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Jobs and Growth Tax Relief Reconciliation Act: Provisions Expiring in 2004

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Summary

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27) accelerated the implementation of certain tax reductions that were originally enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16). The 2003 act reduced marginal income tax rates effective through 2010 and reduced taxes on dividend and capital gains income effective through the end of 2008.

Several of these provisions will expire at the end of 2004, including the increase in the child tax credit, the expansion of the 10% tax bracket, the expansion of the 15% tax bracket and standard deduction for joint returns, the increase in the alternative minimum tax (AMT) exemption, and the tax incentives for business.

During this session, Congress faces the issue of whether to extend and/or make permanent these expiring tax provisions. To date, the House has passed four major tax bills. H.R. 4181 would extend and make permanent marriage tax penalty relief; H.R. 4275 would extend and make permanent the 10% tax bracket; H.R. 4359 would extend and make permanent the increase in the child tax credit; and H.R. 4227 would extend the increase in the AMT exemption through 2005. These changes would reduce revenue by $568 billion over the FY2005-FY2014 period. If the increase in the AMT exemption were made permanent, then the total cost over the period could exceed $1 trillion.

Congress is currently considering going to conference on a child tax credit refundability bill (H.R. 1308) that was passed last year, and using the conference agreement as a vehicle for extending these four JGTRRA tax provisions. This report will be updated as legislative action warrants.

Child Tax Credit

In 2001, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) increased the child tax credit from $500 to $1,000, with the increase phased-in over the 2001 through 2010 time period. In 2001 and 2002, the credit was $600. For 2003 and

2004, the credit was also scheduled to be $600. For 2005 through 2008, the credit is scheduled to be $700. The credit is scheduled to be $800 in 2009 and $1,000 in 2010.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the child tax credit to $1,000 for tax years 2003 and 2004. In 2005, it is scheduled to return to the levels prescribed by EGTRRA. **Table 1** shows the amount of the child tax credit scheduled under current law over the 2003 to 2010 time period.

Table 1. Child Tax Credit Under Current Law: Calendar Years 2003 Through 2010

Temporary Increases Under JGTRRA		Scheduled Phase-in of Increases Under EGTRRA					
2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
$1,000	$1,000	$700	$700	$700	$700	$800	$1,000

Ten-Percent Income Tax Bracket

Effective in 2001, EGTRRA established a new 10% income tax bracket for a portion of taxable income that had been taxed at the 15% tax rate. The 10% tax rate was applicable to the first $12,000 of taxable income on joint returns, the first $6,000 of taxable income on single returns, and the first $10,000 of taxable income on head of household returns. In 2008, these 10% bracket thresholds were scheduled to increase to $14,000 for joint returns and $7,000 for single returns. (The 10% tax rate threshold for head of household returns would remain unchanged.)

JGTRRA accelerated the expansion of the threshold for the 10% tax bracket. Under JGTRRA, for 2003 and 2004, the 10% tax rate is applicable to the first $14,000 of taxable income on joint returns and the first $7,000 of taxable income on single returns. In 2005, the 10% tax bracket thresholds revert to the levels specified by EGTRRA.

Table 2 presents the tax thresholds for the 10% tax bracket under EGTRRA and JGTRRA.

Table 2. Ten-Percent Income Tax Bracket Under EGTRRA and JGTRRA: Calendar Years 2001 Through 2008

	Amounts Specified By EGTRRA		Amounts Specified By JGTRRA		Amounts Specified By EGTRRA	
	2001	2002	2003	2004*	2005 - 2007	2008
Joint	$12,000	$12,000	$14,000	$14,300	$12,000	$14,000
Single	$6,000	$6,000	$7,000	$7,150	$6,000	$7,000

* Increase in thresholds for 2004 represents indexation for inflation.

Fifteen-Percent Tax Bracket and Standard Deduction for Joint Returns

EGTRRA increased the standard deduction and the width of the 15% tax bracket for joint returns to twice the amount applicable to single returns. These changes were to be phased-in over the period 2005 through 2009.

JGTRRA increased the standard deduction and 15% tax bracket for joint returns to twice the size applicable to single returns, effective for tax years 2003 and 2004. In 2005, the joint standard deduction and width of the 15% tax bracket will revert to the levels specified under EGTRRA.

The JGTRRA and EGTRRA changes to the 15% tax bracket for joint returns are shown in **Table 3** and the changes to the standard deduction for joint returns are shown in **Table 4**.

Table 3. End Point of the 15% Tax Bracket for Joint Returns as a Percentage of the End Point of the 15% Tax Bracket for Single Returns

JGTRRA Provisions		EGTRRA Provisions			
2003	2004	2005	2006	2007	2008
200%	200%	180%	187%	193%	200%

Table 4. Standard Deduction for Joint Returns as a Percentage of the Standard Deduction for Single Returns

JGTRRA Provisions		EGTRRA Provisions				
2003	2004	2005	2006	2007	2008	2009
200%	200%	174%	184%	187%	190%	200%

Alternative Minimum Tax (AMT) Exemption

EGTRRA increased the basic AMT exemption amount from $45,000 to $49,000 for joint returns, and from $33,750 to $35,750 for unmarried individuals. These increases were to have been in effect for tax years 2001 through 2004, before reverting to their previous levels.

JGTRRA increased the AMT exemption amount to $58,000 for joint returns and to $40,250 for unmarried taxpayers. These increases are in effect for tax years 2003 and 2004.

Table 5 presents the AMT exemption amounts for calendar years 2000 through 2005.

Table 5. Alternative Minimum Tax Exemption: 2000 Through 2005

		EGTRRA Changes		JGTRRA Changes		
Calendar Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Joint	$45,000	$49,000	$49,000	$58,000	$58,000	$45,000
Single	$33,750	$35,750	$35,750	$40,250	$40,250	$33,750

Investment Incentives for Business

In addition to the changes affecting individual taxpayers, JGTRRA contained two temporary provisions aimed at stimulating business investment. One provision was an additional first-year depreciation deduction equal to 50% of the basis of qualified property. To qualify for this bonus depreciation deduction, the property had to be acquired after May 5, 2003 and before January 1, 2005.

The other temporary business incentive increased the maximum amount that can be deducted under section 179 expensing from $25,000 to $100,000. It also increased, from $200,000 to $400,000, the point at which the expensing deduction is phased-out. The dollar amounts of both the maximum deduction and the phaseout threshold are indexed for inflation after tax year 2003. This provision is in effect for property placed in service during tax years 2003, 2004, and 2005.[1]

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[1] For more information, see CRS Report RL32034, *The Jobs and Growth Tax Relief Reconciliation Act of 2003 and Business Investment*, by Gary Guenther. Also see CRS Report RL31852, *Small Business Expensing Allowance Under the Jobs and Growth Tax Relief Reconciliation Act of 2003: Changes and Likely Economic Effects*, by Gary Guenther.

Revenue Consequences of Extending the Expiring JGTRRA Provisions[2]

Table 6 provides Congressional Budget Office (CBO) and Joint Tax Committee (JCT) estimates of the possible revenue effects of extending the expiring JGTRRA tax provisions.

The estimated revenue losses indicate that extending the expiring JGTRRA provisions could cost more than $630 billion during the FY2005 through FY2010 period. Revenue losses of this magnitude represent an increase of well over 50% in CBO's cumulative baseline deficit projection for the same period.

The most expensive of these provisions, accounting for almost half of the total revenue loss, would be the extension of the 50% bonus depreciation deduction. Maintaining the increase in the alternative minimum tax exemption would also be expensive, reducing revenue by approximately $181 billion over the period.

The revenue estimates of extending the expiring JGTRRA provisions contained in this table will be updated as new data become available.

Table 6. Estimates of the Revenue Effects of Extending Certain Expiring JGTRRA Tax Provisions, FY2005 - FY2010

(Billions of Dollars)

	2005	2006	2007	2008	2009	2010	Total, 2005-2010
Child Tax Credit	-2.6	-13.2	-13.2	-13.2	-12.4	-6.9	-61.5
10% Income Tax Bracket	-4.3	-6.4	-6.8	-4.3	-3.2	-3.3	-28.3
15% Tax Bracket/ Standard Deduction for Joint Returns	-5.4	-5.4	-3.1	-1.5	-0.3	—	-15.7
Alternative Minimum Tax	-7.1	-20.3	-26.8	-34.2	-42.8	-50.3	- 181.5
50% Bonus Depreciation	-41.4	-71.1	-66.2	-57.5	-48.4	-39.8	- 324.4
Section 179 Expensing	—	-3.8	-6.6	-5.0	-4.0	-3.4	-22.8
Total All Provisions FY2005 through FY2010							- 634.2

Source: Joint Committee on Taxation JCX-14-04R. Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2005 to 2014.* January 2004

[2] For more information on the revenue costs of extending the child tax credit, the 10% income tax bracket, marriage tax penalty relief, and AMT relief, see CRS Report RS21863, *Recent House Legislation Extending Selected Provisions of the 2001 and 2003 Tax Cuts*, by Gregg Esenwein.