



Committee On Finance

Max Baucus, Ranking Member

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Statement of Senator Max Baucus on Enactment of the Middle-Income Tax Relief Bill

(WASHINGTON, D.C.) Today, U.S. Senator Max Baucus issued the following statement after President Bush signed H.R. 1308, a bill that will extend tax cuts to the middle-class expiring in 2005.

Senator Baucus' statement follows:

"The bill the President signed today is intended to prevent America's working families from being harmed by scheduled changes in the tax law. In both the 2001 and 2003 tax cuts, individual tax relief was scheduled to rise and fall because of budget constraints. The new law today provides certainty through the end of the decade by extending the \$1,000 child tax credit, marriage penalty relief, the 10% rate bracket, as well as a year of protection from the onerous Alternative Minimum Tax (AMT). Without this extension, many hard-working American families would be faced with a tax increase in January. Republicans and Democrats worked together to make sure that didn't happen.

"For middle-income families, I was pleased that by working with my colleagues we were able to provide significant tax relief by extending marriage penalty relief, the 10% rate bracket, and the \$1000 child tax credit. Further, our nation's and Montana businesses will benefit from an extension of the research and development tax credit, and businesses and workers alike back home will benefit from an extension of the welfare-to-work and the work opportunity tax credit. Also, Montana teachers will be relieved to know that this new law extends for another year the deduction for their out-of-pocket classroom expenses.

"This new law includes one significant simplification item that I have pushed for in the Senate: to create a uniform definition of a child in the tax code. Before the enactment of this law, the tax code had five separate definitions. This uniformity will reduce complexity and errors in the income tax.

"However, this new law is not without its faults. For four million low-income working families with over nine million children we have not completely remedied the problem of hidden tax increases. Unfortunately for these families who really need the tax cut the most, their tax cut

has shrunk and will continue to shrink each year. This tax increase on low-income families is due to the fact that the threshold, or floor, for the refundable child credit increases each year with inflation. This inflation adjustment actually harms low-income families, because their earnings do not keep up with inflation – the minimum wage has not increased in years, yet the bar keeps getting raised higher each year, cutting off more and more families. Each year, they will see the amount of their child credit dissipate or drop off altogether.

“Oddly enough, the vehicle for these middle-income tax cuts is actually a bill from last year meant to help out low-income families with children who were left out of the 2003 tax cut bill, including a quarter of the children in Montana. While we have helped a substantial number of those Montana working families with children in this bill, the very lowest-income families still will see less and less refundable child credit each year. We were unsuccessful in our efforts during conference negotiations to fix this very real problem, but we will fight this one again until all American families can share in the child tax credit.

“Another missed opportunity is the refusal to provide permanent tax relief to low-income military families. Under the new law, a reservist earning \$16,000 a year will get the full earned income tax credit, whether they work here in the United States or if they are sent into combat in Iraq. However this benefit disappears in two years. If that same reservist is called up and sent into combat in 2006, the family loses part or all of their tax credit because “combat pay” will not count for purposes of the tax credit. My colleague Senator Lincoln and I lost on a party-line vote during conference negotiations to remedy this, despite pointing out that families with a mother or father serving in a combat zone shouldn’t be subjected to short-term and disappearing tax benefits.

“Finally, yet one more missed opportunity I hope Congress will seriously address is the fact that this bill is unpaid for and will add \$145 billion to already record deficits. Along with a bipartisan group of Senators, I offered a bill to provide these middle-income tax cuts without adding a penny to the deficit, but our call for fiscal responsibility was not heeded. Our children and our grandchildren will bear the burden to pay the bill for today’s tax cuts. And the very same low-income families we leave behind today are the ones who disproportionately bear the brunt of eliminating these deficits.

“While this bill is a step in the right direction, we still have more challenges ahead. I will continue the battle for our nation’s families and businesses, to provide them a fair and less complex tax system.”

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