

Democrats Propose Repeal of Bush Tax Cut *Favor Increasing Taxes In a Recession*

House Democrats:

On October 24th of last year, Rep Rangel offered the Democrat Substitute to the Economic Security and Recovery bill, a stimulus bill designed to help improve the economy and get Americans back to work. **The Democratic plan included a proposal to repeal part of the Bush tax cut and raise taxes by approximately \$90 billion.**

Specifically, the Rangel Amendment repealed the decrease in the top income tax rate from 38.6% to 35%. According to data provided by the Treasury Department, approximately 2/3 of the taxpayers who would have paid for this tax increase are small business owners. Small businesses employ over half of the private workforce and in recent years have created 80% of all new jobs. Even worse, the Democratic tax increase would have resulted in small business owners being taxed at a higher rate than large corporations who are currently taxed at a 35% rate.

166 members or 78% of the Democratic Caucus, including Minority Leader Gephardt supported this \$90 billion tax increase. Those Members are:

Ackerman	Boswell	Crowley	Evans	Holden
Allen	Boucher	Cummings	Farr	Holt
Andrews	Brady (PA)	Davis (CA)	Fattah	Honda
Baca	Brown (FL)	Davis (FL)	Filner	Hooley
Baird	Brown (OH)	Davis (IL)	Ford	Hoyer
Baldacci	Capps	DeFazio	Frank	Inslee
Baldwin	Capuano	DeGette	Frost	Israel
Barcia	Cardin	Delahunt	Gephardt	Jackson-Lee
Barrett	Carson (IN)	DeLauro	Gordon	(TX)
Becerra	Clay	Deutsch	Green (TX)	Jefferson
Berkley	Clayton	Dicks	Gutierrez	Johnson, E. B.
Berman	Clement	Dingell	Hastings (FL)	Jones (OH)
Blagojevich	Clyburn	Doyle	Hilliard	Kanjorski
Blumenauer	Conyers	Engel	Hinchey	Kennedy (RI)
Bonior	Costello	Eshoo	Hinojosa	Kildee
Borski	Coyne	Etheridge	Hoefel	Kilpatrick

Kleczka	Mascara	Nadler	Rothman	Thompson
Kucinich	Matsui	Napolitano	Roybal-Allard	(MS)
LaFalce	McCarthy	Neal	Rush	Thurman
Lampson	(NY)	Oberstar	Sabo	Tierney
Langevin	McCollum	Obey	Sanders	Towns
Lantos	McDermott	Olver	Sawyer	Udall (CO)
Larsen (WA)	McGovern	Ortiz	Schakowsky	Velazquez
Larson (CT)	McKinney	Owens	Scott	Visclosky
Lee	McNulty	Pallone	Serrano	Waters
Levin	Meehan	Pascrell	Sherman	Watson (CA)
Lewis (GA)	Meek (FL)	Pastor	Skelton	Watt (NC)
Lipinski	Meeks (NY)	Payne	Slaughter	Waxman
Lofgren	Menendez	Pelosi	Smith (WA)	Weiner
Lowey	Millender-	Pomeroy	Solis	Wexler
Lynch	McDonald	Price (NC)	Spratt	Woolsey
Maloney (CT)	Miller,	Rangel	Stark	Wynn
Maloney	George	Reyes	Strickland	
(NY)	Mink	Rivers	Stupak	
Markey	Moran (VA)	Rodriguez	Tauscher	

Kennedy:

On January 16th of this year Senator Ted Kennedy, a long-time leader in the Democratic Party, gave a speech at the National Press Club where he called for increasing taxes by \$350 billion by suspending the Bush tax cut. The Kennedy tax increase, like the House Democratic proposal, would primarily be paid by small business owners.

What the Tax Bill Means to America's Families

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of what the tax bill will mean for America's families:

Lower Tax Rates:

- New 10% tax rate applies to the first \$6,000 of income for individuals, \$10,000 for the heads of households, and \$12,000 for couples
- Lowers other individual tax rates as follows:

Present	2001-2003	2004-2005	2006-2010
N/A	10%	10%	10%
15%	15%	15%	15%
28%	27%	26%	25%
31%	30%	29%	28%
36%	35%	34%	33%
39.6%	38.6%	37.6%	35%

Reduced Marriage Penalty:

- Sets the standard deduction for couples at twice the level for individuals – phased in over 5 years beginning in 2005
- Sets the 15% bracket for couples at twice the level for individuals – phased in over 4 years beginning in 2005

Per Child Tax Credit

- Phases in a doubling of the child credit from \$500 per year to \$1,000 per year as follows:

Calendar Year	Credit Amount Per Child
2001-2004	\$600
2005-2008	\$700
2009	\$800
2010	\$1,000

Adoption Tax Benefits:

- Increases the adoption tax credit to \$10,000 per eligible child (includes special needs children)
- Increases the exclusion from income for employer-provided adoption assistance to \$10,000
- Increases the starting point for the phase-out of both provisions to \$150,000 of adjusted gross income



Expanded Educational Opportunities Under the Tax Bill

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of expanded educational opportunities provided under the bill:

Education IRAs:

- Increases the annual limit on contributions to education IRAs from \$500 to \$2,000
- Expands the definition of qualified education expenses to include elementary and secondary school expenses
- Increases the phase-out range for couples to twice the level of single taxpayers
- Clarifies that corporations and other entities may make contributions to education IRAs

Prepaid Tuition Plans & Employer-Provided Assistance:

- Expands the definition of qualified prepaid tuition programs to include programs established by educational entities other than state-sponsored programs
- Allows tax-free distributions from prepaid college tuition plans, provided the funds are used for qualifying education expenses (private plans beginning in 2004)
- Expands the exclusion from income for employer-provided educational assistance to graduate education

Student Loan Interest Deductions:

- Increases the income phase-out range for the student loan interest deduction to \$50,000 - \$65,000 for singles and to \$100,000 - \$130,000 for couples and adjusts for inflation after 2002
- Allows taxpayers to claim the student loan interest deduction for voluntary payments of interest

Education Deduction:

- Permits taxpayers to claim an above-the-line deduction for qualified higher education expenses as follows:

Year	Income Limit	Maximum Deduction
2002-2003	\$65,000 for singles, \$130,000 for couples	\$3,000
2004-2005	\$65,000 for singles, \$130,000 for couples	\$4,000
2004-2005	\$80,000 for singles, \$160,000 for couples	\$2,000
2006	Provision Repealed	

What the Tax Bill Means for Your Local Schools

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of benefits provided in the bill for local school districts:

School Construction:

- Increases from \$5 million to \$10 million the amount of bonds that local governmental units may issue for public schools without being subject to arbitrage rebate requirements
- Expands the private activities for which tax-exempt bonds may be issued to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local education agency

What the Tax Bill Means for Small Businesses

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of benefits provided in the bill for small businesses:

Lower Tax Rates:

Since most small businesses pay taxes at the individual income rate, the reduction in marginal tax rates will help small businesses. Specifically the bill:

- Creates a new 10% tax rate
- Lowers other individual tax rates as follows:

Present	2001-2003	2004-2005	2006-2010
N/A	10%	10%	10%
15%	15%	15%	15%
28%	27%	26%	25%
31%	30%	29%	28%
36%	35%	34%	33%
39.6%	38.6%	37.6%	35%

Phase-Out and Repeal of the Death Tax:

- Phases-out the estate tax beginning in 2002 by eliminating the 5% surtax and the rates in excess of 50% and increasing the exemption to \$1 million
- Continues to phase out the estate tax as follows:

Calendar Year	Exemption	Highest Estate and Gift Tax Rate
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	N/A (estate tax repealed)	Top Individual Rate (for gift tax)

- Beginning in 2010, the "stepped up" basis for valuation of inherited assets would be replaced with the "carryover basis," thereby imposing a new capital gains tax on the difference between what the deceased paid for assets and current market value. An exemption of \$1.3 million in gained value (\$4.3 million for a surviving spouse) would be allowed.



Expanded Opportunities to Increase Retirement Savings Under the Tax Bill

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of expanded opportunities to increase retirement savings:

IRA Provisions:

- Increases the maximum IRA contribution limits for traditional and Roth IRAs as follows:

Year	Contribution Limit
2002-2004	\$3,000
2005-2007	\$4,000
2008	\$5,000
2009 and thereafter	Indexed for Inflation

- Increases IRA catch-up contribution limits for those age 50 and over by \$500 in 2002 and \$1,000 in 2006

Pension Provisions:

- Increase the annual benefit limit for defined benefit plans to \$160,000
- The early retirement age would be lowered to 62, and the regular retirement age would be lowered to 65 for the purposes of applying the benefit limits.
- The annual contribution limit for defined contribution plans would increase from \$30,000 to \$40,000 this year and thereafter be indexed for inflation in \$1,000 increments.
- The limit on compensation that may be taken into account under a plan would be raised from \$150,000 to \$200,000 and indexed for inflation in \$5,000 increments.
- Annual elective deferrals (under 401(k) plans, 403(b) annuities, and simplified employee pensions) would increase in accordance with the following schedule and be indexed after 2006:

Current Law	\$10,500
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

- The limit on deferrals to a savings incentive match plan for employees of small employers (SIMPLE) would increase in accordance with the following schedule and be indexed after 2005:

Current Law	\$6,000
2002	\$7,000
2003	\$8,000
2004	\$9,000
2005	\$10,000