to provide taxpayers with most of the benefit for tax year 2001 before fiscal year 2001 ends. Other provisions would start in later years. Provisions in the act generally sunset at the end of calendar year 2010.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that H.R. 1836 would decrease governmental receipts by $70 billion in 2001, by $512 billion over the 2001-2006 period, and by $1.26 trillion over the 2001-2011 period. In addition, the act would increase direct spending by $4 billion in 2001, by $40 billion over the 2001-2006 period, and by $92 billion over the 2001-2011 period. H.R. 1836 would reduce projected total surpluses by approximately $1.35 trillion over the 2001-2011 period. Of this total, $2.9 billion would be off-budget and not subject to pay-as-you-go procedures.

The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.
By Fiscal Year, in Millions of Dollars

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</thead>
<tbody>
<tr>
<td>Changes in receipts</td>
<td>-70,208</td>
<td>-31,145</td>
<td>-83,736</td>
<td>-100,415</td>
<td>-100,021</td>
<td>-125,290</td>
<td>-141,785</td>
<td>-150,353</td>
<td>-157,779</td>
<td>-175,526</td>
<td>-117,185</td>
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<tr>
<td>Changes in outlays</td>
<td>3,600</td>
<td>6,425</td>
<td>6,599</td>
<td>7,006</td>
<td>7,081</td>
<td>9,597</td>
<td>9,543</td>
<td>9,361</td>
<td>9,669</td>
<td>11,081</td>
<td>12,245</td>
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</table>

**MAJOR PROVISIONS**

**Title I, Individual Income Tax Rate Reductions, would:**

- Create a new regular income tax bracket with a rate of 10 percent,
- Create a rate reduction credit in lieu of the new income tax bracket rate in 2001, with an advanced payment mechanism included,
- Reduce the four highest income tax rates over the 2001-2006 period,
- Eliminate the overall limitation on itemized deductions over the 2006-2010 period, and
- Repeal the phaseout of personal exemptions over the 2006-2010 period.

**Title II, Tax Benefits Relating to Children, would:**

- Increase the child tax credit to $1,000 over 10 years,
- Increase the portion of the child credit that is refundable,
- Change the treatment of personal credits under the alternative minimum tax, and
- Change the treatment of adoption tax credits, dependent care tax credits, and the credit for child-care facilities provided by an employer.

**Title III, Marriage Penalty Relief, would:**

- Set the standard deduction for married taxpayers filing jointly at twice the deduction of a single taxpayer, phased in over the 2005-2009 period,
For married taxpayers, increase the beginning and ending levels of the income tax bracket with a rate of 15 percent to twice the levels of that bracket for single taxpayers, phased in over the 2005-2008 period, and

Increase the beginning and ending levels of income at which the earned income credit is phased out for married taxpayers.

Title IV, Affordable Education Provisions, would:

- Increase the annual contribution limit of education individual retirement accounts (IRAs), and allow certain additional contributions,

- Allow an income exclusion for distributions from qualified state tuition programs (QTPs), and allow private institutions to offer prepaid tuition programs, and

- Allow and extend certain other exclusions and deductions, and increase limitations on certain other provisions.

Title V, Estate, Gift, and Generation-Skipping Transfer Tax Provisions, would:

- Increase the unified credit and reduce tax rates in order to phase in the repeal in 2010 of estate and generation-skipping transfer taxes,

- Continue the gift tax in 2010 with a lifetime exclusion of $1 million in gifts and a top rate equal to the highest individual income tax rate, and

- Modify several generation-skipping transfer tax rules.

Title VI, Pension and Individual Retirement Arrangement Provisions, would:

- Increase contribution limits for individual retirement accounts (IRAs),

- Increase contribution limits for certain pension plans, and

- Modify various pension laws.

Title VII, Alternative Minimum Tax, would increase the AMT exemption amount, effective over the 2001-2004 period, and would sunset that increase at the end of calendar year 2004.

Title VIII, Other Provisions, would change the due dates for certain corporate tax payments, and modify other tax provisions.
ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1836 is shown in the following table. Most of the budgetary effects of the legislation are reductions in revenues. However, the act also would increase outlays by making various changes to the income tax brackets and rates of taxation. By reducing the amount of taxes owed, those changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. The act also would increase the child credit and earned income credits, which are refundable under the tax code and counted as outlays in the budget. The act also would increase outlays through a mechanism to provide advance refunds set up for 2001. The spending effects of this legislation would fall within budget functions 600 (income security) and 800 (general government).

## ESTIMATED BUDGETARY IMPACT OF H.R. 1836

<table>
<thead>
<tr>
<th></th>
<th>By Fiscal Year, in Millions of Dollars</th>
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<tbody>
<tr>
<td></td>
<td>2001</td>
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<tr>
<td><strong>CHANGES IN REVENUES AND OUTLAYS FROM REFUNDABLE TAX PROVISIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Title I: Individual Income Tax Rate Reductions (^a)</td>
<td>-40,191</td>
</tr>
<tr>
<td>Title II: Tax Benefits Relating to Children (^a)</td>
<td>-518</td>
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<tr>
<td>Title III: Marriage Penalty Relief</td>
<td>0</td>
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<tr>
<td>Title IV: Affordable Education Provisions (^b)</td>
<td>0</td>
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<tr>
<td>Title V: Estate, Gift, and Generation-Skipping</td>
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</tr>
<tr>
<td>Transfer Tax Provisions</td>
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<tr>
<td>Title VI: Pension and Individual Retirement</td>
<td>0</td>
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<tr>
<td>Arrangement Provisions</td>
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<td>Title VII: Alternative Minimum Tax</td>
<td>-178</td>
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<tr>
<td>Title VIII: Other Provisions</td>
<td>-32,921</td>
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<tr>
<td>Total Effect on Revenues and Outlays</td>
<td>-73,808</td>
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<tr>
<td>Outlays for Refundable Tax Credits (^a)</td>
<td>0</td>
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<tr>
<td>Outlays for Advance Refund Mechanism</td>
<td>3,600</td>
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<tr>
<td>Total Changes in Revenues (^a)</td>
<td>-70,208</td>
</tr>
<tr>
<td>On-Budget</td>
<td>-70,208</td>
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<tr>
<td>Off-Budget (^b)</td>
<td>0</td>
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</tbody>
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(continued)
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<tr>
<td>IRS User Fees</td>
<td>0</td>
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<tr>
<td>Total Changes in Direct Spending</td>
<td>3,600</td>
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**TOTAL CHANGES**

Net Decrease in Budget Surpluses

<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td>-73,808</td>
<td>-37,762</td>
<td>-90,601</td>
<td>-107,702</td>
<td>-107,339</td>
<td>-135,202</td>
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</tbody>
</table>

**SOURCES:** Joint Committee on Taxation and Congressional Budget Office.

**NOTE:** Components may not sum to totals because of rounding.

a. The Joint Committee on Taxation (JCT) has determined that certain revenue provisions have direct spending effects from refundable tax credits. Separate estimates of the effect of each proposal on revenues and outlays are not available.

b. The JCT has determined that the provision affecting employer-provided educational assistance has off-budget effects.

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**BASIS OF ESTIMATE**

**Revenues**

All the estimates for the revenue provisions, with the exception of the following, were provided by the JCT.

**IRS User Fees.** The act would eliminate the fee that the Internal Revenue Service (IRS) charges small businesses for providing ruling, opinion, and determination letters regarding the firms' pension plans if certain conditions are met. This provision would take effect after December 31, 2001. Based on the amount of fees collected in recent years and on information from the IRS, CBO estimates that eliminating the fee would decrease governmental receipts by a total of $17 million over fiscal years 2002 and 2003. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003, so the provision would have no impact on receipts beyond that year.
Direct Spending

IRS User Fees. The IRS has the authority to retain and spend without further appropriation action a small portion of the fees it collects from taxpayers for certain rulings and determinations by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. Because H.R. 1836 would eliminate the fee paid by small businesses for rulings and determinations, the act would also reduce the amounts available for the IRS to spend. These fees are recorded in the budget as revenues and are scheduled to expire in 2003. CBO estimates that eliminating the fee would decrease direct spending by a total of $2 million over the 2002-2004 period.

Advance Refund Mechanism. The act would provide for 2001 taxpayers to receive a credit of 5 percent of their 2001 taxable income that would fall within the new 10-percent bracket. Taxpayers who filed returns for tax year 2000 would receive an advance refund of the credit during 2001 equal to 5 percent of their 2000 taxable income up to the maximum amount taxable within the 10-percent bracket. The allowable credit for 2001 would be limited to each taxpayer’s tax liability (before the credit) in that year, and the advance refund would be limited to each taxpayer’s liability (before the credit) in 2000. If the advance refund received exceeded the taxpayer’s 2001 allowable tax credit, the taxpayer would not be required by law to repay the amount. CBO considers that excess to be an outlay because the amount could not be construed as a refund of 2001 taxes (the taxpayer did not owe this amount as 2001 liability) and the law does not stipulate that any advance refunds exceeding the 2001 tax credit are to be deemed as refunds of prior years’ taxes.

JCT estimates that the entire amount of refunds will total about $40 billion, and CBO estimates that about $3.8 billion of that amount represents outlays. CBO estimates that $3.6 billion will be paid in fiscal year 2001, based on expectations of the Treasury Department that refunds for taxpayers who filed their tax returns by the April 2001 deadline will be made by the end of September. The remaining $0.2 billion will be paid in fiscal year 2002 generally to taxpayers who filed their tax returns with an extension.

Effects of Refundable Tax Credits on Other Benefit Programs. One provision of the act would exclude the refundable portion of the child tax credit from the income and resource limitations of means-tested benefit programs such as Supplemental Security Income and Medicaid. CBO expects that this provision will have an insignificant effect on outlays.