RSC Republican Study Committee
Rep. John Shadegg (R-AZ), Chairman
Neil Bradley, Executive Director
432 Cannon House Office Building
Washington, D.C. 20515
http://www.house.gov/burton/RSC/
(202) 226-9717

DESCRIPTION OF THE "ECONOMIC SECURITY AND RECOVERY ACT OF 2001"

The bill reduces revenues by $99.5 billion in Fiscal Year 2002 and by $159 billion over ten years.

Description of Tax Provisions:

Expanded Depreciation-- allow an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of certain qualified property that is placed in service before January 1, 2005.

Section 179 Expensing -- provide that the maximum dollar amount that may be deducted under section 179 is increased from $24,000 to $35,000 for property placed in service in taxable years beginning after December 31, 2001, and before January 1, 2004. In addition, the proposal would increase the present law $200,000 limit to $325,000.

Treatment of Leasehold Improvement -- provide that 15-year property for purposes of the depreciation rules of section 168 includes qualified leasehold improvement property.

Net Operating Losses -- temporarily extend the general net operating loss (NOL) carryback period to five years (from two years) for NOLs arising in taxable years ending on or after September 11, 2001, and ending before September 11, 2004.

Repeal of Corporate AMT – permanent repeal the corporate AMT and make the AMT credit for corporations refundable effective in taxable years beginning after December 31, 2000.

Deferral of Multinational Business Income -- extend permanently the present-law temporary exceptions from subpart F foreign personal holding company income, foreign base company services income, and insurance income for certain income that is derived in the active conduct of a banking, financing, or insurance business.

Supplemental "Rebate" (Giveaway) -- provide a new supplemental "rebate" for individuals who filed income tax returns for 2000 before August 16, 2001 (<u>regardless of whether they had any income tax liability *or* any payroll tax liability</u>). Taxpayers would be eligible for the maximum "rebate" amount for their filing status ($300 single or married filing separately, $500 head of household, $600 joint filers) minus the amount (if any) of any previous rebate check issued. It is irrelevant whether the taxpayer showed any amount as wages on the 2000 income tax return. Dependents and nonresident aliens would be ineligible for these supplemental "rebates" (as they were for the previous rebates).

Accelerate the 25-Percent Rate Bracket to 2002 -- accelerate the reduction of the prior-law 28% income tax bracket to 25%. The 25% rate would become effective for taxable years beginning in calendar years 2002 and thereafter. [It is presently scheduled to become effective in calendar year 2006.]

Alternative Minimum Tax Exemption for Individuals -- increase the AMT exemption amount of individuals for taxable years beginning in 2002, 2003, and 2004. For 2002 and 2003, the $49,000 exemption amount would be increased by $3,200; the $35,750 exemption amount would be increased by $1,600; and the $24,500 exemption amount would be increased by $1,600. For 2004, the $49,000 exemption amount would be increased by $1,700; the $35,750 exemption amount would be increased by $850; and the $24,500 exemption amount would be increased by $850.

Increase Deduction of Capital Losses of Individuals Against Ordinary Income -- the amount of capital losses of individuals that may offset ordinary income would be increased from $3,000 to $4,000, in the case of taxable years beginning in 2001 and to $5,000, in the case of taxable years beginning in 2002.

Simplify Individual Capital Gains Rates -- reduce the 10% and 20% capital gains tax rates to 8% and 18%, respectively. These lower rates would apply to both the regular tax and the alternative minimum tax. For assets held more than one year.

Capital Gains Holding Period -- repeal the special rules for certain gain from property held more than 5 years and would repeal the election to recognize gain on property held on January 1, 2001.

Expand Exception from Early Withdrawal Tax for Health Insurance Expenses of Unemployed Individuals -- expand the present-law exception to the early withdrawal tax for IRA distributions used for health insurance for unemployed individuals. The exception would apply to distributions made after separation from employment to individuals who receive unemployment compensation for four consecutive weeks during the period from September 11, 2001 to December 31, 2002. The exception would apply also to distributions from a qualified retirement plan (including a section 401(k) plan), a qualified annuity plan, or a section 403(b) plan, provided the requirements for the exception were otherwise met.

Extensions of Expiring Provisions – Extends numerous provisions that are set to expire this year or next.

Unemployment and Health Care Provisions:

Transfers to State Unemployment Funds – effectively repeals the 1997 Balanced Budget Act provision that capped distributions under current law from the Federal Unemployment Trust Fund to the States at more than $100 million annually. The Federal government retains the remainder of funds that would otherwise be dispersed. This budget act provision is set to expire so that full payments would flow to the States starting in 2003. New funds made available to the States must be used by the to: (1) pay regular or increased unemployment benefits, (2) provide extended benefits for those who have exhausted regular benefits or other cash benefits for those who do not qualify for regular benefits, or (3) furnish employment services and supports to help individuals return to the workforce.

Health Care for the Unemployed Without Access to Federal Health Care Coverage – The Funding for the Social Services Block Grant program would be increased by $3 billion in fiscal year 2002 with the increased funding would be available to the States to assist in providing health care coverage for unemployed workers and their families who do not have other Federal health care coverage. States would have the flexibility to use the funds for their uninsured individuals as they see fit.