

Federal Tax Administrators
Tax Legislative Update
September 25, 2000



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Topics to Cover

- Current State of Play
- Pension Bill
- Foreign Sales Corporations
- Community Renewal
- Corporate Tax Shelters
(Taxpayer Bill of Rights)
- Outlook for 2001

Budget Surplus

- Congressional Budget Office figures

- Total Budget Surplus

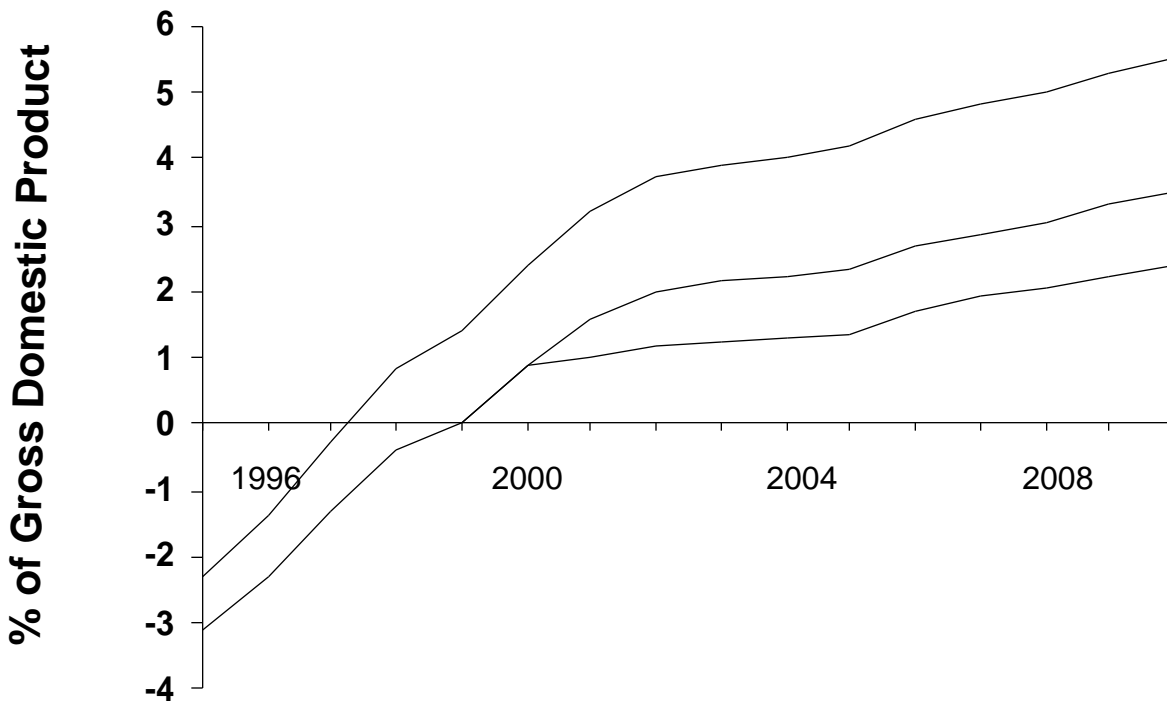
- \$4.561 trillion (2001-2010)

- On-Budget Surplus

- \$2.173 trillion (2001-2010)

The Budget

Surpluses and Deficits: FY 1995-2010 (as a percentage of GDP)



Source: CBO Budget Outlook Under Current Policies (July 18, 2000).

Process

- House Republicans passing single issue “thematic” tax bills
- Procedural road blocks in Senate
- Endgame
 - Reconciliation bill
 - Free-standing bills
 - Omnibus bill

Legislation “in Play”

- Pension Bill
- Foreign Sales Corporations
- Community Renewal
- Taxpayer Bill of Rights
- Minimum Wage

“Casualties” and “Orphans”

- Estate tax relief
 - Vetoed August 31
 - House fails to override September 7
- Marriage penalty relief
 - Vetoed August 5
 - House fails to override September 13
- Health bill
- Education savings accounts
- Internet
- Telephone excise tax

Pension Bills

- House bill
 - Comprehensive Retirement Security and Pension Reform Act
 - Approved by House July 19 by vote of 401-25
 - President voices criticism, no veto threat
- Senate bill
 - Retirement Security and Savings Act
 - Unanimously reported by Finance Committee September 7

Pension Bills – Common Elements

- IRAs
 - Increase contribution limit to \$5,000
- Defined contribution plans
 - Increase dollar limits on elective deferrals to \$15,000
 - Additional “catch up” contributions for those over 50
 - Faster vesting of employer matching contributions
- Liberalize rules relating to rollovers of pension distributions

Pension Bills – Principal Differences

- Senate bill includes:
 - IRAs
 - Increase income limits for Roth IRAs to \$200,000 for married couples
 - Provide tax-free treatment for withdrawals contributed to charity
 - Tax credit for pension contributions by low and middle income taxpayers
 - Small business tax relief
 - Provide credit for employer contributions and for administrative expenses
 - Relief available for first three years of plan

Foreign Sales Corporations

WTO decision holds FSC rules constitute an illegal trade subsidy

- FSC subsidies must be withdrawn by October 1, 2000

House approves FSC legislation September 13

- Replace FSC rules with elective regime that would provide tax reductions for income from both export and non-export foreign sales
- Provide an exclusion for qualifying foreign trade income

Community Renewal/New Markets

- “Renewal Communities”
- Empowerment Zones
- New Markets tax credit
- Low-income housing credit
- Private activity bonds

Taxpayer Bill of Rights

■ Interest and Penalties

- Exclude overpayment interest from gross income
- Modify interest netting rules for individuals

■ Confidentiality and Disclosure

- Protect competent authority agreements from disclosure

■ Potential vehicle for Corporate Tax Shelter provision in Senate

■ Potential vehicle for revenue raisers

Possible Outcomes

Corporate Tax Shelters

- Bipartisan staff proposal
- Treasury regulations
- Treasury legislative proposals

Legislative Outlook 2001 Transition

- New President
- New Chairman Ways and Means Committee
- New Chairman Senate Finance Committee?
- Learning to legislate in a budget surplus world

Issues in Tax Plans of Presidential Candidates

Issues in Tax Plans of Presidential Candidates

- Marriage penalty relief
 - **Bush:** 10% deduction for lower paid spouse (\$3,000 cap)
 - **Gore:** Make standard deduction twice that of individuals (\$1,400 increase in 1999)

Issues in Tax Plans of Presidential Candidates

■ Tax relief for parents

- **Bush:** Double kid credit to \$1,000

Increase phase-out to
\$200,000

- **Gore:** Make dependent care credit refundable; extend to after-school care and non-working parents of infants

Issues in Tax Plans of Presidential Candidates

■ Health Care

- **Bush:** Health insurance credit for lower income taxpayers that would otherwise be uninsured
- **Gore:** Credit for small businesses that provide health insurance

Issues in Tax Plans of Presidential Candidates

■ Education Incentives

- **Bush:** Increase Ed-IRA limit to \$5,000/year and extend to K-12
- **Gore:**
 - 28% credit for \$10,000 of post-secondary costs
 - Life-long learning accounts

Issues in Tax Plans of Presidential Candidates

■ Retirement Security

- **Bush:** Private accounts within social security. Broader access to incentive retirement accounts
- **Gore:** Retirement savings plus - 401(k) type with government match for low income taxpayers

Issues in Tax Plans of Presidential Candidates

- R&E Credit
 - **Both:** Make permanent

Issues in Tax Plans of Presidential Candidates

■ Development Incentives

- **Bush:** Individual development accounts, expand low-income housing incentives
- **Gore:** Expand present law incentives (empowerment zones, low-income housing credits)

Issues in Tax Plans of Presidential Candidates

■ Environmental Incentives

- **Bush and Gore:** Exclude 50% of capital gains on conservation sales
- **Gore:** Tax credit on environmental bonds

Issues in Tax Plans of Presidential Candidates

■ Rate Cuts

- **Bush:** Cut tax rates
 - 10/15/25/33 rate structure
- **Gore:** No proposal

Issues in Tax Plans of Presidential Candidates

- Estate and Gift Taxes
 - **Bush**: Phased repeal
 - **Gore**: Environmental-oriented incentives