

TAX BILL AIDS PARENTS, INVESTORS AND COLLEGE STUDENTS

Afternoon News Highlights

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By CQ Staff

Here are the highlights of the legislation (HR2014) to deliver the deepest federal tax cut in two decades -- a \$95 billion net cut over five years and a \$275 billion net reduction in revenues to the Treasury in the next decade.

The gross tax cut is \$152 billion over five years and \$401 billion over 10 years. Partially offsetting the cuts are tax increases of \$56 billion over five years and \$126 billion over 10 years. These figures are from the Joint Committee on Taxation:

CHILD TAX CREDIT

A \$400 per child tax credit starting in 1998 and rising to \$500 per child in 1999 and thereafter for families with children younger than 17. Single parents with annual incomes less than \$75,000 are eligible, as are couples making up to \$110,000. Low-income families may claim the credit before figuring their earned-income tax credit, meaning the credit could be refundable against payroll taxes. Five-year cost \$85 billion; 10-year cost \$183.4 billion.

CAPITAL GAINS

The bill would cut the top tax rate on capital gains, now 28 percent in general but 15 percent for those in the 15 percent income tax bracket.

Retroactive to May 7, gains on assets held between 12 and 18 months taxed as above; gains on assets held less than one year taxed at income tax rates, with top rate of 39.6 percent; gains on assets held more than 18 months taxed at 10 percent for individuals in the 15 percent tax bracket, 20 percent for others.

After 2000, gains on assets bought and held at least five years taxed at a top rate of 18 percent; gains on assets held more than five years by taxpayers in the 15 percent income tax bracket at 8 percent. Real estate subject to capital gains taxes would be at 25 percent. Increases revenue: \$123 million over five years. COSTS: \$21.2 billion over 10 years.

HOME SALES

No capital gains taxes on primary residences sold for less than \$250,000 by individuals, \$500,000 by couples. Cost is negligible.

EDUCATION

A "Hope" tax credit of up to \$1,500 for expenses in each of the first two years of college. For the second two years, graduate and post-graduate education, a credit of up to \$1,000, growing to \$2,000 after 2002. FIVE-YEAR COST: \$31.6 billion; 10-YEAR COST: \$76 billion.

After-tax deposits of \$500 allowed in an education savings account similar to an individual retirement account (IRA) for each child under age 18. Interest and principal may be withdrawn tax-free to pay for college or graduate education. Those in the top 3 percent income bracket not eligible. FIVE-YEAR COST: \$3.9 billion; 10-YEAR COST: \$14.2 billion.

Student loan interest deduction of \$1,000 in 1998, rising to \$2,500 in 2001, for singles with income up to \$40,000 and couples up to \$60,000. FIVE-YEAR COST: \$690 million; 10-YEAR COST: \$2.4 billion.

Penalty-free withdrawals from all IRAs for most post-secondary education expenses. FIVE-YEAR COST: \$812 million; 10-YEAR COST: \$1.7 billion.

Expand state-sponsored, prepaid tuition programs and state savings programs to include room and board. FIVE-YEAR COST: \$533 million; 10-YEAR COST: \$1.5 billion.

Extend through May 2000 exemption from taxation of employer-provided educational assistance for undergraduates. FIVE-YEAR COST: \$1.2 billion.

ESTATE TAX

Current exemption of \$600,000 from estate taxes increases gradually to \$1 million by 2006. Exemption for family farms and small businesses to be \$1.3 million next year. FIVE-YEAR COST: \$5.9 billion; 10-YEAR COST: \$33.1 billion.

ALTERNATIVE MINIMUM TAX

Sharp reductions in the tax paid by corporations that do not owe corporate income tax. FIVE-YEAR COST: \$6.8 billion; 10-YEAR COST: \$18.3 billion. Most small businesses exempted. FIVE-YEAR COST: \$577 million. 10-YEAR COST: \$762 million.

INDIVIDUAL RETIREMENT ACCOUNTS

Until now, only couples with incomes below \$40,000 and singles with incomes below \$25,000 can take advantage of tax-deferred IRAs -- in

which \$2,000 in pre-tax dollars can be deposited annually, then withdrawn tax-free at retirement. The bill would raise the income limits by \$10,000 for couples in 1998, by \$5,000 for singles in 1998 and by \$1,000 each year for singles thereafter through 2002. After that, limits would gradually rise to \$50,000 for singles and \$80,000 for couples.

Penalty-free withdrawals could be made for first-time home purchases or education. New "Backloaded IRA" would allow taxpayers -- except couples with incomes above \$150,000 and singles with incomes above \$95,000 -- to make after-tax contributions of \$2,000 a year, and withdraw interest and principal tax-free. FIVE-YEAR COST: \$1.8 billion; 10-YEAR COST: \$20.2 billion.

DISTRICT OF COLUMBIA

A \$5,000 tax credit for single first-time homebuyers making up to \$70,000, couples up to \$130,000. Waives capital gains taxes on investments in businesses with at least 80 percent of their gross income from District neighborhoods with poverty rates above 10 percent. Expands other economic development incentives. FIVE-YEAR COST: \$686 million; 10-YEAR COST: \$1.2 billion.

AMTRAK

Receives a refund on taxes paid by the predecessor railroads that merged in 1971 to form Amtrak. Refund contingent on passage of legislation mandating Amtrak management reforms. FIVE-YEAR COST: \$2.3 billion.

OTHER PROVISIONS

Health insurance for the self-employed 100 percent deductible by 2007. FIVE-YEAR COST: \$383 million; 10-YEAR COST: \$3.5 billion.

Expand urban empowerment zones, which give tax breaks for employment and investment such as tax-favored municipal bonds. FIVE-YEAR COST: \$717 million; 10-YEAR COST: \$1.2 billion.

Employers hiring former welfare recipients can get a credit worth 35 percent of the first \$10,000 in wages in the first employment year, 50 percent the second year. FIVE-YEAR COST: \$99 million; 10-YEAR COST: \$106 million.

AIRLINE TAX INCREASE

Domestic ticket tax (now 10 percent) lowered to 9 percent in 1998, 7.5 percent by 2000. New domestic flight tax of \$1, rising to \$3 by 2002, then adjusted for inflation. New 7.5 percent tax on frequent flier miles purchased by credit card companies. International ticket tax raised to \$12 from \$6. FIVE-YEAR REVENUE: \$33.2 billion; 10-YEAR REVENUE: \$79.7 billion.

TOBACCO TAX INCREASE

Part of spending reconciliation (HR2015). Per-pack cigarette tax rises from 24 cents to 34 cents in 2000, then 39 cents in 2002. Taxes on "roll-your-own" leaf tobacco also increase. FIVE-YEAR REVENUE: \$5.2 billion; 10-YEAR REVENUE: \$16.7 billion. Revenue generated to be deducted from industry payments under proposed settlement of state lawsuits.