RSC Republican Study Committee
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Legislative Bulletin……………………………………………..……May 9, 2003

Contents:

H.R. 2 — Jobs and Growth Act of 2003 (Thomas)

Order of Business: The bill is scheduled for consideration on Friday, May 9th, under a closed rule.

Summary: H.R. 2 makes changes to the Internal Revenue Code as outlined below:

PROVISION	NOTE	STATIC REVENUE LOSS (10 YRS)
Accelerate Child Tax Credit to $1,000 for 2003 through 2005	Upon sunset, drops to $700 for 2006 through 2008, then increases to $800 in 2009 and $1,000 in 2010	$45 Billion
Accelerate 10-percent Bracket Expansion for 2003 through 2005 so as to cover first $7,000 of income for singles and $14,000 for joint filers	Upon sunset in 2006, the rate drops to only cover the first $6,000 / $12,000 of income for 2006 and 2007 and then increases back to $7,000 / $14,000 in 2008	$19 Billion
Accelerate Marriage Penalty Relief for 2003 through 2005	Upon sunset in 2006, marriage penalty would increase and then proceed to a phase-out in 2009	$43 Billion
Accelerate Individual Rate Reductions scheduled for 2004 and 2006 resulting in final rates for 2003 of 25%, 28%, 33% and 35% as opposed to the current rates of 27%, 30%, 35% and 38.6%		$74 Billion
Increase Individual AMT Exemption by $7,500 for singles and $15,000 for joint filers for 2003 and 2004		$53 Billion
Increase Bonus Depreciation from		$21 Billion

30% to 50% and extend through December 31, 2005		
Increase Small Business Expensing (Section 179) cap from $25,000 to $100,000 and increase definition of small business from $200 K to $400 K for 2003 through 2007		$3 Billion
Extend the 5-year Net Operating Loss carryback for 2003 through 2005 and holds taxpayer harmless under AMT		$15 Billion
Reduce the personal capital gains tax rate to 15% and 5% (from 20% and 10%) and tax dividends dispersed from domestic corporations on the personal side at the new capital gains rate.	Dividends of domestic corporations would still be taxed twice (at the corporate level at 35% and again at the individual level at either 15% or 5%). Dividends of foreign-based corporations would be taxed as under current law.	$277 Billion
TOTAL		**$550 Billion**

Total May Not Add Due To Rounding

<u>Areas of Potential Concern:</u> Many Members have expressed concern that the provisions of the bill related to reducing taxes on dividends only applies to dividends paid by <u>domestic</u> corporations. For example, if an American taxpayer owns stock in both General Motors and Chrysler and both companies pay out dividends, the taxpayer would pay a maximum tax on the dividend paid by General Motors of 15%, but a maximum tax on the dividend paid by Chrysler of 35%. That is because Chrysler is a subsidiary of Daimler, which is a foreign corporation. Many Members believe that treating the dividends paid by foreign corporations differently than those paid by domestic corporations will not only harm American shareholders, but will also harm the millions of American workers who happen to work for a company that is foreign owned. This policy could also discourage foreign companies from investing in the United States. A recent study by the American Enterprise Institute revealed that non-U.S. companies in one year alone invested $321 Billion into new or existing businesses in the United States. U.S. subsidiaries of foreign-based firms employ 5.6 million workers right here in America. Furthermore, American taxpayers own approximately $1.8 trillion worth of foreign stocks. Approximately 900 non-U.S. companies are traded on U.S. Stock Exchanges.

It is expected that Chairman Thomas will agree in a colloquy with RSC Members to fix this problem prior to enactment of this legislation.

<u>Additional Background</u>: The Center for Data Analysis (CDA) at The Heritage Foundation has produced estimates of how much the Jobs and Growth Act of 2003 would boost near and long-term economic activity. CDA economists project that:

- The Jobs and Growth Act will likely lead private and public sector payrolls to increase by 1.2 million jobs between 2003 and 2004. In 2004 alone, the Thomas legislation will result in 828,000 additional jobs.
- The Thomas legislation raises the rate of economic growth in 2004 from 3.3 percent to 4.0 percent. This 4 percent rate compares to growth rates in 2001 of .3 percent and in 2002 of 2.4 percent. Many economists expect the growth rate for 2003 to be only 2.7 percent.
- The U.S. economy will produce an additional $257.7 billion in goods and services between 2003 and 2008. Across the entire 11-year period, the Gross Domestic Product (after inflation has been subtracted) is expected to grow by an additional $483.4 billion.
- The Thomas legislation leads to a drop in the unemployment rate from a forecasted 5.4 percent in 2004 to 5.0 percent and from 5.2 percent in 2005 to 4.7 percent.
- After-tax income of American workers is expected to grow by an additional $568 billion (after inflation) between 2003 and 2008. Over the entire budget period 2003 through 2013, disposable income will increase by an additional $749 billion.
- The Jobs and Growth Act will lead to an increase in personal savings of $125 billion in 2004 and $96 billion in 2005. Over the six-year period 2003 through 2008, personal savings will grow by an additional $308 billion, which nearly doubles the personal savings rate.
- The growth in taxable income is great enough to reduce the "cost" to the U.S. Treasury by $235 billion, for a revenue feedback of 46 percent. In other words, factoring in the economic growth stemming from this legislation means that the official cost of $549 billion (which does not include economic growth) will decline to $314 billion. *(Taken from Heritage Foundation website)*

For more information visit: www.heritage.org

For more information about the job impact on a state-by-state basis, visit: http://www.heritage.org/Research/Taxes/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=41328

In addition, the Senate Joint Economic Committee has prepared an excellent report detailing how reducing the top rate benefits predominantly small business owners:

http://jec.senate.gov/Small%20business%20and%20the%20top%20rate%20final.pdf

Committee Action: H.R. 2 was considered and amended by the Ways and Means Committee and reported favorably on May 8.

Administration Position: The Administration has indicated that it supports H.R. 2.

Cost to Taxpayers: Based on the static scoring of the Joint Committee on Taxation, H.R. 2 will reduce taxes on Americans by $60.25 Billion in 2003; $475.034 Billion during the period 2003-2008; and $549.543 Billion over the period 2003-2013.

<u>Does the Bill Create New Federal Programs or Rules?</u>: No.

<u>Constitutional Authority</u>: The Ways and Means Committee cites Article I of the Constitution, Section 8 (`The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises. . . `), and the 16th Amendment to the Constitution as providing the authority to enact this legislation.

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