



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Advances Economic Shot in the Arm with Broad, Bipartisan Tax Relief

WASHINGTON – Acting to ease economic anxiety, Sen. Chuck Grassley, chairman of the Committee on Finance, last night won committee approval of a broad package of tax relief for individuals, families, and small businesses. By putting more money in consumers' pockets, and by cutting costs for small businesses, the package would jumpstart the economy and create about one million jobs. The Grassley package is expected to receive consideration by the full Senate as early as Monday.

“These tax relief measures were a no-brainer,” Grassley said. “They’ll help create jobs, and we need more jobs. Too many people in this country can’t find a job right now. That’s a fearful situation. People have to provide for their families. And when they have jobs, they need more money in their paychecks to feed and clothe their families. Some experts say the slow economy is cyclical, and it’ll pick up on its own. But that’s cold comfort to someone who needs a job now.”

Grassley won Finance Committee approval of a tax-cutting package that in addition to providing tax relief for individuals, families and small businesses, is paid for in part by a series of reforms targeting corporate bad actors. The committee voted 12 to 9 to approve the package, with one Democrat joining the Republicans.

Grassley said the individual tax cuts will look familiar to taxpayers who are enjoying the benefits of the bipartisan, broad-based tax relief that became law in 2001, in large part due to Grassley’s leadership. The new package accelerates the effective date of the 2001 income tax cuts, which the law phased in over several years. This economic growth legislation would have dramatic impact on many taxpayers this year. For example:

- ▶ A married couple with one child and income of \$40,000 would see their taxes decline under the Grassley package by \$732 (from \$2,235 to \$1,503) in 2003, a decline of 33 percent.
- ▶ A married couple with two children and income of \$40,000 would see their taxes decline by \$1,133 (from \$1,178 to \$45) in 2003, a decline of 96 percent.
- ▶ A married couple with two children and income of \$60,000 would see their taxes decline by \$900 (from \$3,750 to \$2,850) in 2003, a decline of 24 percent.

Key provisions of the Grassley growth package include:

- ▶ An acceleration of the 10 percent income tax rate created in 2001. Under current law, the 10 percent rate applies to the first \$6,000 of taxable income for individuals and \$12,000 for married couples. Under current law, effective in 2008, the \$6,000 amount will increase to \$7,000 and the \$12,000 amount will increase to \$14,000. Under the Grassley plan, those increased tax cuts would be in effect in 2003 instead of 2008.
- ▶ An acceleration of all income tax rate cuts above 15 percent that are scheduled for 2004 and 2006. Under the Grassley package, these rate cuts would be in effect in 2003. According to Treasury statistics, small businesses receive 80 percent of the benefits of reducing the 38.6 percent rate to 35 percent. It means small businesses no longer will face a tax penalty of 10 percent, paying more than Fortune 500 companies.
- ▶ An acceleration of marriage penalty relief. The Grassley proposal accelerates the increase in the basic standard deduction amount for joint returns to twice the basic standard deduction for single returns, effective beginning in 2003.
- ▶ Significant additional relief from the Alternative Minimum Tax, which was designed to prevent upper income people from avoiding taxes but is hitting an increasing number of middle income taxpayers.
- ▶ A significant acceleration of the per-child tax credit. Current law provides for a \$1,000 per child credit in 2010 and later; the Grassley package moves this up to 2003. The Grassley package also makes advance payments beginning in 2003, so taxpayers would get a government check based on their 2002 returns filed in 2003. Also, the package accelerates the refundability of the child tax credit, a significant benefit for lower income parents.
- ▶ An increase in small business expensing. The Grassley proposal increases the amount of expenses for equipment and other property that small businesses can deduct from \$25,000 to \$75,000 beginning in 2003. Grassley said this is important to encourage small business investment and expansion, because most new jobs come from small businesses.
- ▶ A partial exclusion of dividend income from tax. This excludes from income the first \$500 of dividends plus 10 percent of dividends in excess of \$500 (20 percent in 2008). Grassley said it's good tax policy to exclude dividend income from taxation. An individual shouldn't have to pay any taxes on dividend income, Grassley said. "This isn't an outright repeal, but for small investors and retirees who have a little stock, every bit of income helps," Grassley said. "That's more money that they can re-invest or spend at the grocery store. Putting that money back into individual pockets helps the economy."
- ▶ A provision, offered as an amendment and accepted, to allow lower and moderate income workers to deduct the cost of mortgage insurance when buying a house. This is meant to encourage home ownership by cutting one of the initial costs of home buying.

- ▶ A major simplification of the tax code's myriad definitions of a child. The provision is estimated to cost \$1.8 billion over 10 years but will dramatically improve tax compliance while making lives simpler for parents and guardians seeking to get benefits such as the Earned Income Credit.

The Grassley package includes a series of measures to target corporate and individual tax avoidance and corporate governance problems:

- ▶ Grassley's legislation to curtail tax shelters by imposing a mandatory disclosure regime on taxpayers and a 40 percent penalty on abusive tax shelters.
- ▶ Grassley's legislation to stop companies from avoiding their share of U.S. taxes by nominally relocating their headquarters overseas in a tax haven, and legislation to curb individual expatriation.
- ▶ A series of reforms in response to the Joint Committee on Taxation's investigation of the Enron Corp.'s tax avoidance practices.
- ▶ The legislation Grassley introduced with his colleagues to clarify the deductibility of fines and penalties paid in government settlements, an issue that arose after it became clear that the Wall Street firms that joined the "global settlement" with the Securities and Exchange Commission will try to deduct a large part of their settlement payment.

Grassley said he expects his package to create about one million jobs in the next 18 months, based on an earlier estimate from the White House Council of Economic Advisers.

"Access to opportunity is the American dream," Grassley said. "If any Americans are denied this dream, then Congress has to do something about it. That's the goal behind this package. We have to expand the economy and create jobs. Cleaning up bad corporate behavior is part of that. Restoring confidence in the stock market will help companies invest, expand, and create jobs. This package strikes a good balance between tax relief and corporate clean-up."