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The Tax Relief Extension Reconciliation Act (H.R. 4297)
Tax Reconciliation Summary

Order of Business: The bill is scheduled to be considered on Thursday, December 8th, subject to a closed rule.

Savings to Taxpayers: According to the Joint Committee on Taxation (JCT), H.R. 4297 would save taxpayers a net $5.8 billion in FY2006, $56.1 billion over five years, and $80.5 billion over ten years. Note: these figures are static scores and do not account for the stimulative effects that some tax cuts and tax-cut extensions have on the economy.

Background: Under the budget resolution (H.Con.Res. 95), the House Ways and Means Committee was instructed to report legislation reducing revenues by up to $70 billion over five years (static score not accounting for any economic stimulative effects of certain tax cuts). This instruction serves to limit the total amount of tax relief that can receive reconciliation protection through Congress (meaning a mere simple majority--51 votes--are needed to pass the bill in the Senate, as opposed to a higher procedural hurdle--60 votes).

Committee Action: On November 15, 2005, the Ways & Means Committee marked up and ordered H.R. 4297 reported to the full House by a vote of 24-15.

Overview of the Tax Relief Extension Reconciliation Act:

In Millions

	Static Revenue Increases and Decreases--Five Years
Gross Savings to Taxpayers	**$56,082**
One-Year Extensions	*($19,135)*
Two-Year Extensions	*($36,815)*
Other Provisions	*($132)*
Revenue Raisers	**$0**
Net Savings to Taxpayers	**$56,082**

Summary by Title of the Tax Relief Extension Reconciliation Act:

Title I: Extensions of Certain Provisions Through 2006

Net savings to taxpayers over five years: $19.1 billion

H.R. 4297 would extend for one year (through the end of tax-year 2006) the following provisions in current law that are set to expire after December 31, 2005:

- **AMT**. Allows non-refundable, personal tax credits (like the dependent care credit, certain home mortgage interest credit, etc.) to be claimed without forcing an individual into the Alternative Minimum Tax (AMT), essentially holding him harmless. **Net savings to taxpayers over five years: $2.8 billion**

- **Indian Reservations**. Allows employers on Indian reservations to receive a 20% tax credit on the first $20,000 of wages and employee health insurance costs to the extent these costs exceed the amount paid by the employer in 1993. Also allows businesses located on Indian reservations to accelerate their depreciation schedules for property that is primarily used to conduct business on the reservation. **Net savings to taxpayers over five years: $507 million**

- **WOTC.** Allows employers to claim the maximum $2,400 Work Opportunity Tax Credit (WOTC) when they hire individuals from eight "target" groups (such as families receiving public assistance, high-risk youths, ex-felons, qualified veterans, and food stamp recipients under the age of 35 [up from age 25 in current law]). The credit applies only to cash wages. **Net savings to taxpayers over five years: $466 million**

- **WTW**. Allows employers to claim the Welfare to Work (WTW) tax credit when they hire individuals who have received public assistance for 18 months or who have exhausted their benefits. The maximum credit is $3,500 during the employee's first year of employment and $5,000 during the second year. The credit applies to cash wages and to certain non-cash benefits paid to qualified employees. **Net savings to taxpayers over five years: $80 million**

- **Computer Equipment**. Allows for an enhanced tax deduction for corporate donations of certain computer equipment to schools or public libraries (within three years of the equipment's purchase or construction). "Enhanced" means higher than the price the corporation paid for the equipment (calculated by a specific formula). **Net savings to taxpayers over five years: $121 million**

- **Archer MSAs**. Allows individuals and employers to make tax-deductible contributions to an Archer MSA (medical savings account) to pay for health care expenses. The distributions are tax-free when used to pay for eligible medical expenses and are subject to a penalty when not used for medical expenses before age 65. **Net savings to taxpayers over five years: Negligible**

- **Leasehold Improvements**. Reduces the depreciation period for certain interior improvements to nonresidential property being leased by tenants from 39 years to 15 years. **Net savings to taxpayers over five years: $714 million**

- **Restaurant Improvements**. Reduces the depreciation period for certain improvements to restaurants from 39 years to 15 years. **Net savings to taxpayers over five years: $283 million**

- **Oil And Gas from Marginal Wells**. Allows independent oil and gas producers to use the "percentage depletion" method of accounting (without a cap) when filing their tax returns. Under this method of accounting, 15% of the taxpayer's gross income from an oil- or gas-producing property can be deducted each year. **Net savings to taxpayers over five years: $70 million**

- **District of Columbia**. Allows certain District of Columbia businesses in economically depressed zones to claim certain tax benefits (such as a 20% wage credit, an additional $35,000 of small business expensing for qualified property, expanded tax-exempt-bond financing for certain facilities, and a zero capital gains rate for the sale of certain qualified assets). In addition, the bill allows first-time homebuyers in the District to claim a maximum $5,000 (phased-down for higher-income individuals) nonrefundable tax credit for the purchase of a principal residence. **Net savings to taxpayers over five years: $95 million**

- **American Samoa**. Allows certain domestic corporations to claim tax credits (determined by a formula) for their investment and business activities in American Samoa. **Net savings to taxpayers over five years: $10 million**

- **Mental Health Parity**. Imposes a $100 per day excise tax penalty (up to a cap) on group health plans that fail to implement mental health parity (i.e. on plans that impose dollar limits for mental health benefits that are different from the limits on other medical benefits). **Net savings to taxpayers over five years: $58 million**

- **Research**. Allows certain businesses to claim a tax credit (generally, 20% of annual expenditures in excess of a base amount) for qualified new-technology research and experimentation (R&E) expenditures. In addition, the bill increases the rates of the alternative incremental research credit under the R&E credit and offers an alternative formula for qualified research expenses. **Net savings to taxpayers over five years: $9.9 billion**

- **Qualified Zone Academy Bonds**. Allows for the issuance of Qualified Zone Academy Bonds (QZABs), which are tax-credit bonds issued by states and local governments to help repair schools, purchase school equipment, and train teachers in economically distressed areas. Unlike typical tax-exempt bonds, QZAB holders may claim a federal income tax credit in lieu of receiving tax-free interest payments. The bond issuer must secure private-sector contributions of cash, equipment, training, or other property and services equal to 10% of the bond proceeds. No more than $400 million in QZABs can be issued nationwide each year (distributed in proportion to each state's population in poverty). **Net savings to taxpayers over five years: $62 million**

- **Teacher Classroom Expenses**. Allows qualified teachers (including those who do not itemize their deductions) to deduct up to $250 of out-of-pocket expenses incurred to purchase books, supplies, computers, and other classroom equipment. **Net savings to taxpayers over five years: $199 million**

- **Higher Education Expenses**. Allows taxpayers (including non-itemizers) to deduct up to $4,000 (depending on income) of tuition and other higher education enrollment expenses, in lieu of claiming the HOPE or Lifetime Learning tax credits. **Net savings to taxpayers over five years: $1.7 billion**

- **State and Local Sales Taxes.** Allows all taxpayers to deduct either their applicable state and local *sales* taxes (actual or estimated) or their applicable state and local *income* taxes. **Net savings to taxpayers over five years: $2.1 billion**

Title II: Extensions of Certain Provisions for Two Additional Years
Net savings to taxpayers over five years: $36.8 billion

H.R. 4297 would extend for two years (through the end of tax-year 2008) the following provisions in current law that are set to expire after December 31, 2006 (except where noted):

- **Brownfield Expensing.** Allows taxpayers to immediately deduct (against the AMT and regular tax calculations) all the costs incurred in cleaning up certain contaminated sites ("brownfields") not included on the national priorities list. The bill also expands the definition of an eligible contaminated site to include sites contaminated by petroleum products. *[Set to expire after December 31, 2005; proposal would extend this expiration to December 31, 2007.]* **Net savings to taxpayers over five years: $625 million**

- **Active Financing Exception**. Exempts companies in the active conduct of financing (including banks and insurance companies) from laws requiring the immediate taxation of foreign subsidiaries of U.S. companies, even if their income has not been brought back to the United States. The bill also expands the exception to include cross-border payments of dividends, rents, and royalties that are funded with active income that has not been repatriated. **Net savings to taxpayers over five years: $5.5 billion**

- **Capital Gains and Dividends**. Maintains the capital gains and dividend income tax rate at 15% (0% for taxpayers in the 10- and 15-% marginal income tax brackets during 2008). Without this provision, the capital gains rate will increase to a maximum of 20% and the dividend income rate will increase to a maximum of 35%. The provision extends the reduced rates through 2010. *[Set to expire* *after December 31, 2008; proposal would extend this expiration to December 31, 2010.]* **Net savings to taxpayers over five years: $20.6 billion**

- **Saver's Credit**. Allows eligible individuals to claim a nonrefundable credit on the first $2,000 of annual contributions to qualified retirement savings accounts (like 401k accounts). The credit rate depends on the adjusted gross income (AGI) of the taxpayer. Taxpayers filing joint returns with AGI of $50,000 or less, head of household returns of $37,500 or less, and single returns of $25,000 or less are eligible for the credit. **Net savings to taxpayers over five years: $2.8 billion**

- **Small Business Expensing**. Allows small businesses to deduct in the first year up to $100,000 of investments in depreciable assets. The deduction phases out dollar-for-dollar to the extent the business' annual investments exceed $400,000. Without legislative action, the expensing limit will decline in 2007 from $100,000 to $25,000 and the phase-out threshold will decline from $400,000 to $200,000. **Net savings to taxpayers over five years: $7.3 billion**

Title III: Other Provisions
Net savings to taxpayers over five years: $132 million

- **Environmental Cleanup Funds**. Exempts environment cleanup settlement funds, escrow accounts, and similar funds from federal taxation, if certain standards and requirements are met (as detailed in the legislation). **Net savings to taxpayers over five years: $45 million**

- **Active Trade or Business Test**. Modifies the definition of "active conduct of a trade or business" (as it relates to certain corporate distributions) to treat a corporation and the corporation's separate affiliated group (i.e. holding company) as one corporation. The Ways & Means Committee asserts that this provision has the effect of, "allow[ing] corporations to avoid costly and inefficient internal restructurings prior to engaging in certain corporate distributions to their shareholders." **Net savings to taxpayers over five years: $33 million**

- **Veterans' Mortgages**. Makes all veterans (not just ones who served prior to 1977, as in current law) eligible to participate in state home mortgage programs funded by Qualified Veterans' Mortgage Bonds (which are aimed at financing affordable mortgages for veterans). Veterans would have to apply for financing under such a program within 25 years of the last day of active military service. The bill also alters the caps on bond issues so that the current-law formula is replaced with phased-in hard-dollar limits for participating states and removes the cap altogether in 2011 and thereafter. **Net savings to taxpayers over five years: $14 million**

- **Self-Created Musical Works**. Treats the sale or exchange of self-created musical works as capital gains (rather than as regular income, as under current law). **Net savings to taxpayers over five years: $19 million**

- **Tonnage Tax**. Reduces from 10,000 to 6,000 the minimum deadweight tons required for U.S.-flagged vessels (that participate in commercial foreign trade) to opt into the alternative tonnage tax regime. The Ways & Means Committee reports that this regime is generally more favorable for vessels (i.e. offers them lower tax assessments). This tonnage revision would expire at the end of 2010. **Net savings to taxpayers over five years: $17 million**

- **Permanent University Fund**. Codifies and makes more favorable the IRS regulations that govern the tax treatment of tax-exempt bonds issued by the Permanent University Fund (which is used to finance the activities of certain state universities). **Net savings to taxpayers over five years: $4 million**

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