LEGISLATIVE UPDATE
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U.S. House of Representatives
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H.R. 2: THE JOBS AND GROWTH TAX ACT OF 2003

Summary: The Conference Report (Report 108-71) accompanying the fiscal year 2004 budget resolution (H.Con.Res. 95) calls for tax relief legislation to help promote economic growth and job creation. Specifically, the budget directs the Committee on Ways and Means to report, by 8 May 2003, legislation reducing revenue by $535 billion for 2003-13, and increasing outlays associated with tax relief provisions by $15 billion over the same period. H.R. 2 is intended to satisfy those directives.

- KEY GROWTH PROVISIONS. Two principal growth-oriented provisions in the bill, which was reported on 6 May 2003, involve tax rates on 1) capital gains, and 2) dividends from corporate stock. H.R. 2 lowers the 20-percent capital gains rate to 15 percent, and the 10-percent rate to 5 percent. The intent is to reduce tax distortions that tend to inhibit capital formation. The bill also lowers the tax rates on corporate stock dividends to 15 percent and 5 percent, the same as the proposed capital gains rates. This would reduce the potential double-taxation of corporate profits – which is subject to taxation both as income to the company and as dividends to shareholders. It is believed this would result in an increased market value of companies as the after-tax value of profits they distribute to shareholders (in the form of dividends) would rise.

  In addition to these provisions, H.R. 2 would increase first-year depreciation on certain qualified property; increase the maximum dollar amount of certain property that may be deducted in lieu of depreciation; and extend the current 5-year carryback of deductions for net operating losses.

- INDIVIDUAL TAX RELIEF PROVISIONS. For individual income tax rates, the measure as reported accelerates the reduction in rates – to 25 percent, 28 percent, 33 percent, and 35 percent – that would otherwise occur in 2006 under the schedule of the 2001 Economic Growth and Tax Relief Reconciliation Act [EGTRRA]. It would also double the amount of income taxed at 10 percent, rather than 15 percent. The bill immediately increases the child tax credit from its current $600 per child to $1,000 for 2003-05; and immediately raises the standard deduction for married joint filers to twice that of an individual filer, and retain that deduction through 2005. The bill also would immediately increase, through 2005, the size of the 15-percent tax bracket for married, joint filers to twice that for single filers. Finally, the measure increases alternative minimum tax exemptions. The exemption is increased to $64,000 for married taxpayers filing jointly and surviving spouses; and to $43,250 for unmarried taxpayers.

Budgetary Scoring: Under budgetary conventions, when legislation causes estimated future tax revenue to be less than it would be under current law, the result is termed a revenue "loss" or "reduction," and is treated the same as a spending-related cost against projected surpluses or deficits.

According to estimates prepared by the Joint Committee on Taxation, this legislation is expected to reduce revenue by $56.6 billion in 2003 and by $535.7 billion over 11 years. Due to the increase in refundable tax credits, which result in outlays from the Government, the bill will increase budget authority and outlays by $3.6 billion in fiscal year 2003, and by $13.8 billion over the period of fiscal years 2003-13.

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***Legislation Compared With the Budget Resolution*:** As noted, the Conference Report accompanying the budget resolution directed the Ways and Means Committee to make changes within its jurisdiction of $550 billion over 11 years, 2003-13. Of this amount, the committee was directed to reduce revenue by $535 billion, and to increase spending associated with tax relief provisions by $15 billion. H.R. 2 slightly exceeds its revenue target: it causes such reductions by $535.7 billion over 11 years. Under the terms of the Congressional Budget Act, however, it has still complied with the reconciliation instruction because the overage, $700 million, does not exceed 20 percent of the total deficit effect of the bill. The Budget Act includes a fungibility rule, which allows a 20-percent variance in the spending or revenue directed to be changed, as long as the total change in both revenue and spending is no more than that provided for in the reconciliation instruction – in this case $550 billion. Because the bill's combined changes in spending and revenue total $549.5 billion, the committee has complied with this rule.

The bill also is consistent with the other appropriate levels in the budget resolution. The revenue loss is well within the permissible levels for fiscal year 2003 and for the 11-year period. The budget resolution provided for reductions in the aggregate level of revenue, but only part of this aggregate revenue reduction was included in the reconciliation bill. Further tax relief is possible in addition to H.R. 2 under the terms of the budget resolution.

In terms of spending, the bill is within the Committee on Ways and Means' allocation of new budget authority. Were this bill to be enacted, the Committee on Ways and Means would still have remaining in its allocation $800 million in budget authority for fiscal year 2003, and $22.9 billion for fiscal years 2004-13.

***Compliance With the Budget Act*:** As noted above, the bill is within the revenue and spending levels provided for in the budget resolution, and therefore will comply with the sections 302(f) and 311 of the Budget Act.

H.R. 2 REVENUE EFFECTS, BY TITLE
From Estimates by the Joint Committee on Taxation
(in millions of dollars)

Title	2003	2004	2005	2003-08	2003-13
Title I: Accelerations of Previously Enacted Provisions	-31,267	-91,474	-72,965	-234,014	-234,014
Title II: Depreciation and Expensing Provisions	-11,780	-46,592	-75,450	-119,987	-38,715
Title III: Dividends and Capital Gains	-4,377	-18,701	-20,842	-121,033	-276,814
Title IV: Other Corporate Provisions	-12,826	12,826	–	–	–
Total[a]	**-60,250**	**-143,941**	**-169,257**	**-475,034**	**-549,543**
[a]Total includes outlay effects as follows:	3,618	1,042	4,653	13,646	13,825

Note: Outlay effects were not distributed in the JCT estimates.
Source: Joint Committee on Taxation

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