

Finance Committee Staff Summary

Working Families Tax Relief Act of 2004 (HR 1308)

The conference report consists of four titles:

Title I – Family Tax Provisions (2011 EGTRRA sunsets apply to all modifications)

- **Child Tax Credit.** The 2003 tax bill accelerated the scheduled 2010 increase in the child tax credit to \$1,000 for 2003 and 2004. In 2005, the credit is scheduled to return to \$700, increasing to \$800 in 2009 and \$1000 in 2010. The conference report establishes a \$1000 credit through the end of 2010. Cost: \$61.6 billion.
- **Marriage Penalty.** The 2003 tax bill accelerated the increase in the standard deduction and 15% bracket for married couples to double that of single filers for 2003 and 2004. In 2005, the standard deduction and 15% bracket threshold for married couples is scheduled to be 174% and 180%, respectively, of that for singles, and is scheduled to gradually rise. The conference report provides for 200% on both items through the end of 2010. Cost: \$15.7 billion.
- **10% Bracket.** The 2003 bill accelerated the increase in the income thresholds for the 10% bracket to \$7,000 (\$14,000 married couples filing jointly) for 2003 and inflation adjusted for 2004. (For 2004 it is \$7,150 and \$14,300.) In 2005, the thresholds are scheduled to return to \$6,000 (\$12,000 married). The conference report allows this 10% bracket rate to continue its inflation adjustments through the end of 2010. Cost: \$29.4 billion.
- **Acceleration of Increase in Refundability in Child Tax Credit.** For 2004, the child credit is refundable to the extent of 10% of the taxpayer's earned income, increasing to 15% for 2005. The conference report accelerates the increase to 15% for 2004. Cost: \$1.99 billion.
- **AMT.** This provision holds harmless some taxpayers, or prevents new taxpayers from becoming subject to the alternative minimum tax (AMT), due to the tax cuts in the underlying bill. The 2003 bill increased the AMT exemption to \$40,250 (\$58,000 married couples filing jointly) for 2003 and 2004. In 2005, the AMT exemptions will return to \$33,750 (\$45,000 married). The conference report extends the current exemption amounts through 2005. Cost: \$22.6 billion.
- **Refundable Child Credit and Earned Income Credit for Military Families Serving in Combat.** Provide the benefit of the child credit and earned income credit to military families by expanding the definition of earned income to include combat pay. The EITC provision for military families is only for two years. Cost: \$199 million.

Title II – Uniform Definition of a Child -- The legislation reduces complexity through reconciliation of the five definitions of a child in the tax code into a single definition for a “qualifying child.” Cost: \$1.6 billion.

Title III – Extension of Certain Expiring Provisions

- **Extension of the Research and Development Tax Credit.** Section 41 provides for a research tax credit equal to 20% of the amount by which a taxpayer’s qualified research expenses for a taxable year exceed its base amount for that year. The provision extends the present-law research credit to qualified amounts paid or incurred before January 1, 2006. Cost: \$7.6 billion.
- **Extension of Parity in the Application of Certain Limits to Mental Health Benefits.** The tax code imposes an excise tax of \$100 a day on group health plans that fail to meet mental health parity requirements. The provision extends the tax code provision to benefits for services furnished after the date of enactment and before January 1, 2006. Extends the ERISA and PHSA provisions to benefits for services furnished before January 1, 2006. Cost: \$57 million.
- **Extension of the Work Opportunity Tax Credit.** The WOTC is a tax credit available to employers hiring individuals from one or more of eight targeted groups. The provision extends present-law WOTC through December 31, 2005. Cost: \$614 million.
- **Extension of the Welfare-to-Work Tax Credit.** The WWTC is a tax credit available to employers for eligible wages paid to qualified long-term family assistance recipients. The provision extends present-law WWTC through December 31, 2005. Cost: \$127 million.
- **Qualified Zone Academy Bonds (QZABs).** QZABs are tax credit bonds issued by states or localities principally for school renovation. The bonds allow the holder to claim a tax credit in lieu of earning interest. The provision authorizes states to issue up to \$400 million of QZABs in 2004 and 2005. Cost: \$231 million.
- **Extension of Increased Cover Over of Rum Excise Tax.** All distilled spirits produced in or imported into the U.S. are subject to a tax at the rate of \$13.50 per proof gallon. The extension ensures that \$13.25 of the \$13.50 collected on rum imported into the U.S. is “covered over” (sent back to) the treasuries of Puerto Rico and the Virgin Islands (only \$10.50 would be required without the extension). The provision extends present law through December 31, 2005. Cost: \$169 million.
- **Enhanced Deduction for Corporate Contributions of Computer Equipment for Educational Purposes.** The provision extends present law that encourages businesses to contribute computer equipment and software to elementary, secondary, and post-secondary schools through December 31, 2005. Cost: \$260 million.

- **Deduction for Certain Expenses of Elementary and Secondary School Teachers.** The provision extends the \$250 above-the-line deduction to teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services), other equipment, and supplementary materials used by the educator in the classroom for taxable years 2004 and 2005. Cost: \$419 million.
- **Expensing of “Brownfields” Environmental Remediation Costs.** The provision extends present law allowing full deductibility of certain environmental remediation expenses in the year incurred through December 31, 2005. Cost: \$261 million.
- **New York Liberty Zone Bond Provisions.** An aggregate of \$8 billion in tax-exempt private activity bonds is authorized for the purpose of financing the construction and repair of infrastructure in New York City. Under present law, the bonds must be issued before January 1, 2005. The provision extends the authority to issue Liberty Zone bonds through December 31, 2009. The provision also extends the additional advance refunding authority through December 31, 2005 and provides that bonds of the Municipal Assistance Corporation are eligible for advance refunding. Cost: \$579 million.
- **Tax Incentives for Investment in the District of Columbia.** The provision extends four present law provisions intended to encourage redevelopment, capital investment, and homeownership in financially distressed areas of D.C. through December 31, 2005. Cost: \$522 million.
- **Combined Employment Tax Reporting.** Added in the Taxpayer Relief Act of 1997, the program allows business taxpayers to file one form for purposes of federal and state tax reporting. The provision extends the program through December 31, 2005. Cost: No revenue effect.
- **Treatment of Nonrefundable Personal Credits Against Regular and Minimum Tax Liability.** Certain credits (including dependent care, elderly and disabled, home mortgages, Hope Scholarship and Lifetime Learning, and DC home-buyer’s credit) are allowed only to the extent that the individual’s regular income tax liability exceeds the individual’s AMT. The provision would extend present law allowing all nonrefundable personal credits against the AMT for taxable years 2004 and 2005. Cost \$592 million.
- **Tax Credit for Electricity Produced from Certain Renewable Resources.** An income tax credit is allowed for the production of electricity from renewable resources, including wind, closed-loop biomass and poultry waste. The provision extends the placed-in-service date for qualified facilities to include those facilities placed in service prior to January 1, 2006. Cost \$1.2 billion.

- **Extension of Suspension of 100% of Taxable Income Limit on with respect to Marginal Production.** There is a deduction for the depletion of oil and gas wells, which is currently limited to 100% of the net income from the property in any year. The provision extends the suspension for taxable years through December 31, 2005. Cost: \$94 million.
- **Indian Employment Tax Credit.** A business tax credit is available for an employer of qualified employees who work on Indian reservations. The provision extends this credit through December 31, 2005. Cost: \$68 million.
- **Accelerated Depreciation for Business Property on Indian Reservations.** A special depreciation recovery period is available to property used predominantly in the active conduct of a trade of business within an Indian reservation. This provision extends present law through December 31, 2005. Cost: \$173 million.
- **Disclosure of Return Information Relating to Student Loans.** Consent may be granted by a student that allows the student's taxpayer information to be disclosed to government contractors in order to establish an income contingent repayment amount for a student loan. This provision extends the authority through December 31, 2005. Cost: No Revenue Effect.
- **Elimination of Phaseout of Credit for Qualified Electric Vehicles.** A 10% nonrefundable tax credit (maximum credit is \$4,000) is available to buyers of qualified electric vehicles. The credit is scheduled to phase out between 2004 and 2006. This provision preserves the credit at its present level through the end of 2005. The phaseout rate as originally scheduled will apply in 2006. Cost: \$5 million.
- **Elimination of Phaseout of Deduction for Clean-fuel Vehicle Property.** Certain costs of qualified clean-fuel vehicle property and clean-fuel vehicle refueling property may be expensed when such property is placed in service. The deduction is scheduled to phase out between 2004 and 2006. This provision preserves the deduction at its present level through the end of 2005. The phaseout rate as originally scheduled will apply in 2006. Cost: \$72 million.
- **Archer MSAs.** Archer Medical Savings Accounts allow favorable tax treatment of money saved for medical expenses by certain taxpayers covered by high-deductible health plans. This provision allows new contributions through December 31, 2005. Cost: Negligible.
- **Disclosure Relating to Terrorist Activities.** The IRS has been permitted to disclose a taxpayer's identity and return information to Federal law enforcement agencies in order to aid in investigations of terrorist activities. This authority would be extended through December 31, 2005. Cost: None
- **JCT Report and Joint Hearing on IRS Strategic Plans.** There is an expired statutory requirement that the Joint Committee on Taxation conduct a joint review of

strategic plans of the IRS. This provision renews the requirement through 2005.
Cost: None.

Title IV -- Tax Technical Corrections

Fixes technical glitches enacted in the following:

- Medicare Prescription Drug, Improvement, and Modernization Act of 2003
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Job Creation and Worker Assistance Act of 2002
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Victims of Terrorism Tax Relief Act of 2001
- Community Renewal Tax Relief Act of 2000
- Taxpayer Relief Act of 1997
- Small Business Job Protection Act of 1996