TAX CUT GUIDANCE

1. The Republicans scaled back their tax cut by $72 billion to $792 billion. Will you compromise with the Republicans on a tax cut package? And if you do, what number will you accept?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate and adequately funds education and our other domestic needs.

  The core of my plan is a commitment to use our surplus to pay down our debt and save to meet the enormous challenge of protecting Medicare and Social Security for future generations.

- The Republican plan moves in the opposite direction.

  Instead of saving our resources to meet the challenge that we face, their plan explodes the cost of the tax cut so much that it threatens our nation's ability to save in order to meet our Social Security and Medicare needs of the 21st century.

- Indeed, in the second decade just at the time our nation first confronts the demographic challenge of the baby boom; just at the time when Social Security's Trust Fund is first under strain; just at the time when Medicare Trust Fund is projected to become insolvent the Republican tax cut would explode and drain an unimaginable **$3 trillion.**

- If instead of paying down our debt, we allow for an exploding tax cut to drain **$3 trillion** of our savings we will not only threaten the fiscal discipline and economic stability that has recently blessed our economy, we will threaten our ability to find the resources to keep Medicare and Social Security strong for the next generation.

2. You are meeting later today with Senate Finance Committee Democrats who back a tax cut package closer to $300 million. Will you back their plan?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate and adequately funds education and our other domestic needs such as .

- After we take care of these key priorities, we can discuss other things.

- I look forward to working with the members of the Senate Finance Committee and any other member of Congress on a responsible budget framework that maintains our fiscal discipline and puts our nation on the path of prosperity as we enter the 21^{st} century.

2. Could you support some of the elements of the Roth tax cut plan?

- We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation's military readiness first-rate, and adequately funds education and our other domestic needs.

- Any tax plan of a size that takes up the entire on-budget surplus, doesn't do a thing for the long-term solvency of Social Security and Medicare, and would leave dramatic cuts in the discretionary areas of education and health care is not something that I could responsibly sign.

Q: Chairman Archer has claimed that his plan saves Medicare. What is your response to this?

A: The Republicans' exploding tax cuts threaten both Social Security and Medicare. Because they devote the entire non-Social Security surplus ($996 billion over 10 years under CBO assumptions) and more to tax cuts, they set aside no new resources to extend Medicare or Social Security solvency. The tax cuts, which explode to a cost of $3 trillion in the second ten years, would drain funds from the budget just at the time when Medicare becomes insolvent and the retirement of the baby boom generation puts pressure on Social Security.

In light of the Republican budget resolution and the bipartisan consensus not to use any of the Social Security surplus ($1.899 trillion over 10 years under CBO) for any policies except for Social Security, we cannot imagine that there will be much support for using the Social Security surplus to fill the hole their tax cuts create.

I have demonstrated in my budget framework that it is possible to set aside the entire Social Security surplus for Social Security and still be able to devote non-Social Security surplus resources to strengthening Social Security and Medicare, providing for military readiness and funding investments in education, veterans, environment, and anti-crime efforts, while still providing a fair and substantial tax cut. Quite honestly, it surprises me that even after such strong bipartisan consensus, some Republicans still support using Social Security funds for programs other than Social Security.

July 22, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: GENE B. SPERLING

SUBJECT: Analysis of $500 Billion Tax Cut Plan

As you know, Senators Breaux and Kerrey have been discussing tax cuts along the order of $500 billion over 10 years. This analysis shows how tax cuts of that size, although better than the Republican tax cut plan, would still force us to choose between Medicare solvency and adequate funding for our discretionary priorities.

Why $500 Billion Tax Cut Does Not Add Up

- **$500 Billion Tax Cuts Plus Interest Costs Drains $600 Billion of the Surplus.** A $500 billion dollar tax cut would reduce the surplus by about another $100 billion dollars in interest costs, draining a total of about $600 billion from the surplus.

- **Defense Leaves Less than $250 Billion Left for Medicare and Discretionary Spending.** Our budget calls for $128 billion additional spending to met military readiness needs which would also add roughly another $30 billion in interest costs.

- **Can't Do Discretionary and Medicare With What is Left.** If you total what we have accounted for already – roughly $750 billion -- leaves just over $200 billion for all discretionary needs, Medicare solvency, and prescription drugs. With only $200-250 billion left one would have enough for either a tight discretionary budget or a mediocre Medicare plan, but not both.

  - If one used $200 billion for discretionary spending (with accompanying interest loss) that would leave zero for prescription drugs and zero for Medicare solvency; and off the CBO baseline, this $200 billion doesn't even catch up with our domestic discretionary budget – which itself has real cuts of 10 percent by 2009.

  - On the other hand if one devoted all existing funds -- $200-$250 billion-- to Medicare it

Breaux-Kerry

Margaret M. Suntum
07/12/99 04:03:51 PM

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 12, 1999

PRESS BRIEFING BY
SECRETARY OF TREASURY LARRY SUMMERS,
NATIONAL ECONOMIC ADVISOR GENE SPERLING,
AND OMB DIRECTOR JACK LEW

The Briefing Room

2:00 P.M. EDT

MR. SIEWERT: Today is kind of a critical week in the budget, and especially as the Hill begins to mark up a tax package this week, and here to tell you a little bit about our views of that process are National Economic Director Gene Sperling, newly minted Treasury Secretary Larry Summers, and our OMB Director, Mr. Jack Lew.

Gene.

MR. SPERLING: In the President's mid-session review and as he has done throughout this year, the President laid out a very clear, specific, detailed plan of how he would deal with our fiscal path, with our key priorities of Social Security, Medicare, military readiness, education and other priorities over the next decade.

The President has stressed repeatedly that the test of fiscal responsibility is dealing with first things first -- is dealing first with our existing unfunded liabilities, our existing unmet promises of long-term solvency for Medicare and Social Security. The Republican plans that have been put forward at this point completely fail that fiscal responsibility test.

I will talk about Medicare. Larry Summers will follow, talking about both taxes and some of the economic implications, and Jack Lew will discuss the discretionary aspects, and we'll take your questions.

I think there is no case where Republicans fail the fiscal responsibility test more than on Medicare. It was only last year, when several prominent Republican senators responded to the President's Social Security first case in the State of the Union with it should be Medicare first. Their argument was that Medicare solvency was as, or more important, because Medicare was going to become insolvent earlier. I think of all the things we heard, I think the notion that we should be stressing Social Security and Medicare together -- Social Security and Medicare both first -- was a right call, and it's one that we have stressed and continued to stress. That's why it's puzzling, disturbing and disappointing that the Republicans now put forward a tax plan that leaves zero -- zero -- for Medicare over a 10-year period.

Now, one has to pause and reflect on this a bit. Medicare is now supposed to become insolvent in 2015. Only months ago it was projected to be insolvent in 2008. Despite this, they have now budgeted for the entire next decade and not left a single penny for Medicare. Remember, the Social Security surplus is all designated for a Social Security lock box. The on-budget surplus, as John Podesta showed yesterday, is about $996 billion in their calculations. By the time you take their tax cut and the interest, it's gone.

As Jack Lew will go through, this will leave them in a world of hurt when it comes to funding our military and our basic priorities of education, science and health, but certainly does not leave anything for Medicare. Now, four times in the last 12 or 13 years, the Medicare projections have gone backwards. In other words, rather than being projected to improve, the projections often come in the other way. So in other words, that 2015 projection is only several months old. There's no reason that 2015 could not go back to 2008 or 2010.

So, again, it's important to understand -- they have laid out a budget that takes account of all of the available revenues and funds in the federal government for the next 10 years and not left anything for Medicare, even though it's going insolvent, at best, in 2015.

Now, as many people have stated, what we're dealing with are projections, we're dealing with projected surpluses. And one of the questions is how you should deal with surpluses that are, in fact, just projections. If a family knew nine years from now they were going to have serious health care bills and they thought they were going to get raises --

bonuses every year -- if they saved that money the first four years for the projected health care bills of their parents, and the raises don't come through in the bottom five years, they're not going to regret that they saved money for a health care bill they knew was coming due. They're going to be glad that they put away and saved that money.

On the other hand, if they take those projections and they simply spend it all, or simply use it on something that may be nice but is not a necessity, then that money is gone. And when that time comes later, they are in a tougher and tighter squeeze than they would have been.

That's the exact same situation with the federal government right now. Medicare is liability -- an unfunded liability we have. We have a promise to people who pay Medicare taxes every year that Medicare will be there for them even after 2015, long after 2015. This is an obligation we have. So what the President does is we take $374 billion over that 10 years and we save that for Medicare, for a promise we have to have. Of that, $328 billion is for strengthening the solvency of Medicare so that it goes to 2027, it's extended 12 years.

Now, one can say, well -- the Republicans could say, well, you know, sure, we didn't set aside any money, but we're going to have savings, we're going to come up with a plan. Well, let's see that plan. Right now if you look at our plan, we have about $72 billion in savings over 10 years -- tough to get $72 billion in savings over 10 years. The Breaux-Thomas plan -- I want to make clear on this -- has $66 billion in savings over 10 years. And not all of those are in Part A, that help the trust fund. So they probably have about $50 billion in actual savings that actually would help the trust fund.

Who is it that can say we don't need $328 billion for Medicare? And I think it's reasonable to ask the Republicans how would they extend the solvency of Medicare. If they're telling the country that we can afford to take our entire on-budget surplus for the next 10 years and use it for a tax cut and that we don't need to worry about the fact that Medicare could be insolvent within a decade or a little after, then let's see what your plan is. Because, if not, I think it not only fails the President's first things first test, I think it fails basic common prudence, common sense on budgeting.

So what will happen? What will happen is that six or seven years from now -- or maybe two or three years from now -- we will have to deal with Medicare. And if we have used all the money that was available for a tax cut, if we have saved nothing, how are we then going to take care of Medicare? One, you're going to have to have very severe savings. Two, you have to raise premiums. Three, you have to squeeze down discretionary spending, domestic spending on education, health and other priorities, or four, you'd have to borrow and run deficits again.

So when you want to talk about some of the squeeze on discretionary spending, it's not just the cuts that are in their plan, it is what will have to be cut down the road to solve with Medicare because we didn't set aside and save this money now for an existing promise on

Medicare we knew we had. And I think this needs to be something that needs to be debated nationally in the country before any $800 billion tax cut is passed.

SECRETARY SUMMERS: Thank you, Gene. I want to talk about the budget debate and what is at stake for our national economy in that debate. We're enjoying very fortunate times right now, with low inflation, low unemployment, rapid growth in real wages. There are many reasons, but none more important than the fact that there's $1.7 trillion in debt that was forecast in 1993 that does not exist today. That is $1.7 trillion that would have gone into sterile paper assets that has instead been invested in plant and equipment for workers, in lower interest rates for American consumers, and in reduced borrowing.

That is the right economic strategy for growing our country. And that is what is put at risk by the dangerous reversal of course that would be represented by huge tax cuts. Why would it be a dangerous reversal of course to have huge tax cuts at this point? For three reasons: first, it would mean more debt all through the next 15 years. The President's framework would eliminate the national debt by 2015. It would rapidly bring down debt over the next 15 years. It would do that by using the surpluses to prefund obligations that we already have. In contrast, the huge tax cuts approach would dissipate the surpluses while taking no new steps to meet existing obligations.

Second, the tax cuts are potentially explosive, out beyond the 10-years window, and involve very great risks if the projections that we have made do not materialize. If you look at those tax cuts within the 10 years, they are on an explosive takeoff path which would threaten our fiscal health after 10 years. And in the event that the forecasts do not materialize, and obviously uncertainties increase, the longer forward you look, the risks would be that much greater.

Third, foregoing the historic opportunity to pay down debt is tantamount to increasing taxes. It's tantamount to increasing taxes because each one percentage point increase in interest rates would mean an extra $200 to $250 billion in mortgage costs on American consumers over the next 10 years. It's tantamount to increasing taxes because more debt in the future, at higher interest costs in the future, means more need for citizens to pay taxes in the future. A dollar of debt foregone is more than a dollar of tax increase in the future, because you have to pay taxes on that dollar and on the interest that that dollar accrues going forward. So huge tax cuts are the wrong way forward because they mean more debt, because they mean more risk and because they are tantamount to future tax increases.

We can cut taxes the right way. The right targeted tax cuts can help middle-income families meet what are their crucial needs -- savings for retirement at a time when our personal savings rate is negative, child care, long-term care for an aging relative. Targeting tax cuts on the crucial needs of the vast majority of our population is the right tax strategy -- but first things first: pay down the debt, ensure the solvency of Medicare and Social Security, provide for prescription drugs, assure that base government can continue to function. That's the right economic strategy and it includes a tax cut, as well.

MR. LEW: This week as the Congress begins to work on the details of a tax bill is really the moment when it's incumbent on all of us to ask the very tough question -- do the numbers add up. And I think that the conclusion that one almost has to reach, looking at the size of the tax cuts that are being discussed, is that the numbers simply don't add up.

If you look at the size of a tax cut, there are a lot of different numbers out there. If we look in the House, the number they've been looking at is $864 billion. If there were an $864 billion tax cut, that would also increase our borrowing costs. As Larry just described, we have a bigger tax cut, therefore, there's more national debt, more interest -- it would cost us $179 billion in interest.

So, if you look at the CBO projection of a surplus of $996 billion, and an $864 billion tax cut with $179 billion of interest, you start out $47 billion to the bad -- increasing deficits compared to the baseline by $47 billion. And that's just a starting point.

Gene went through at some length on the Medicare issue, which is very significant. And we do believe that it is a key to first things first that we fund our current obligations. But what is masked in these numbers, in the Republican budget and in all of the discussion of tax cuts of this magnitude, is the part of the story that's not being described. And that is what's left for everything else.

If you look at the Republican budget resolution -- the congressional budget resolution -- over 10 years, it is below our administration projections of defense spending by $198 billion in outlays. Now, we worked very hard in December, November and December, putting together a budget that we really believe meets the needs that we have in the area of national defense. You cannot meet those needs with $198 billion less in outlays.

There's been a lot of discussion in the last week or two about what is the right level of non-defense spending; what do we need in order to fund our commitments to education, in order to fund our commitments to environmental programs, all the other priorities that we and, frankly, many on the other side are talking about it. If you look at the comparison of where the Republican budget is compared to simply taking the 1999 level of spending, plus inflation -- it's $583 billion short over 10 years. These are huge, huge gaps -- $198 billion in defense and $583 in non-defense. What it means is the numbers don't work. I don't believe that you could put together budgets at those levels and meet either Republican or Democratic views of what the priorities of the country are.

We see this year that working within the caps is very difficult. Going below those caps is just not a credible path. Even our allocation of the surplus proposed that we put a significant amount back into discretionary spending so that we can meet our commitment on defense, education and other areas. We've put $328 billion of surplus dollars back into discretionary spending.

The Republican tax cut is already creating a deficit before they put a penny back into discretionary spending. If they were to start adding money back so that they could have the defense program that I think we agree on a bipartisan basis we need -- if they were to put minimum levels of funding in so that it was possible to put together education, environmental and other budgets on a year-to-year basis, I think you would see their shortfall go from $47 billion into the hundreds of billions of dollars over the next 10 years.

It's important to ask these questions now, before a tax cut is put into place. Unlike a budget resolution, which is a target, it's a blueprint for Congress for the year, a tax cut becomes permanent law. It means that unless Congress and the President come back and change the laws, we have put ourselves on a path where we just won't have the resources to address Medicare or discretionary spending.

If you look at the cuts that our suggested by the numbers in the area of discretionary spending, they almost boggle the mind in terms of the depth of the cuts that would be required when you get to the end of the 10 years. If you were to spread the pain between defense and non-defense, we're talking of cuts of more than 25 percent in non-defense spending. If you were to protect defense and say defense will be protected, all the cuts will come out of non-defense -- you're up in the area of 40 percent. These are not numbers that work.

So we think that before the tax cut is enacted is the time you have to ask the question, is it a shell game or do the numbers work. Unfortunately, it looks more like a shell game and we would hope that that debate happens quickly and that we can engage, putting all the pieces on the table and have a direct discussion about what our priorities are, not just the tax cut on the table.

Q You're not referring to cuts, per se, but you're referring to cuts and projected increase in the projected growth of these programs?

MR. LEW: I'm actually referring to cuts below the level of 1999 appropriations in the area of non-defense, plus inflation. So if you look at a program -- whether it is Head Start or any of the other programs with a number of people in it -- and the costs go up, you start having to reduce the number of people who participate in the program if for 10 years you don't let the program grow by any of the amount of inflation.

We're very lucky, we have low inflation now. But even with low inflation you can't go 10 years at hard freezes without reducing the number of people who are served.

Q -- about the philosophy as a part of the cuts. You talked about the House plan. What about the Roth plan? It would cut the lowest marginal rate by 1 percent, benefitting low income people, as well as everyone -- 401(k) plans would be liberalized, the marriage penalty would be done away with, no capital gains reduction, no estate reduction. What's wrong with that?

MR. LEW: I'll let Larry talk about the details of the tax plan, but let me just, before I turn it over to him -- we can't get lost in the trees and not see the forest. These numbers are all putting us in the same place, where there just is not enough to go around. We can't have a $750 billion or an $850 billion tax cut and still meet Medicare, defense, education and other needs. The contents of the tax cut are questions that Larry will discuss, but we have to separate the questions of how big it is from what's in it.

Q -- what acknowledge meet those other needs as projected by the President --

MR. LEW: I would actually say that the burden is on anyone who is not meeting the levels that we're describing to show us how would they meet a national defense with $198 billion less?

Q -- in your prescription drug plan proposal --

MR. LEW: The numbers, actually, with or without prescription drugs, are close to the same. We're talking about taking less than $50 billion over 10 years of the surplus for prescription drugs. We're talking about hundreds of billions of dollars of shortfall --

Q But $50 billion is $50 billion.

MR. LEW: But hundreds of billions of shortfall are not materially changed by that.

Q Jack, can you lay out --

Q Can I hear an answer to the Roth plan? I mean, what are your philosophical disputes with the Roth plan?

SECRETARY SUMMERS: Our problem is with huge tax cuts that put you in a situation where there is no money for Medicare, no money for Social Security, where you're either not funding defense at the level the President has requested, or you're talking about some of the largest cuts in discretionary spending and service levels that we've ever talked about in this city. That's the crucial issue, not the precise composition of any tax plan. Sure, there are some differences between the Roth plan and the Archer plan, but those differences are small compared to what is the common element -- precluding Social Security, precluding Medicare, putting debt pay-down at risk, and leaving base government starved of the capacity to meet basic needs.

Q But doesn't the lock box on Social Security take care of that program?

SECRETARY SUMMERS: No, The lock box on Social Security doesn't address that at all. The lock box on Social Security serves an important issue of assuring that Social Security surpluses all go to pay down debt. And that is an important feature of the President's plan; that is an important feature of other approaches. What's crucial is that that be done in a way that doesn't risk future debt limit crises. What's crucial is that that be done in a way that doesn't make it impossible for the government to respond if we ever have a recession. But that lock box doesn't make one penny available for Medicare solvency, doesn't make one penny available to protect base government, doesn't make one penny available for kids.

If we've chosen, as Congress has, to move to a framework where we focus on the on-budget budget, then we have to have an on-budget framework that can meet our basic needs. And the challenge is to those who propose huge tax cuts, tell us what you'll do about Medicare, tell us what you'll do about defense, and tell us what you'll do to assure that base government -- that national parks, the FBI, medical research -- can keep providing the level of services that people have come to rely on.

MR. SPERLING: Can I just add one thing, which is on the Social Security lock box -- our Social Security lock box locks in debt reduction and uses the savings for Social Security. There is a commitment in the structure of how we do it -- that it all go to debt reduction, and that the interest savings from that debt reduction go to extending solvency. That makes a commitment that will be very difficult for something to renege on that in the future, because everybody knows if they renege on the debt reduction they'll be hurting the solvency of Social Security -- something will be very politically difficult for future congresses to do.

The current lock box that the Republicans have doesn't offer a day in the life of Social Security, doesn't extend it a day in the life of Social Security, doesn't put a penny of it towards extending solvency. So there's a hope that their lock box would lead to debt reduction and helping Social Security, but it is much more a hope than the type of commitment the President has.

Q What about this idea that they've revived of an across-the-board tax cut? Putting aside -- I know you want to attack the size of their tax cut -- but putting that aside for a second, what about the idea of an across-the-board tax cut? Is that a non-starter, considering you're looking at a targeted approach?

MR. SPERLING: We believe that it makes sense if you're going to have tax relief to have it go to the working families that are struggling to make ends meet, who are in most need of help on long-term care, on child care, on health care and for savings. And it's very disappointing that after we put out a plan that was very strong on helping savings, helping deal with the negative personal savings rate that Secretary Summers mentioned, that helps the lower and moderate-income families of this country do something with that savings.

Almost all of the savings provisions in these plans are dedicated to the most upper-income people. They're committed to people who have maxed out on their IRAs and their 401(k)s. That is targeting new savings incentives away from the middle class; that's targeting them away from the people who are having the hardest time saving and putting aside something extra to save for their retirement.

Q Could you just briefly outline for us how the administration would spend the $996 billion that we're talking about?

MR. LEW: As you know, when we put the mid-session out, the President put a framework forward that allocated a surplus, which we estimated to be just a little bit larger -- $1.084 trillion. We haven't gone back and put together a plan at $996 billion. But I think that the shape of it is the same, it would just take a little bit of adjustment to make it fit the different surplus projection.

Q That's a surplus over your projected budgets?

MR. LEW: That is the surplus over the --

Q You have a budget that takes care of defense, you have a budget that takes care of some spending. This is a surplus above that.

MR. LEW: This is the surplus with our policy, that's correct.

Q So new spending would be -- that's what you're asking? How would you spend --

Med.
374 bil.

MR. LEW: The allocation of the additional surplus amount obviously began with Medicare in this period -- $374 billion to Medicare. We then looked at discretionary spending and we began with a defense path and looking at needs in the area of core government -- law enforcement, airline safety, education programs -- we allocated $328 billion to defense and non-defense spending.

328
defense & non-def.
250

Q How much of that in defense?

MR. LEW: In our budget what we presented was -- let me just look it up -- we proposed $127 billion over 10 years for defense.

Q So $200 billion in additional spending for non-defense?

MR. LEW: Though we didn't allocate it. We put at least that amount into defense. On the tax cut, we were $250 billion. Now, we add all that together -- we also had financing costs, but we added that in and we figured on spending the total including financing of $132 billion. Now, that put us at $183 billion, which was our surplus projection. Obviously, if we were working off of CBO numbers we would have to revise it slightly.

But what we've put in there is we put in Medicare solvency, we put in prescription drugs, and we've put in $328 billion to address the funding needs in defense and non-defense. If you were to take our budget and add to it the larger tax cut, we'd be in the same position that they're in. There's just not room for all of the priorities that we put forward and for a massive tax cut.

We size our at $250 billion in order to make everything fit. And the challenge is to keep all the pieces at the right size.

Q If you're looking at taxes in terms of the bottom line, is there a bottom line cost for a tax cut package that may be between the $250 billion that you propose and the $800 billion that they've proposed? I mean, is there room for negotiation between those two figures?

MR. LEW: I think it's a mistake to think of this as a conversation where you quickly get into can you split the difference. We've put forward a set of policies that have -- that are rooted in a number of very important concerns. The concern about Medicare is to get solvency and to modernize the program. The concern in discretionary spending is to be able to maintain the defense program that we've put into place without devastating education, law enforcement and other priorities.

I think the question has to be how can those numbers be fit in with a tax cut. We sized our tax cut at $250 billion because that's where we thought the right fit was. I think it would be a mistake to think you just look at these numbers and somehow say, well, can you just split the difference. You have to ask what do you want to get on defense; what do you want to get on Medicare. And you have to put first things first.

Q -- why are you having the Republican leaders come today? What's the point -- just to deliver the same message you've been delivering the last couple of weeks?

MR. LEW: We're emphasizing the differences here. I think if you take a step back and you think of the facts that we're starting with, that we have a trillion-dollar surplus, and the opportunity to put first things first, to take care of Medicare and Social Security solvency, to take care of our long-term needs in defense and non-defense, and to have a tax cut, within the surplus that we have based on conservative projections -- we think that's an enormous opportunity.

If one chooses to go and put all of the resources into a tax cut, then we're going to have a problem. I think we've acknowledged that, we said it very clearly. The challenge that we've put forward is, is there a way to meet all these priorities. And, obviously, you have to talk amongst yourselves, between sides to see if there's a willingness to try and put first things first, and to try and balance the priorities.

Q Secretary Summers, you're going to Brussels tomorrow -- or today for meetings tomorrow. The Euro hit a new low today. Do you expect that to come up in your meetings with the G-7, which I realize are primarily devoted to Kosovo reconstruction, or in any bilateral meetings before or after that?

SECRETARY SUMMERS: Could I just emphasize one point on the budget before coming to your question. We, too, believe that government spending has to be properly controlled. The $200 billion that Jack referred to that is additional discretionary spending would still leave discretionary spending over the next decade on domestic programs below -- and below by a significant margin -- the 1999 level.

Q What's that?

SECRETARY SUMMERS: The 1999 level of services after you've marked up for the rising salary costs and so forth. And so the approach here is not one -- we say more discretionary spending -- that is only more discretionary spending relative to some projection of very sharp declines in discretionary spending. Our plan is a bare minimum of what is necessary for discretionary spending, and it does make room for a tax cut.

Q I'm sorry -- if it's the size more than the composition of a tax cut that's at issue, then is the administration open to some of the Republican proposals on targeted tax cuts within that $250 billion range?

SECRETARY SUMMERS: Let me come back to your question, then I'll -- and then I'll touch on that. I'm going to go to -- I'm going to be going to Europe primarily for the high-level steering group meetings, where the focus will be on an effective economic implementation strategy for Kosovo, and on the broader challenge of economic development in Southeastern Europe, which is so important if there's going to be stability. I'm looking forward very much to having the first discussions that I'll have a chance to have as Secretary, with my counterparts from the various European countries, and with President-designate Prody of the European Union. And I'm sure that the economic conditions in the United States and in Europe will play a part in those discussions and in that context the exchange rate situation may come up.

But certainly that will not be the focus of our discussions, which as I say will be on the economic implementation issues and will be on the situations of our real economy.

Q Are you concerned by its weakness?

SECRETARY SUMMERS: Our policy on currencies has been clear for a long time. We believe that a strong dollar is very much in the United States' interest. We believe that what's most important for Europe is to focus on strengthening its fundamentals by laying a foundation for growth, working on producing with great productivity, high-quality products and strengthening domestic demand because the United States cannot be the single engine of world economic growth.

Just on the tax cuts, we believe the crucial issue before we talk about tax cuts -- you know, we use this phrase, first things first a lot because it's actually right -- is that before we have any tax cuts, we've got to agree on what our overall financial plan for America is, what our framework for the surpluses is, and to assure that that's a framework that meets one of our highest priorities.

The President has made very clear what his highest priorities are -- they are saving Social Security first, addressing the challenges of Medicare, providing the prescription drug benefit. Once we've done that we can talk about the composition of a tax cut, and I think there's very widespread agreement that the right tax cut protects our priorities and targets what are crucial issues for middle-income families. And that's what we'll be working to do.

And I'd like to say that in the area of savings and growth incentives which is an important area, that there are 70 million Americans who do not have a pension, who do not have a 401(k), and the vast, vast majority of whom do not have an IRA. And finding the right vehicles to help them save seems to us to be the highest priority.

Q So you won't go any higher than $250 billion? Is that your bottom line?

MR. SPERLING: We've told you what we think is the right plan and that's where we are.

Q Thanks.

Q How far do you think you'll get with the leaders tonight?

Q How far do you think you'll get with the leaders tonight?

Q Are you for free trade, Secretary Summers?

SECRETARY SUMMERS: Free and fair trade. The President led the fight against the steel quota bill because it's very important that we resist protectionist pressures, and successfully opening markets around the world is crucial to helping the American economy continue to grow in a sustainable way. At the same time, it is crucial -- and this is something we have always believed -- that we use the tools of the U.S. trade law that are there to protect American businesses and protect American workers against unfair or subsidized foreign competition to the full extent. That's what has been done in certain cases involving steel and lamb, and that's something we will do in the future.

Q The Australian Prime Minister says you're going to subsidize his lamb producers now.

Q Thank you.

END 2:37 P.M. EDT

Message Sent To:

SURPLUS IMPACT OF $500 BILLION TAX CUT PACKAGE
($ billions)

President's Medicare Drug Program Offset With Savings

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-09
On-budget surplus	14.4	37.5	82.3	75.0	84.7	91.7	128.8	146.2	156.9	178.0	995.5
$500 billion tax cut	4.0	14.8	22.9	26.7	31.5	58.7	72.8	80.8	90.7	97.3	500.2
Prescription drugs (net)	0.4	1.2	4.5	8.0	7.1	5.8	5.6	4.8	4.4	3.9	45.7
Medicare solvency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
$328 billion discretionary	0.0	21.3	45.9	36.5	34.1	37.2	40.6	39.2	37.9	35.1	327.8
Resulting debt service	0.1	1.1	4.0	7.9	12.0	17.1	23.7	31.2	39.5	48.5	185.1
Remaining surplus	9.9	(0.9)	5.0	(4.1)	(0.0)	(27.1)	(13.9)	(9.8)	(15.6)	(6.8)	(63.3)

N.B. Debt service figures subject to revision.

07/22/99
09:51:25 PM

THE WHITE HOUSE
WASHINGTON

National Economic Council
6:42 PM, Tuesday, July 20, 1999

NTC —
this is for Republican bill not House Dem alternative, but could still be helpful, although I know why you are so consumed with this

G

TO:

Mr. Gene B. Sperling

Ms. Melissa G. Green

Voice: (202) 456-2807
Fax: (202) 456-2878

FROM:

Bill Dauster

Voice: (202) 456-5359
Fax: (202) 456-2223

<william_g._dauster@opd.eop.gov>

Pages: 5
(including this one)

→ DAUSTER

From: Ronald E. Jones on 07/20/99 05:39:11 PM

Record Type: Record

To: William G. Daustor/OPD/EOP@EOP, Joseph J. Minarik/OMB/EOP@EOP, Douglas W. Elmendorf/CEA/EOP@EOP

cc: Richard E. Green/OMB/EOP@EOP, James J. Jukes/OMB/EOP@EOP, Sandra Yamin/OMB/EOP@EOP

Subject: URGENT -- Treasury Letter for Review

I'm faxing to each of you a short Treasury transmitting their tables shoping the distributional effects of the House tax bill. Treasury would like to send the letter in the next hour or two.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
July 20, 1999

SECRETARY OF THE TREASURY

The Honorable Bill Archer
Chairman, Committee on Ways & Means
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am enclosing for your information distributional tables prepared by Treasury for the Financial Freedom Act of 1999. These tables provide an additional perspective on the distributional effects of the Act to the tables prepared by the Joint Committee on Taxation (JCX-44-99). Most importantly, the Treasury tables reflect the effect of the provisions of the Act when fully phased in rather than annually over the first five years, measure the change in tax benefit rather than the change in taxes paid, and include the effect of estate taxes. The Treasury tables show the distribution of tax among families whereas the JCT tables refer to tax units.

As you know, some have raised concerns about Treasury's use of "Family Economic Income" in its distributional tables. In response to those concerns, we have prepared two tables for the Financial Freedom Act of 1999. The first ranks families by their Family Economic Income and the second by their "Cash Income." Cash Income is very similar to the income concept used by the Congressional Budget Office in its distributional analyses. The two tables show nearly identical results for the percentage distribution of the tax reductions from the Act across income quintiles.

Sincerely,

Lawrence H. Summers

Enclosures

Major Provisions in H.R. 2488, the "Financial Freedom Act of 1999"[1]

(2000 Income Levels)

Family Economic Income Quintile[2]	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount[3] ($B)	Total Tax Change: Percent Distribution (%)	Percent of: Current Federal Taxes[4] (%)	Percent of: After-Tax Income[5] (%)
Lowest[6]	22.4	-21	-0.5	0.4	-3.6	0.2
Second	23.0	-111	-2.6	1.9	-3.6	0.5
Third	23.0	-340	-7.8	5.9	-4.2	0.9
Fourth	23.0	-781	-18.0	13.5	-5.0	1.3
Highest	23.0	-4,501	-103.7	78.1	-8.9	2.5
Total[6]	115.2	-1,154	-132.9	100.0	-7.4	2.0
Top 10%	11.5	-7,381	-85.1	64.0	-9.7	3.4
Top 5%	5.8	-12,260	-70.7	53.2	-10.8	3.9
Top 1%	1.2	-36,862	-42.9	32.3	-11.9	4.5

Department of the Treasury
Office of Tax Analysis

July 20, 1999

(1) This table distributes the estimated change in tax burdens due to the major provisions in the "Financial Freedom Act of 1999" which include: a 10% reduction in individual income tax rates, repeal of the individual AMT; repeal of the estate and gift taxes; reduction in the capital gains tax rates from 20%/10% to 15%/7.5%; making the joint standard deduction double the single amount; and a dividend and interest exclusion of $200 per taxpayer.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 2000 income levels assuming long-run (2009) law. The effect on tax burdens of the reduction in capital gains tax rates is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), excises, customs duties, and estate and gift taxes. The individual income tax is assumed to be borne by payers, the corporate income tax by capital generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals in proportion to relative consumption of the taxed good and proportionately by labor and capital and excises on purchases by businesses and customs duties proportionately to labor and capital, and the estate tax by decedents. Federal taxes are estimated at 2000 income levels but assuming 2009 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) After-tax income is Family Economic Income less current Federal taxes.

(6) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $17,988; Third $34,844; Fourth $59,018; Highest $100,787; Top 10% $140,581; Top 5% $189,836; Top 1% $452,058

Major Provisions in H.R. 2488, the "Financial Freedom Act of 1999"[1]

(2000 Income Levels)

Cash Income Quintile[2]	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount[3] ($B)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of Cash Income (%)
Lowest[4]	22.4	-15	-0.3	0.3	0.2
Second	23.0	-96	-2.2	1.7	0.4
Third	23.0	-301	-6.9	5.2	0.8
Fourth	23.0	-761	-17.5	13.2	1.2
Highest	23.0	-4,592	-105.9	79.9	2.7
Total[4]	115.2	-1,154	-132.9	100.0	1.9
Top 10%	11.5	-7,572	-87.2	65.6	3.1
Top 5%	5.8	-12,632	-72.7	54.7	3.6
Top 1%	1.2	-37,854	-43.9	32.6	4.1

Department of the Treasury
Office of Tax Analysis

July 20, 1999

(1) This table distributes the estimated change in tax burdens due to the major provisions in the "Financial Freedom Act of 1999" which include: a 10% reduction in individual income tax rates; repeal of the individual AMT; repeal of the estate and gift taxes; reduction in the capital gains tax rates from 20%/10% to 15%/7.5%; making the joint standard deduction double the single amount; and a dividend and interest exclusion of $200 per taxpayer.

(2) Cash income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax is added to place cash on a pre-tax basis. Cash income is shown on a family rather than on a tax return basis. The cash incomes of all members of a family are added to arrive at the family's cash income used in the distributions.

(3) The change in Federal taxes is estimated at 2000 income levels assuming long-run (2009) law. The effect on tax burdens of the reduction in capital gains tax rates is based on the level of capital gains realizations under current law.

(4) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at cash income of: Second $16,428; Third $30,964; Fourth $49,563; Highest $81,967; Top 10% $116,239; Top 5% $154,900; Top 1% $348,555.

Senate Finance Democratic Alternative

Broad-Based and Marriage Penalty Relief

1. **Increase the Standard Deduction.** Increase the standard deduction according to the following schedule:

	Single	Head of Household	Joint
2001	$4600 (+300)	$6850 (+500)	$8200 (+1000)
2003	$4900 (+300)	$7350 (+500)	$9200 (+1000)
2005	$5200 (+300)	$7850 (+500)	$10,200 (+1000)
2007	$5600 (+400)	$8500 (+650)	$11,550 (+1350)

For joint filers claiming the earned income tax credit, provide a comparable reduction in modified AGI for purposes of computing the phase-out of the earned income tax credit. Accordingly, for purposes of computing the EITC phase-out for a couple in 2001, the couple's modified AGI is deemed to be $1000 lower than it would be but for this proposal. For similar taxpayers in 2006, the couple's modified AGI is deemed to be $3000 less than it would be but for this proposal.

2. **Two-Earner Couple Deduction.** Provide an itemized deduction for two-earner couples equal to 20% of the earned income of the lower earning spouse. The maximum deduction that could be claimed would be $4350, and that amount would be phased in over the same schedule as the increase in the standard deduction outlined above. Accordingly, the maximum deduction in 2001 and 2002 would be $1,000. For 2003 and 2004, the maximum deduction would be $2000. For 2005 and 2006, the maximum deduction would be $3000. For 2007 and beyond, the maximum deduction would be $4350. In addition, the deduction would phase out for joint filers with incomes between $75,000 and $95,000. Effective date: TYBA 12-31-00.

Health Provisions

1. **Accelerate 100% Deduction for Self-Employed.** Allow deduction for 100% self-employed health insurance deduction beginning in 2001.

2. **30% Tax Credit For Health Insurance Premiums.** Eligible taxpayers would receive a 30% credit for expenditures on health insurance (but not long-term care insurance), not to exceed $1,000 for single coverage and $2,000 for family coverage. The amount of the credit would be limited to the sum of the taxpayer's income tax liability and the payroll taxes paid by or on behalf of the taxpayer. Medicare premiums, Champus premiums, other Federally-subsidized health plan premiums, and premiums for employer-sponsored health plans would not qualify for

the credit. Self-employed taxpayers would have the option of claiming the credit or the present-law deduction for self-employed health insurance premiums. Taxpayers would be ineligible for the credit if their modified adjusted gross income ("AGI") exceeds specified limits. The modified AGI limits would be $40,000 for married taxpayers filing joint returns and $20,000 for all other taxpayers. The modified AGI limits would be indexed for changes in the Consumer Price Index. Effective date: taxable years beginning after December 31, 2000.

3. **Long-Term Care Insurance Deduction.** Provide an above-the-line deduction for long-term care insurance expenses for which the taxpayer pays at least 50% of the premium, phased-in as follows: 10% in 2001 and 2002, 25% in 2003 and 2004, 35% in 2005 and 2006, and 50% in 2007 and thereafter. Deductible premiums would be capped at the limits provided in section 213.

4. **Long-Term Care Credit.** Provide a $250 credit ($500 for years 2007 and thereafter) for taxpayers, spouses, and qualifying dependents who have long-term care needs. Except for the size of the credit, all of the details of the proposal are the same as those contained in the Administration's FY2000 budget request. Effective date: taxable years beginning after 12-31-02.

Estate Tax Provisions

1. **Estate Tax Exemption Amount.** Accelerate the increase in the estate tax exemption to $740,000 in 2003 and $1 million in 2004 and thereafter.

2. **Family-Owned Farms and Businesses.** Increase the qualified family-owned business interest deduction from $1.3 million to $1.75 million in 2003 and thereafter.

Alternative Minimum Tax Provisions

1. **Allow Personal Credits.** Extend through 2003 the 1998 provision to allow taxpayers to claim nonrefundable credits under the alternative minimum tax.

2. **Repeal 90% Foreign Tax Credit Limitation.** Repeal the limitation on the use of foreign tax credits under the AMT to offsetting 90% of alternative minimum tax. Effective date: taxable years beginning after 12-31-00.

3. **Income Averaging for Farmers.** Provide that a farmer's use of income averaging for a particular taxable year may not increase a farmers' liability under the alternative minimum tax. Effective date: taxable years beginning after 12-31-00.

4. **Corporate AMT Modifications.** Permit corporations with unused AMT credits that are

more than five years old to reduce tentative minimum tax by up to 20 percent. Effective date: taxable years beginning after 12-31-00.

Extension of Certain Expiring Provisions

1. **Work Opportunity Tax Credit.** Extend the work opportunity tax credit through June 30, 2001.

2. **Welfare-To-Work Tax Credit.** Extend the welfare-to-work tax credit through June 30, 2001.

3. **Wind and Biomass.** Extend the credits for electricity produced from wind and biomass through June 30, 2001.

4. **Active Financing.** Extend the exemption from Subpart F for active financing through December 31, 2001.

5. **Brownfields.** Extend the provision allowing expensing of brownfields environmental remediation costs through June 30, 2001.

6. **Rum Cover Over.** Increase the amount of rum excise tax that is covered over to Puerto Rico and the U.S. Virgin Islands from $10.50 per proof gallon to $13.50 per proof gallon through June 30, 2001.

7. **Puerto Rico Economic Activity Tax Credit.** Modify the temporary wage credit for corporations based in Puerto Rico by: (1) removing the limitation for newly established business operations and (2) removing the base period cap which, beginning in 2002, limits the size of the credit for existing claimants (sunsets taxable years beginning after 12-31-02).

Education Provisions

1. **School Modernization Bonds.** Provide for the issuance of up to $24.8 billion in qualified school modernization bonds, with bondholders receiving tax credits in lieu of an interest payment from the issuer of the bond. Any taxpayer may hold these bonds, the term of which will be 15 years. The issuance shall occur as follows: $12.4 billion in 2001 and $12.4 billion in 2005. For those states or localities that do not issue their entire allocation amount, the unused portion of the allocation may be carried over to the next year. Schools funded by the Bureau of Indian Affairs shall be qualified to issue bonds under this proposal.

2. **Qualified Tuition Plans.** Permit tax-free distributions from qualified State tuition

plans; allow private institutions to offer prepaid tuition plans with tax-free distributions beginning in 2004; allow taxpayers to exclude State plan distributions from gross income and claim the HOPE or Lifetime learning credits as long as they are not used for the same expenses. Effective date: taxable years beginning after 12-31-99.

3. **Student Loan Interest.** Eliminate the rule limiting deductibility of student loan interest to interest paid in the first 60 months for which payments are required. Effective date: interest on student loans paid after December 31, 1999.

4. **Small Issuer Arbitrage Rebate.** Increase the amount of governmental bonds that may be issued by governments qualifying for the "small governmental unit" arbitrage rebate exception. The additional amount of bonds for public schools that the governmental unit may issue without being subject to the arbitrage rebate rule would be increased from $5 million to $10 million. Effective date: bonds issued on or after 1-1-01.

5. **Private Activity Bonds.** The private activities for which tax-exempt bonds may be issued are expanded to include elementary and secondary public school facilities. The facilities for which these bonds are issued must be operated by a public educational agency as part of a system of public schools. Issuance of these bonds is subject to a separate annual per-State volume limit equal to the greater of $10 per resident or $5 million. States decide how to allocate the bond authority to State and local government agencies. Effective date: bonds issued on or after 1-1-01.

6. **Extension of Section 127.** Make permanent section 127, which allows taxpayers to exclude the value of employer-provided educational assistance, and allow for graduate coursework to qualify. Effective date: courses beginning after 12-31-99.

7. **Enhanced Charitable Deduction for Computer Donations.** Extend and modify section 170(e)(6)(B) relating to the enhanced charitable deduction for computer donations to schools. The modification eliminates the existing limitation of the deduction to twice the basis in the computer. In addition, allow the deduction to equal 90% of the difference between the basis in the computer and the property's fair market value. Finally, give the same treatment currently afforded new property to reacquired property that is refurbished to a standard equivalent to newly constructed property. The modifications would be effective January 1, 2000 and the provision is extended through December 31, 2001.

8. **Tax Credit for Information Technology Training Expenses.** Provide for a tax credit against income tax for information technology training expenses. The tax credit would be equal to 20 percent of information technology training expenses, not to exceed $6,000 per employee in a taxable year. The percentage would increase by 5 percent to 25 percent for a business that operates or initiates a training program in an empowerment zone, an enterprise community, a school district where at least 50 percent of the students are eligible to participate in the school

lunch program, a tribal collage, a small business employer, or in an area designated by the President or Secretary of Agriculture as a disaster zone. The tax credit would apply to businesses providing the IT training directly, or through certified commercial information technology training providers. Effective date: taxable years beginning after 12-31-00.

9. **Tax Credit for Educational Television Conversions.** Provide a 20 percent vendor tax credit for equipment, structures, and software used to convert the 28 statewide public television networks from analog broadcasting to the higher definition digital transmission technology. Effective date: taxable years beginning after 12-31-00.

10. **Charitable Contributions To Low-Income Schools.** Allows taxpayers to claim a charitable contributions deduction for donations to public, private, and parochial low-income elementary and secondary school made after the end of the taxable year and on or before the date of filing the taxpayer's Federal income tax return. For purposes of this proposal, low-income elementary schools are those where 50 percent or more of the students qualify for free or reduced price lunches. Effective date: contributions made after 12-31-99.

Environmental Provisions

1. **Better America Bonds.** State and local governments (including Indian tribal governments and U.S. possessions) would be able to issue Better America bonds (BABs) to the extent of authority to do so allocated by the BABs Board. The volume of authority to issue BABs that may be allocated by the Board in each of the five years, beginning in 2001, would be $1.9 billion. Bonds must be issued for qualifying purposes, which include acquisition of land for open space, wetlands, improving access to public lands, or public parks or greenways; construction or renovation of affiliated visitors centers; remediation of such land to enhance water quality by planting trees or other vegetation; acquisition of certain easements; and qualified environmental assessment and remediation. The holder of a BAB would receive annual income tax credits in lieu of interest from the issuer of the bond. Effective date: bonds issued on or after 12-31-00.

2. **Endangered Species.** Three proposals to protect endangered species:

a. **Cost-Share Payments.** Exclude from income the same portion of cost-share payments made to landowners under the Partners for Wildlife Program (authorized by the Fish and Wildlife Act of 1956) that is permitted for other qualified cost-sharing payments under section 126. Effective date: taxable years beginning after 12-31-00.

b. **Conservation Easement Donations.** Permit individuals to deduct the value of a qualified conservation contribution against 50 percent of the individual's AGI (rather than 30%), and to carry forward any unused deduction for up to 20 years (instead of five). Also, if the donor dies before all the deduction is used, the deduction can be used on the final income tax return or the estate tax return. Effective date: taxable years beginning after 12-31-00.

c. **National Wildlife Refuge Conservation Easements.** Provides landowners who place a conservation easement on property located near a National Wildlife Refuge the same estate tax benefits as lands located in or within 25 miles of a National Park or National Wilderness Area. Effective date: taxable years beginning after 12-31-00.

3. **Exclusion for Certain Conservation Sales.** Exclude from income 50 percent of any gain realized from private, voluntary sales of land, or interests in land, to government agencies or qualified conservation organizations. The land must be used to protect fish, wildlife, or plant habitat, or to preserve open space for agriculture, outdoor recreation or scenic beauty. Effective date: taxable years beginning after 12-31-00.

4. **Alternative Fuels Incentives.** Four provisions to promote the use of alternative fuels:

a. **Extended Range Credit.** Increase electric vehicle tax credit for vehicles with extended range.

b. **Credit Extension.** Extend the current electric vehicle credit through 2010.

c. **Alternative Fueling Stations Deduction.** Permit deduction for up to $30,000 of cost of installing alternative fuel stations.

d. **Per Gallon Credit for Sale of Clean Burning Fuels.** Provide a credit of 15 cents per gasoline equivalent gallon to sellers of clean burning alternative fuels.

Effective date: taxable years beginning after 12-31-00.

5. **Section 29 Placed-In-Service Date.** Modify section 29 of the code by striking "July 1, 1998" in subparagraph (g)(1)(A) and inserting "the date which is 8 months after the date of enactment of [this legislation]."

6. **Transportation Tax Incentives.** Increase the limit on the income exclusion of public transportation and vanpool benefits to $175 per month. The proposal would eliminate the discrepancy between parking benefits and transit benefits. Effective date: taxable years beginning after 12-31-99.

<u>Savings and Pension Provisions</u> (unless otherwise indicated, all provisions are effective for taxable years beginning after 12-31-00.)

1. **Plan Loans for Self-Employed Individuals**

- Permit S corporation and unincorporated owners who own no more than 25% of the business to take plan loans under the same rules applicable to employees and owners of C corporations. (Section 101 of S. 741.)

2. **IRA Contributions through Payroll Deduction**

- Clarify that employers may establish automatic payroll deduction plans so their employees may contribute directly to an IRA account. (Section 102 of S. 741.)

3. **SAFE Trusts**

- Create a simplified defined benefit plan for small businesses. $100,000 pay limit for benefit considerations; calculate contributions using 5% interest rate; limit benefit accrual rate to 2%; replace past service credit with optional 3% accrual rate for first five years; no double-dipping in maximum benefit limits under Section 415. (Section 103 of S. 741, as modified.)

4. **Modify Top Heavy Rules**

- This form of nondiscrimination protection effectively applies only to small businesses. The proposal would lighten the burden of the top heavy rules through the following changes. Establish a one-year lookback period, exempt frozen plan from minimum accruals, and exempting any plan which is not top heavy, and is not expected to become top heavy, from top heavy plan document requirements. (Section 104 of S. 741, as modified.)

5. **Small Business Pension Start Up Tax Credit**

- Tax credit for small employer pension plan contributions and start-up costs; 25% credit on employer contributions for the first three taxable years for employers with 25 or fewer employees; 50% tax credit for the first three years on start-up costs for employers with 100 or fewer employees. (Section 106 of S. 741, as modified.) Effective for plans established after 12-31-00.

6. **Increase SIMPLE 401(k) and SIMPLE IRA Limits**

- Increase the maximum elective deferral to SIMPLE retirement plans from $6,000 to $8,000 per year. 1% employer nonelective contribution required. (Section 107 of S. 741, as modified.)

7. **Elective deferrals not taken into account for purposes of limits.**

- Elective deferrals would not be taken into account in applying the deduction limits to other contributions. (Section 112 of S. 741, modified to follow H.R. 2488, "The Financial Freedom Act of 1999.)

8. Allow More Contributions to Defined Contribution Plans by Increasing the "25% of Salary" rule to "50% of Salary" and Creating a $10,000 Annual Floor.

- A participant is limited in a DC plan to contributing not more than 25% of salary, even though the annual contribution limit is $10,000. The provision would increase the limitation to 50% and creating a floor of $10,000, which all participants could contribute regardless of compensation level. For nondiscrimination testing, only 25% of compensation considered.

9. Three Year Vesting for Matching Contributions

- Under current law, employers may require up to five years of service before an employee is entitled to employer contributions to a defined contribution plan. The proposal would reduce that maximum to three years with respect to matching contributions. (Section 202 of S. 741.)

10. Rights of Spouses of Government Employees

- The Federal Government retirement program (CSRS) will be changed so that if an employee dies before collecting benefits, the surviving spouse will be eligible for some benefit. (Section 203 of S. 741.)

11. Division of 457 Plan Benefits Upon Divorce

- This provision clarifies that, for purposes of taxation of distributions form 457 plans, the recipient of those funds is liable for income taxes. Enactment of this provision would prevent the case where a participant is taxed on retirement income that, under a divorce decree, belongs to an ex-spouse. (Section 204 of S. 741.)

12. Spousal Notice

- Require notification of a spouse when a participant is notified about a survivor and benefit option. (Section 205 of S. 741.)

13. Rollovers among Employer-Provided Plans

- Allow rollovers among various types of employer-provided plans. 457 plan rollovers limited to governmental 457 plans, and 10% excise tax applied to early distributions of monies rolled over to 457 plans. (Section 301 of S. 741, as modified.)

14. **Rollovers from IRAs to Employer Provided Plans**

- Allow rollovers of IRAs to employer provided plans. Institutional trustee required for qualified plan. (Section 302 of S. 741, with institutional trustee requirement, and as further modified by H.R. 2488, "The Financial Freedom Act of 1999.")

15. **After Tax Rollovers; Waiver of 60-day Rule**

- Where new employers are willing to accept them, individuals changing employers will be allowed to roll over after-tax contributions to the new employer's plan. IRA trustees accepting such rollovers would track basis. Also, in hardship exceptions, IRS could waive the 60-day limit on rolling over distribution to an IRA without incurring tax. (Section 303 of S. 741, with trustee tracking requirement, and as further modified by H.R. 2488, The Financial Freedom Act of 1999.)

16. **Modify The Same Desk Rule**

- Conform the treatment if 401(k) plans to the treatment of defined benefit plans and money purchase plans in "same desk" situations. That is, where an employee's company is acquired by another business, the employee would meet the "separation from service" definition required to allow portability of the 401(k) benefit to the new employer. (Section 304 of S. 741.)

17. **Treatment of Forms of Distribution**

- Employees would be allowed to waive section 411(d)(6) (anti-cut-back rules) under certain circumstances when rolling one defined contribution plan into another. The transferee plan would not be required to preserve the optional forms of benefits under the transferor plan if requirements are met to ensure the protection of participants' interests. Transfer must be in connection with a bona fide transaction or job change. (Section 305 of S. 741, with "bona fide" modification.)

18. **Purchase of Service Credit in Governmental Defined Benefit Plans**

- Ease rules allowing purchase of service credits when moving from one defined benefit plan to another. For example, many teachers purchase service credits when they move from one state to another. Under current law, individuals may not use defined contribution assets without penalty to purchase these credits. This provision would allow individuals to purchase these credits with other retirement assets, like monies from 401(k), 403(b), governmental 457 plans. (Section 306 of S. 741.)

19. Disregard Rollovers for Purposes of Cash-Out Amounts

- This provision permits an employer to disregard rollovers for purposes of making a cash-out. This provision removes a disincentive for employers to accept rollovers. (Section 307 of S. 741.)

20. Limited Relief for Multiemployer Plans

- Exempt multiemployer plans from the high-3-year-average compensation limit of 415(b)(1)(A). Also, exemption from aggregation rules between multiemployer and single employer plans. (Section 403 of S. 741.)

21. Expand PBGC Missing Participant Program

- PBGC's Missing Participant Program will be expanded to help find individuals who are eligible for benefits from multi-employer plans. (Section 404 of S. 741.)

22. Grant Department of Labor Discretion in Cases of Fiduciary Breach

- DOL would have discretion to waive certain penalties for fiduciary breaches. (Section 405 of S. 741.)

23. Regular Benefit Statements

- An annual benefit statement would be required to be sent every year to participants in DC plans. Participants in DB plans would receive a statement every 3 years, unless the employer automatically provided an annual notice to employees of the right to receive a benefit statement and how to go about obtaining one. (Section 501 of S. 2339, 105th Congress.)

24. Clarify that Employer Provided Retirement Planning is a Non-Taxable Benefit

- Employer provided retirement planning would be deemed not to constitute a taxable fringe benefit. To be eligible for the exclusion from taxable fringe benefit, the employer must sponsor a tax-qualified retirement plan, and the planning advice must be available on substantially the same terms to substantially all employees participating in the plan. The term "retirement planning" is defined to apply only to advice, not services (e.g., tax preparation, accounting, legal services, brokerage services, etc.) Annual limitation of $300 of value per participant. (Section 503 of S. 741, with definitional clarification of "retirement planning".)

25. Encourage ESOP Dividend Reinvestment

- In order for an employer to deduct dividends paid on stock held by an ESOP, the employer would be required to give employees a choice of whether to receive dividends in cash or allow them to be reinvested and grow tax-deferred until retirement. Nondiscrimination rules and annual contribution limits of 401(k) plans would apply. (Section 603 of S. 741, as modified.)

26. Plan Amendments Pursuant to this Proposal

- Plan amendments necessary to comply with this proposal would not be required to be made before the last day of the first plan year on or after January 1, 2002. For governmental plans, the date for amendments is extended to the first plan year beginning on or after January 1, 2004. Operational compliance would be required with respect to all plans as of the applicable effective date of any amendment made by the proposal.

27. Cash Balance Pension Disclosure

- Require employers converting to cash balance plans or otherwise significantly reducing future benefit accruals to provide employees with benefit comparisons under the old and new plans. Requirement applies only to vested employees who are likely to be adversely affected. Treasury directed to prepare guidance defining "significant reductions" (in addition to cash balance conversions) that require the enhanced disclosure. Effective for all conversions not announced in writing before 3-18-99.

28. Treasury Study of the Distribution of Pension Tax Benefits

- Require Treasury to prepare a distributional analysis of the tax benefits of major pension and retirement savings arrangements by income group to be concluded by June 30, 2000. A preliminary analysis is to be submitted within 60 days after enactment to the extent feasible.

29. Reduce PBGC Premium for Small Businesses

- The PBGC premium is normally set at $19 per participant. This proposal would set the premium for a small employer plan at $5 per participant for the first five years of a plan. (Section 109 of S. 741.)

30. Phase-in of Additional PBGC premium for new plans

- Any applicable variable rate premium would be phased in over a six year period as follows: 0% for year one; 20% for year two; 40% for year three; 60% for year four; 80%

for year five; and 100% for year six. (Section 108 of S. 741.)

31. **Eliminate the "New Plan Fee."**

- Employers who establish a pension plan must pay a fee, sometimes up to $1000, to receive a determination letter from the Internal Revenue Service stating that the plan is qualified. In order to decrease the costs of establishing retirement plans, the legislation eliminates this fee. (Section 110 of S. 741.)

Agricultural Provisions

1. **Farm and Ranch Accounts.** Allow farmers to contribute up to 20% of their annual active participation farm income to tax-deferred accounts. The funds would be taxed as regular income if withdrawn within five years. Funds not withdrawn within 5 years are subject to a 10% penalty. Effective date: taxable years beginning after 12-31-00.

2. **Farmland Rentals.** Clarify that rental income from farmland under a lease arrangement is not considered net income from self-employment for SECA purposes. Effective date: taxable years beginning after 12-31-00.

3. **Farm Residence Expanded Definition.** Exclude from capital gains tax up to 160 acres of farmland that is contiguous to and sold with a principal residence, provided the farmland was farmed in three of the five years prior to sale with material participation by the taxpayer or a members of the taxpayer's family. Effective date: taxable years beginning after 12-31-00.

4. **Agriculture Bonds.** Exempt small issue bonds for agriculture from the State volume cap. Effective date: taxable years beginning after 12-31-00.

5. **Capital Gains Relief for Farmers Leaving the Business.** Provide an exclusion from gross income of up to $300,000 (lifetime total) of capital gain from the transfer of property in complete or partial satisfaction of qualified farm indebtedness of a taxpayer: (1) whose gross receipts for six of the preceding ten years are at least 50 percent attributable to farming; and (2) whose equity in all property held after the transfer in question does not exceed the greater of $25,000 or 150 percent of income tax liability. The provision also applies a comparable exclusion with respect to the discharge of qualified farm indebtedness of solvent farmers who meet these requirements and whose indebtedness both before and after the relevant transfer equals at least 70 percent or more of equity. Effective date: taxable years beginning after 12-31-00.

Technology and Economic Development

1. **R&E Credit.** Extend the R&E credit permanently and modify the credit in two respects: (1) increase the alternative incremental research credit by one percentage point and (2) permit investment in Puerto Rico to meet the test for qualified R&E expenditures. Effective date: 7-1-99.

2. **New Markets Initiative.** A new tax credit for qualified investments made to acquire stock (or other equity interests) in selected community development entities. Taxpayers would receive a credit equal to six percent of the investment each year during each of the first five years after making the investment. The maximum investments that would qualify for the credit would be capped at an aggregate annual amount of $750 million (a maximum of $3.75 billion for the entire period of the tax credit) Effective date: investments made on or after 1-1-01. Except for the aggregate caps, the initiative tracks the Proposal included in the Administration's FY2000 budget.

3. **Low Income Housing Tax Credit.** Phase-in an increase in the per capita amount of low-income housing tax credit from $1.25 to $1.50 according to the following schedule:

2001	$1.30
2002	$1.30
2003	$1.30
2004	$1.40
2005	$1.40
2006 and thereafter	$1.50

4. **Private Activity Bonds.** Accelerate the scheduled increases in the per capita State volume cap for private activity bonds according to the following schedule:

2001	$55 per capita (minimum $165 million)
2002	$60 per capita (minimum $180 million)
2003	$65 per capita (minimum $195 million)
2004	$70 per capita (minimum $210 million)
2005 and thereafter	$75 per capita (minimum $225 million)

5. **Spaceport Bonds.** Permit spaceports to be treated like airports under the tax-exempt exempt-facility bond rules. The term "spaceport" would include facilities directly related and essential to servicing spacecraft, enabling spacecraft to take off or land, and transferring passengers or space cargo to, or from close proximity to, the launch site to perform these functions. Effective date: bonds issued on or after 1-01-01.

6. **Small Business Expensing.** Increase the limit on expenditures allowable under section

179 for immediate expensing by small businesses to $25,000 in 2001.

Other Targeted Initiatives

1. **Oil & Gas Incentives.**

A. **Geological and Geophysical Costs.** Allow geological and geophysical costs incurred in connection with oil and gas exploration in the United States to be deducted currently. Effective dare: geological and geophysical costs incurred or paid in taxable years beginning after December 31, 2000.

b. **Delay Rental Payments.** Allow delay rental payments for domestic oil and gas wells to be deducted currently. Effective date: delay rental payments incurred in taxable years beginning after 12-31-00.

c. **Suspend 65% of Taxable Income Limit.** For purposes of percentage depletion, suspend the 65-percent-of-taxable income limit on percentage depletion for five years. Effective date: taxable years beginning after 12-31-00 and before 1-01-06.

2. **Electricity Deregulation Provisions**

a. **Electric Cooperatives.** Modify the 85-15 test applicable to electric cooperatives (section 501(c)(12)) so that revenues received from nonmembers solely as a result of conforming operations to meet provisions of an applicable State or federal plan designed to provide for customer choice in electric power supply. Effective date: taxable years beginning after 12-31-99.

b. **Tax-Exempt Bonds.** Liberalize the private business restrictions to allow limited tax-exempt financed generation, transmission, and distribution facilities pursuant to electric restructuring plans, and to grandfather the tax status of previously issued debt. Under the proposal, electing utilities would forego the issuance of future tax-exempt debt for generation facilities, but could continue to issue such debt for transmission and distribution facilities. Non-electing utilities would continue to be subject to the current law restrictions on private business use. In addition, the tax-exempt status of debt issued by electing utilities would be grandfathered, so that utilities are not penalized for opening their systems to competitors. Effective date: date of enactment.

c. **Qualified Nuclear Decommissioning Funds.** Repeal the cost of service requirement for deductible contributions to nuclear decommissioning funds. Under the proposal, taxpayers, including unregulated taxpayers, would be allowed a deduction for amounts contributed to a qualified nuclear decommissioning fund. As under current law, the maximum contribution and deduction for a taxable year could not exceed the IRS ruling amount for that year. Effective date: generally effective for taxable years beginning after 12-31-99; the provision relating to transfers of non-qualified funds is effective for taxable years beginning after 12-31-01.

3. **Child Care Credit.** Increase the maximum amount of employment-related expenses eligible for the credit from $2,400 to $2,700 for expenses incurred for one qualifying individual and from $4,800 to $5,400 for two or more qualifying individuals. Effective date: taxable years beginning after 12-31-00.

4. **Worksite Child Care Credit.** Provide a 25% credit for qualified expenses of employers assisting employees with child care. Qualified expenses would include (1) child care facility start-up expenses, (2) child care facility operational expenses, and (3) payments or reimbursements for "off site" child care. The maximum credit an employer could claim in any year would be $90,000. Effective date: taxable years beginning after 12-31-00.

5. **Leasehold Improvement Depreciation.** Reduce the MACRS recovery period for qualifying leasehold improvements to nonresidential real property from 39 years to 15 years. Qualifying improvements would be restricted to those used exclusively by the lessee and would not include improvements made within the first three years after the date at which the building was first placed in service. Effective date: improvements made after 12-31-00

6. **Tax-Exempt Status for State-Chartered Underwriters.** Grant tax-exempt status to State-chartered, not-for profit insurers serving markets in which commercial insurance is not available. No part of the net earnings may inure to the benefit of any private shareholder or individual. Effective date: taxable years beginning after 12-31-00.

7. **Combined Employment Tax Reporting.** Permit employers to file both State and federal payroll taxes with a single form through a single point. This is accomplished by permitting the IRS to disclose the common data (name, identification number, address and the signature of the taxpayer) received on the form to the appropriate State. The program would be elective--each State would determine whether to participate. Effective date: date of enactment.

8. **Charitable Contributions.** Increase the percentage of AGI that individual taxpayer may contribute in cash to private foundations and certain other charitable organizations and in capital gain property to public charities from 30 percent to 50 percent.

9. **REITs Structure.** Modify structure of businesses indirectly conducted by REITs. Impose 10% vote or value test; modify treatment of income and services provided by taxable REIT subsidiaries, with a requirement that securities of taxable REIT subsidiaries may not exceed 15 percent of the total value of a REIT's assets; establish special foreclosure rule for health care REITs; conform REIT distributions rules to RIC 90% distribution rules; clarify definition of independent contractors for REITs; and modify earnings and profits rules. Effective

date: taxable years beginning after 12-31-00, with special transition rules for provisions relating to permitted ownership of securities of an issuer.

Revenue Offsets.

1. **Foreign Tax Credit**. One-year carryback and seven year carryforward of foreign tax credits. Effective date: credits arising in taxable years beginning after 12-31-99. Except for effective date, same as provision included in the Affordable Education Act.

2. **Non-Accrual Experience Method of Accounting**. Limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services. Effective date: Tax years ending after date of enactment. Same as provision included in the Affordable Education Act.

3. **Cancellation of Indebtedness Reporting**. Information reporting on cancellation of indebtedness by non-bank financial institutions. Effective date: cancellation of indebtedness after 12-31-99. Same as provision included in the Affordable Education Act.

4. **IRS User Fees**. Extension of IRS user fees through 9-30-09. Effective date: September 30, 2003. Same as provision included in the Affordable Education Act.

5. **Charitable Split Dollar Insurance**. Deny deduction for charitable split dollar life insurance. Effective date: transfers made after February 28, 1999 and for premiums paid after the date of enactment. Same as provision included in the Affordable Education Act.

6. **Retiree Health Benefits**. Allow employers to transfer excess defined benefit plan assets to a special account for health benefits of retirees (through September 30, 2009). Effective date: transfers made in taxable years beginning after 12-31-00. Same as provision included in the Affordable Education Act, except with maintenance of benefits, not maintenance of cost.

7. **Prefunding Employee Benefits**. Impose limitation on pre-funding of certain employee benefits. Effective date: Contributions paid after date of enactment. Same as provision included in the Affordable Education Act.

8. **Installment Method for Accrual Taxpayers**. Repeal the installment method of accounting for most accrual taxpayers; adjust the pledge rules. Effective date: installment sales entered into on or after date of enactment. Same as provision included in the Affordable Education Act.

9. **Streptococcus Pneumonia Vaccine**. Include the Streptococcus Pneumonia vaccine in the Federal vaccine insurance program. Effective date: vaccine purchases the day after the date on which the Centers for Disease Control make final recommendation for routine administration

of conjugated Streptococcus Pneumonia vaccines to children. Same as provision included in the Affordable Education Act.

10. **Restore Phase-Out of Unified Credit.** Restore the phase-out of the unified credit for large estates. Effective date: decedents dying after date of enactment. Same as President's FY2000 budget proposal.

11. **Lower-of-Cost-or-Market.** Repeal the lower-of-cost-or-market inventory accounting method. Effective Date: TYBA DOE. Same as President's FY2000 budget proposal.

12. **Start-Up and Organizational Expenses.** Modify treatment of start-up and organizational expenditures. Effective Date: Generally effective for start-up and organizational expenditures incurred after date of enactment. Same as President's FY2000 budget proposal.

13. **Corporate Environmental Tax.** Reinstate the environmental tax imposed on corporate taxable income and deposited in the Hazardous Substance Superfund. Effective Date: TYBA 12-31-99 through 12-31-09. Except for effective date, same as President's FY2000 budget proposal.

14. **Superfund Excise Taxes.** Reinstate excise taxes deposited in the Hazardous Substance Superfund. Effective Date: Date of enactment through 9-30-09. Same as President's FY2000 budget proposal.

15. **Corporate Tax Shelters.** Pending review of Joint Committee on Taxation report and recommendations, include restrictions on corporate tax shelters.

16. **Closely Held REITs.** Modify treatment of closely-held REITs. Effective Date: Taxable years beginning on or after date of first committee action. Same as President's FY2000 budget proposal.

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Summary of Amendment to Senator Roth's Mark
Offered by the Democratic Members of the Finance Committee

Very Preliminary Estimate
Total Costs: $317 billion
Offsets: $ 27 billion
Net Cost: $290 billion

Broad-Based Relief *(very preliminary estimate – $168 billion)*
Increases the standard deduction (phased-in) by $4,350 (60%) for joint filers, $2,150 (34%) for heads of household, and $1,300 (30%) for single filers; and increases the phase-out levels for married EITC recipients to provide a similar benefit for joint filers claiming EITC.

Marriage Penalty *(very preliminary estimate – $21 billion)*
Allows an itemized deduction equal to the lesser of $4,350 or 20% of the lower earning spouse's earned income for taxpayers with incomes less than $95,000.

Health *(very preliminary estimate – $27 billion)*
Allows a 30% tax credit for individuals without employer-sponsored plans; 50% deduction for long-term care insurance; $500 tax credit for long-term care; and 100% deductibility of health insurance for self-employed individuals.

Estate Tax *(very preliminary estimate – $10 billion)*
Accelerates the increase of the unified credit exemption amount to $1 million and increases the exemption for family-owned farms and businesses by $450,000 (up to $1.75 million).

AMT *(very preliminary estimate – $10 billion)*
Extends for five years the provision allowing taxpayers to claim their nonrefundable personal tax credits (e.g., HOPE, child credit) without regard to the AMT; repeals 90% foreign tax credit limitation; coordinates income averaging for farmers; and allows long-term AMT credits to offset up to 20% of corporate tentative minimum tax.

Extenders *(very preliminary estimate – $4 billion)*
Provides two year extension of expiring provisions -- work opportunity tax credit, welfare-to-work, wind and biomass, subpart F exemption for active financing, brownfields environmental remediation. Increases the Puerto Rico and Virgin Islands rum cover-over and modifies the wage credit for corporations based in Puerto Rico.

Education *(very preliminary estimate – $17 billion)*
Permits credits for school modernization bonds; provides tax-free prepaid tuition plans; eliminates 60 month rule for student loan interest deduction; increases arbitrage rebate exception for bonds used for school construction; establishes private activity bonds for education facilities; permanently extends section 127 employer-provided tuition assistance for higher education and expands to graduate assistance; enhances charitable deduction for computer donations; establishes credit for information technology training expenses; provides 20% credit for conversion of public TV networks to higher definition technology; and raises charitable deduction for contributions to low-income elementary schools.

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Environment *(very preliminary estimate – $5 billion)*
Establishes Better America Bonds for acquisition of land for open space, wetlands, and improving access to public lands; promotes endangered species conservation, urban revitalization, and waste utilization through cost-share payments and a 50% AGI limitation charitable deduction for easements; extends estate tax benefits for lands within 25 miles of a National Park to lands within 25 miles of a National Wildlife Refuge; excludes 50% of gain from certain conservation sales; promotes use of alternative fuels and alternative fuel vehicles; extends section 29 nonconventional fuels credit; and increases employer subsidy of employees commuting via mass transit.

Savings/Pensions *(very preliminary estimate – $9 billion)*
Offers small businesses a tax credit to start pension plans; permits portability of 401(k) and similar plans from one job to another; and increases protection of assets. Provides a modified cash balance disclosure proposal and requires a Treasury study of the distribution of tax benefits for pension arrangements.

Agriculture *(very preliminary estimate – $5 billion)*
Establishes tax-deferred risk management accounts; increases the volume cap for agriculture bonds; clarifies that rental income from farmland is not self-employment income; gives farmers the full advantage of the $500,000 capital gains tax break by extending it to farmland; and provides capital gains relief for farmers leaving the business.

Technology and Economic Development *(very preliminary estimate – $30 billion)*
Expands R&E credit to include the alternative incremental research credit and the Puerto Rico economic activity credit and makes credit permanent; establishes a tax credit for new markets community development; expands low-income housing tax credit from $1.25 to $1.50 per capita; accelerates increase in private activity bond volume cap; permits qualified spaceport facilities to qualify as exempt-facility bonds; and increases to $25,000 the small business expensing cap.

Other Targeted Initiatives *(very preliminary estimate – $10 billion)*
Provides oil and gas incentives (geological and geophysical cost deduction, rental payment allowable delays, suspension of 65% depletion limitation) and electricity deregulation incentives (electric cooperative 85-15 test modification, liberalize tax-exempt bond private business restrictions, repeal cost of service requirement for nuclear decommissioning funds). Increases child care credit; establishes 25% worksite child care credit; reduces the 39-year depreciation to 15-year for leasehold improvements; grants tax-exempt status to State-chartered, not-for-profit insurers; permits employers to file payroll taxes on a single form; increases the 30% deduction limitation to 50% for certain charitable contributions; and modifies REIT provisions.

Offsets *(very preliminary estimate – $27 billion)*
Revenue raisers from the Affordable Education Act; reinstate superfund taxes; restore phase-out of unified credit for large estates; repeal lower-of-cost-or market inventory accounting method; modify treatment of start-up and organizational expenditures; corporate tax shelter package (pending review of Joint Committee on Taxation report); and ~~modify structure of businesses indirectly conducted by REITS and~~ modify treatment of closely held REITs.

July 15, 1999 (6:00 pm)

#s may change. Tax computer were not functioning correctly at print time

Outline of Staff Discussion Draft of Chairman's Mark

Broad-based tax relief:

3. Reduce 15% income tax rate to 14%, effective beginning in 2001
4. Expand income levels for 14% rate bracket by $2,000 for single individuals and $4,000 for married couples filing joint returns for 2005 and 2006; $2,500 (single) and $5,000 (joint) for 2007 and thereafter

*2006

Family tax relief:

1. Allow married couples filing joint returns to elect to file single returns on a combined form; both must itemize deductions or take standard deduction; income follows ownership (50% split on jointly owned assets); effective beginning in 2005
2. Adjust the income starting and ending point for the earned income credit for married couples filing joint returns by $2000 (the phaseout rate stays the same), effective beginning in 2005
3. Expand tax exclusion for certain foster care payments, effective for payments made after 12/31/99
4. Increase and expand dependent care tax credit, effective beginning in 2001:
   a. Increase percentage to 50% for AGI under $30,000 and index maximum expense limits for inflation
   b. Percentage phases down in 1% increments for each $1,000 (or fraction thereof) of AGI over $30,000 (percentage does not go below 20%)
5. 25% tax credit for employer child care facilities; 10% tax credit for child care resource and referrals (maximum credit of $150,000 a year), effective in 2001
6. Modify individual alternative minimum tax:
   1. Make permanent the present law provision to allow nonrefundable personal credits fully, effective for 1999 and thereafter *tbd [illegible]
   2. Allow personal exemptions against the AMT, effective beginning in 2005

*2006

Retirement savings tax relief:

1. Increase annual contribution limit for deductible, nondeductible, and Roth IRAs in $1,000 increments until it reaches $5,000 and then index for inflation thereafter; effective beginning in 2001.
2. Increase the AGI limitation for contributions to a deductible IRA by $2,500 (single) and $5,000 joint a year beginning in 2001
3. Eliminate the AGI limitation for contributions to a Roth IRA, beginning in 2001
4. Increase the AGI limitation on conversions to a Roth IRA to $1 million, beginning in 2001
5. Provide 85% tax credit for matching contributions by financial institutions to individual development accounts (maximum credit of $300 per account per year), effective in 2001 through 2005
6. Permit 401k or 403b plans to establish PLUS Plans to accept after-tax contributions, effective in 2001
7. Increase the annual limits on elective deferrals to 401k and 403b plans by $1,000 a year until they reach $15,000 and modify indexing, effective beginning in 2001
8. Increase the annual limit for section 457 plans (for State and local governments and tax exempt organizations) by $1,000 a year until they reach $12,000 and modify indexing, effective beginning in 2001
9. Increase the annual limit on elective contributions to SIMPLE plans by $1,000 a year until they reach $10,000 and modify indexing, effective beginning in 2001
10. Allow subchapter S owners, partners and sole proprietors to borrow from qualified plans, effective beginning in 2001
11. Elective deferrals not taken into account for deduction limits for defined contribution plans and section 457 plans, effective beginning in 2001
12. Reduce PBGC premium for new plans of small employers, beginning in 2001
13. Phase in PBGC premium for new employer plans, effective beginning in 2001
14. Eliminate user fee for new employer plans requests, effective beginning in 2001
15. SAFE annuities and trusts, effective beginning in 2001
16. Compensation limit not to apply to SIMPLE 401(k) plans, effective beginning in 2001
17. Increase in maximum contribution limits for IRAs and other pension plans for individuals age 50 and above by 10% in 2001, 20% in 2002, 30% in 2003, 40% in 2004, 50% in 2005 and thereafter
18. Permit contributions to defined contribution plans of up to 100% of compensation (dollar limits still apply); conform 403(b) limits; effective beginning in 2001
19. Clarify division of 457 plan benefits upon divorce, effective beginning in 2001
20. Modify rules for hardship withdrawals from 401(k) plans, effective beginning in 2001
21. Allow rollovers among qualified plans, 457 plans, and 403(b) plans, effective

beginning in 2001

22. Allow rollovers of contributory IRAs into qualified plans, 403(b) plans and governmental 457 plans, effective beginning in 2001
23. Allow rollovers of after-tax contributions between qualified plans and from a qualified plan to an IRA, effective beginning in 2001
24. Allow the Secretary of the Treasury to waive the 60-day rollover requirement
25. Allow the elimination of certain optional forms (e.g., notice and consent) if certain requirements are met, effective beginning in 2001
26. Modify restrictions on certain distributions, effective beginning in 2001
27. Allow purchase of service credit in government defined benefit plans, effective beginning in 2001
28. Disregard rollovers for cash-out amounts, effective beginning in 2001
29. Phase in repeal of 150% of current liability funding limit and expand maximum deduction rule, effective beginning in 2001
30. Expand PBGC missing participant program to include multiemployer plans
31. Modify section 415 multiemployer defined benefit plan limits to eliminate 100% of compensation limit and lower early and normal retirement ages, effective beginning in 2001
32. Waive 10% excise tax on deductible contributions in excess of the current liability full funding limit, effective beginning in 2001
33. Provide notice of significant reduction in benefit accruals, effective on date of enactment
34. Investment protections for employee contributions to 401(k) plans, effective beginning in 2001
35. Provide for periodic pension benefit statements, effective beginning in 2001
36. Clarify treatment of employer provided retirement advise, effective beginning in 2001
37. Flexibility in nondiscrimination and coverage rules, effective on date of enactment
38. Modify timing of plan valuations, effective beginning in 2001
39. Modify substantial owner benefits in terminated plans, effective beginning in 2001
40. Deduction for reinvested dividends on stock held by an ESOP, effective beginning in 2001
41. Extend notice and consent period before distributions, effective beginning in 2001
42. Repeal 1986 transition rule for a single company, effective beginning in 2000
43. Modify nondiscrimination rules for plans of tax-exempt organizations, effective on date of enactment
44. Plan amendments required under this legislation to be made by the end of the plan year beginning in 2003
45. Extension of moratorium on certain nondiscrimination rules, effective beginning in 2001

46. Annual report dissemination, effective beginning in 1999
47. Modify exclusion for employer provided transit passes (repeal voucher requirement, effective beginning in 2000

$26 over 10

Education tax relief:

1. Increase student loan interest deduction income limits for single taxpayers by $10,000 and adjust the beginning income limits for married couples filing joint returns to twice that of a single taxpayer; repeal 60 month rule, beginning in 2000
2. Prepaid savings plans
   a. State-sponsored plans: exclusions for distributions for education expenses, beginning in 2000
   b. Private plans: tax deferral on income beginning in 2000; exclusion for distributions for education expenses beginning in 2004
   c. Allow tax-free education withdrawals from prepaid savings plans and education IRAs as long as they are not used for the same expenses for which HOPE or Lifetime Learning credits are claimed, beginning in 2000
   d. Miscellaneous other changes (clarify definition; one rollover per year)
3. Exclude from tax awards under the following programs:
   a. National Health Corps Scholarship program, beginning in 1994
   b. Hebert Armed Forces Health Professions Scholarship program, beginning in 1994
4. Permanent extension of employer provided assistance and expand to graduate level courses, effective in 2000
5. Increase the school construction small issue arbitrage rebate exception from $10 million to $15 million, effective for bonds issued after 12/31/99
6. Provide for issuance of tax-exempt private activity bonds for qualified education facilities with annual volume cap of the greater of $10 per resident or $5 million, effective for bonds issued after 12/31/99
7. Allow Federal Home Loan Bank to guarantee school construction bonds, capped at $500 million a year, effective for bonds issued after 12/31/99

$12b over 10

Health care tax relief:

1. Provide an above-the-line deduction for health insurance for which the taxpayer pays at least 50 percent of the premium, phased in as follows:
   a. 25% in 2001, 2002, 2003
   b. 50% in 2004, 2005
   c. 100% in 2006 and thereafter

d. For purposes of the 50% payment rule, all health plans (other than long-term care insurance) of a single employer are combined
e. Does not apply to any month in which the taxpayer is enrolled in Medicare, Medicaid, Champus, VA, Indian Health Service, Children's Health Insurance and Federal Employees Health Benefits (non-COBRA) programs.

2. Provide an above-the line deduction for long-term care insurance for which the taxpayer pays at least 50 percent of the premium, phased in as follows:
   a. 25% in 2001, 2002, 2003
   b. 50% in 2004, 2005
   c. 100% in 2006 and thereafter
3. Allow long-term care insurance to be offered in cafeteria plans, effective beginning in 2001
4. Provide an additional dependency deduction to caretakers of elderly family members:
   a. Elderly family member--parent, parent's ancestor, or step parent of the taxpayer and the taxpayer's spouse or former spouse who meets the present law long-term care criteria [2 ADLs]
   b. Principal place of abode is the taxpayer's household for the year (12 months)
   c. Must report name of elderly family member and ID number
   d. Income and support test of dependency deduction are waived
   e. Effective beginning in 2000
5. Add Streptococcus Pneumoniae vaccine to the Federal vaccine insurance program, effective for vaccines purchased after the date the CDC makes its final recommendation; reduce tax from $.75 to $.25 per dose beginning in 2005

<u>**Small business provisions:**</u>

1. Accelerate 100% deduction for health insurance of self-employed individuals, effective beginning in 2000
2. Increase section 179 expensing to $30,000, effective beginning in 2000
3. Accelerate repeal of FUTA surtax, effective beginning in 2005
4. Coordinate farmer income averaging with the alternative minimum tax, effective beginning in 2000

Estate, gift and generation skipping transfer taxes:

1. Reduce estate, gift and GST taxes:
   a. Beginning in 2001, lower the 53% and 55% rates to 50% and repeal the 5% "bubble" (which phases out the lower rates)
   b. Beginning in 2004, convert the unified credit to a true exemption
   c. Beginning in 2007, increase exemption from $1 million to $1.5 million
2. Modify the rule for conservation easements to increase 25 miles to 50 miles, effective in 2000; clarify that the date for determining easement compliance is the date on which the donation is made
3. Increase annual gift tax exclusion from $10,000 to:
   a. $15,000 in 2001, 2002, 2003
   b. $20,000 in 2004 and thereafter
4. Simplification of GST rules, generally effective on date of enactment

'66 over 65

Tax exempt organizations:

1. Provide tax exemption for organizations created by a State to provide property and casualty coverage for property for which insurance coverage is otherwise unavailable, effective for tyba 12/31/99
2. Modify section 512(b)(13) to exempt income received by a tax-exempt organization from certain subsidiaries when fair market value pricing is used, effective for income received after date of enactment. Income in excess of fair market value pricing is subject to UBIT and a 20% penalty
3. Allow tax free withdrawals from IRAs for charitable donations after age 59-1/2, effective beginning in 2001
4. Provide tax exclusion for mileage reimbursements by charities not in excess of standard business mileage rate, effective beginning in 2000
5. Charitable deduction for certain expenses in support of Native Alaskan subsistance whaling, effective beginning in 2000
6. Simplify lobbying rules for certain tax exempt organizations (eliminate separate percentage limitation for grassroots lobbying), effective beginning in 2000

'80 over 85

International tax relief:

1. Allocate interest deduction on a worldwide basis (including foreign businesses owned 80% or more by the taxpayer), effective for tyba 12/31/02
2. Modify look-through treatment for dividends and excess credit carryovers for 10/50 companies, effective for tyba 12/31/02

3. Exception from subpart F treatment for certain pipeline transportation and electricity transmission income, effective for tyba 12/31/02
4. Prohibit disclosure of advance pricing agreements and related information; increase fee for APAs; require the IRS to submit to Congress an annual report on such agreements; $500 increase in user fee; effective on date of enactment
5. Exempt from the 7.5% air passenger ticket tax frequent flier miles of persons with foreign addresses

Housing and real estate tax relief: 66 over 10 yr.

1. Increase low income housing per capital amount from $1.25 to $1.75 and allow $2 million small state minimum, effective beginning in 2001
2. 20% tax credit for renovating homes in historic districts with median income less than two times the State median income (maximum credit of $20,000, effective beginning 2001; must live in the home for 5 years (pro rata recapture)
3. REIT modernization proposal, effective beginning in 2001

Miscellaneous:

1. Repeal 4.3 cents per gallon fuel tax on railroads and inland waterway carriers currently paid into the general fund, effective 10/1/00
2. Exempt from tax distributions from Alaska Native Corporations to Alaska Native Settlement Trusts; distributions taxed to beneficiaries as ordinary income when received; normal trust rules apply to income earned by Settlement Trusts; effective beginning in 2000
3. Corporate alternative minimum tax -- allow AMT credit carryovers to reduce AMT by 50% but not below regular tax, effective in 2004
4. 5-year carryback of net operating losses from oil and gas businesses, effective for tyba 12/31/98
5. Allow deduction for geological and geophysical expenditures, effective for expenses incurred or paid in tyba 12/31/99
6. Allow deduction for delay rental payments, effective for payments in tyba 12/31/99
7. Modify the active trade or business requirement for tax-free spinoffs (sec. 355), effective on date of enactment
8. Increase the Joint Committee on Taxation refund review threshold from $1 million to $2 million, effective on date of enactment

-56 over 10 years

Extension of expired and expiring provisions:

1. R&E credit with 1 percentage point increase in AIC rates (through 6/30/04)
2. Exception from Subpart F for active financing income (through 12/31/04)
3. Suspension of 100% net income limit on percentage depletion for marginal properties (through 12/31/04)
4. Work opportunity tax credit (through 6/30/04)
5. Welfare to work tax credit (through 6/30/04)
6. Credits for electricity production from wind and closed-loop biomass and extend to poultry farm waste (through 6/30/04) land fill gas
7. Alaska exemption from diesel fuel and kerosene dyeing rules (permanent)
8. Extend Brownfields environmental remediation expenses for any site in the U. S. (through 6/30/04)

-23b over 5 years

Revenue offsets:

1. 1 year carryback of foreign tax credits and 7-year carryforward, effective tyba 12/31/99
2. Information reporting on cancellation of indebtedness by non-bank financial institutions, effective for cancellations after 12/31/99
3. Increase elective withholding on nonperiodic deferred compensation, effective beginning in 2000
4. Extension of IRS user fees through 69/30/99
5. Allow employers to transfer excess defined benefit plan assets to a special account for health benefits for retirees (through 9/30/09)
6. Clarify treatment of income and losses from certain derivative and hedging transactions, effective on date of enactment
7. Loophole closers:
   a. Limit use of nonaccrual experience method of accounting to amounts received for the performance of qualified professional services, effective tyea doe
   b. Impose limitation on pre-funding of certain employee benefits, effective for contributions made on or after 6/9/99
   c. Repeal installment method for most accrual basis taxpayers; adjust pledge rules; generally effective for sales on or after date of enactment
   d. Prevent conversion of ordinary income or short-term capital gains into income eligible for long-term capital gain rates, effective for transactions entered into on or after 7/12/99
   e. Deny deduction and impose excise tax with respect to so-called charitable split dollar life insurance arrangements, effective for transfers made after

2/8/99 and for premiums paid after the date of enactment

f. Modify estimated tax rules for closely owned REITS, effective beginning with estimated payments due on September 15, 1999

g. Impose excise tax on employers and income inclusion for employees for prohibited allocations of S corporation stock in an ESOP, effective for ESOPs established after 7/14/99

h. Modify anti-abuse rules related to section 357(b) assumption of liabilities, effective for assumptions of liabilities after 7/14/99

i. Require consistent treatment and provide basis allocation rules for transfers of intangibles in certain nonrecognition transactions, effective for transfers after 7/14/99

j. Modify ownership rules for closely held REITs, with a so-called "incubator exemption, effective for elections of REIT status after 7/14/99

k. Modify basis rules for distributions by a partnership to a corporate partner of stock in another corporation, effective for distributions after 7/14/99

* 4b over 10 years

<u>Technical corrections:</u>

Various technical corrections to the Tax and Trade Relief Extension Act of 1998, Internal Revenue Service Restructuring and Reform Act of 1998, Taxpayer Relief Act of 1997, and other legislation.

** TOTAL PAGE.10 **

JUL.16.1999 12:50 202 690 8425 HEALTH LEGISLATION #0142 P.010/010

Department Of The Treasury

Office of Tax Analysis

1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

To: Name: Nicole Radner
Firm/Organization: DPC

Fax Number: 456-2878
Phone Number: 456-7263

Number of pages (including this cover sheet):

Date; Time: July 16, 1999; 9:56AM

From: Janet Holtzblatt
Phone: 202/622-1327 Fax: 202/622-0236

Comments: Roth's mark.

UNCLASSIFIED

July 15, 1999 (6:00 pm)

Outline of Staff Discussion Draft of Chairman's Mark

Broad-based tax relief:

3. Reduce 15% income tax rate to 14%, effective beginning in 2001
4. Expand income levels for 14% rate bracket by $2,000 for single individuals and $4,000 for married couples filing joint returns for 2005 and 2006; $2,500 (single) and $5,000 (joint) for 2007 and thereafter

Family tax relief:

1. Allow married couples filing joint returns to elect to file single returns on a combined form; both must itemize deductions or take standard deduction; income follows ownership (50% split on jointly owned assets); effective beginning in 2005
2. Adjust the income starting and ending point for the earned income credit for married couples filing joint returns by $2000 (the phaseout rate stays the same), effective beginning in 2005
3. Expand tax exclusion for certain foster care payments, effective for payments made after 12/31/99
4. Increase and expand dependent care tax credit, effective beginning in 2001:
   a. Increase percentage to 50% for AGI under $30,000 and index maximum expense limits for inflation
   b. Percentage phases down in 1% increments for each $1,000 (or fraction thereof) of AGI over $30,000 (percentage does not go below 20%)
5. 25% tax credit for employer child care facilities; 10% tax credit for child care resource and referrals (maximum credit of $150,000 a year), effective in 2001
6. Modify individual alternative minimum tax:
   1. Make permanent the present law provision to allow nonrefundable personal credits fully, effective for 1999 and thereafter
   2. Allow personal exemptions against the AMT, effective beginning in 2005

Retirement savings tax relief:

1. Increase annual contribution limit for deductible, nondeductible, and Roth IRAs in $1,000 increments until it reaches $5,000 and then index for inflation thereafter; effective beginning in 2001.
2. Increase the AGI limitation for contributions to a deductible IRA by $2,500 (single) and $5,000 joint a year beginning in 2001
3. Eliminate the AGI limitation for contributions to a Roth IRA, beginning in 2001
4. Increase the AGI limitation on conversions to a Roth IRA to $1 million, beginning in 2001
5. Provide 85% tax credit for matching contributions by financial institutions to individual development accounts (maximum credit of $300 per account per year), effective in 2001 through 2005
6. Permit 401k or 403b plans to establish PLUS Plans to accept after-tax contributions, effective in 2001
7. Increase the annual limits on elective deferrals to 401k and 403b plans by $1,000 a year until they reach $15,000 and modify indexing, effective beginning in 2001
8. Increase the annual limit for section 457 plans (for State and local governments and tax exempt organizations) by $1,000 a year until they reach $12,000 and modify indexing, effective beginning in 2001
9. Increase the annual limit on elective contributions to SIMPLE plans by $1,000 a year until they reach $10,000 and modify indexing, effective beginning in 2001
10. Allow subchapter S owners, partners and sole proprietors to borrow from qualified plans, effective beginning in 2001
11. Elective deferrals not taken into account for deduction limits for defined contribution plans and section 457 plans, effective beginning in 2001
12. Reduce PBGC premium for new plans of small employers, beginning in 2001
13. Phase in PBGC premium for new employer plans, effective beginning in 2001
14. Eliminate user fee for new employer plans requests, effective beginning in 2001
15. SAFE annuities and trusts, effective beginning in 2001
16. Compensation limit not to apply to SIMPLE 401(k) plans, effective beginning in 2001
17. Increase in maximum contribution limits for IRAs and other pension plans for individuals age 50 and above by 10% in 2001, 20% in 2002, 30% in 2003, 40% in 2004, 50% in 2005 and thereafter
18. Permit contributions to defined contribution plans of up to 100% of compensation (dollar limits still apply); conform 403(b) limits; effective beginning in 2001
19. Clarify division of 457 plan benefits upon divorce, effective beginning in 2001
20. Modify rules for hardship withdrawals from 401(k) plans, effective beginning in 2001
21. Allow rollovers among qualified plans, 457 plans, and 403(b) plans, effective

beginning in 2001

22. Allow rollovers of contributory IRAs into qualified plans, 403(b) plans and governmental 457 plans, effective beginning in 2001
23. Allow rollovers of after-tax contributions between qualified plans and from a qualified plan to an IRA, effective beginning in 2001
24. Allow the Secretary of the Treasury to waive the 60-day rollover requirement
25. Allow the elimination of certain optional forms (e.g., notice and consent) if certain requirements are met, effective beginning in 2001
26. Modify restrictions on certain distributions, effective beginning in 2001
27. Allow purchase of service credit in government defined benefit plans, effective beginning in 2001
28. Disregard rollovers for cash-out amounts, effective beginning in 2001
29. Phase in repeal of 150% of current liability funding limit and expand maximum deduction rule, effective beginning in 2001
30. Expand PBGC missing participant program to include multiemployer plans
31. Modify section 415 multiemployer defined benefit plan limits to eliminate 100% of compensation limit and lower early and normal retirement ages, effective beginning in 2001
32. Waive 10% excise tax on deductible contributions in excess of the current liability full funding limit, effective beginning in 2001
33. Provide notice of significant reduction in benefit accruals, effective on date of enactment
34. Investment protections for employee contributions to 401(k) plans, effective beginning in 2001
35. Provide for periodic pension benefit statements, effective beginning in 2001
36. Clarify treatment of employer provided retirement advise, effective beginning in 2001
37. Flexibility in nondiscrimination and coverage rules, effective on date of enactment
38. Modify timing of plan valuations, effective beginning in 2001
39. Modify substantial owner benefits in terminated plans, effective beginning in 2001
40. Deduction for reinvested dividends on stock held by an ESOP, effective beginning in 2001
41. Extend notice and consent period before distributions, effective beginning in 2001
42. Repeal 1986 transition rule for a single company, effective beginning in 2000
43. Modify nondiscrimination rules for plans of tax-exempt organizations, effective on date of enactment
44. Plan amendments required under this legislation to be made by the end of the plan year beginning in 2003
45. Extension of moratorium on certain nondiscrimination rules, effective beginning in 2001

46. Annual report dissemination, effective beginning in 1999
47. Modify exclusion for employer provided transit passes (repeal voucher requirement, effective beginning in 2000

Education tax relief:

1. Increase student loan interest deduction income limits for single taxpayers by $10,000 and adjust the beginning income limits for married couples filing joint returns to twice that of a single taxpayer; repeal 60 month rule, beginning in 2000
2. Prepaid savings plans
   a. State-sponsored plans: exclusions for distributions for education expenses, beginning in 2000
   b. Private plans: tax deferral on income beginning in 2000; exclusion for distributions for education expenses beginning in 2004
   c. Allow tax-free education withdrawals from prepaid savings plans and education IRAs as long as they are not used for the same expenses for which HOPE or Lifetime Learning credits are claimed, beginning in 2000
   d. Miscellaneous other changes (clarify definition; one rollover per year)
3. Exclude from tax awards under the following programs:
   a. National Health Corps Scholarship program, beginning in 1994
   b. Hebert Armed Forces Health Professions Scholarship program, beginning in 1994
4. Permanent extension of employer provided assistance and expand to graduate level courses, effective in 2000
5. Increase the school construction small issue arbitrage rebate exception from $10 million to $15 million, effective for bonds issued after 12/31/99
6. Provide for issuance of tax-exempt private activity bonds for qualified education facilities with annual volume cap of the greater of $10 per resident or $5 million, effective for bonds issued after 12/31/99
7. Allow Federal Home Loan Bank to guarantee school construction bonds, capped at $500 million a year, effective for bonds issued after 12/31/99

Health care tax relief:

1. Provide an above-the-line deduction for health insurance for which the taxpayer pays at least 50 percent of the premium, phased in as follows:
   a. 25% in 2001, 2002, 2003
   b. 50% in 2004, 2005
   c. 100% in 2006 and thereafter

   d. For purposes of the 50% payment rule, all health plans (other than long-term care insurance) of a single employer are combined
   e. Does not apply to any month in which the taxpayer is enrolled in Medicare, Medicaid, Champus, VA, Indian Health Service, Children's Health Insurance and Federal Employees Health Benefits (non-COBRA) programs.
2. Provide an above-the line deduction for long-term care insurance for which the taxpayer pays at least 50 percent of the premium, phased in as follows:
   a. 25% in 2001, 2002, 2003
   b. 50% in 2004, 2005
   c. 100% in 2006 and thereafter
3. Allow long-term care insurance to be offered in cafeteria plans, effective beginning in 2001
4. Provide an additional dependency deduction to caretakers of elderly family members:
   a. Elderly family member--parent, parent's ancestor, or step parent of the taxpayer and the taxpayer's spouse or former spouse who meets the present law long-term care criteria [2 ADLs]
   b. Principal place of abode is the taxpayer's household for the year (12 months)
   c. Must report name of elderly family member and ID number
   d. Income and support test of dependency deduction are waived
   e. Effective beginning in 2000
5. Add Streptococcus Pneumoniae vaccine to the Federal vaccine insurance program, effective for vaccines purchased after the date the CDC makes its final recommendation; reduce tax from $.75 to $.25 per dose beginning in 2005

<u>Small business provisions:</u>

1. Accelerate 100% deduction for health insurance of self-employed individuals, effective beginning in 2000
2. Increase section 179 expensing to $30,000, effective beginning in 2000
3. Accelerate repeal of FUTA surtax, effective beginning in 2005
4. Coordinate farmer income averaging with the alternative minimum tax, effective beginning in 2000

Estate, gift and generation skipping transfer taxes:

1. Reduce estate, gift and GST taxes:
   a. Beginning in 2001, lower the 53% and 55% rates to 50% and repeal the 5% "bubble" (which phases out the lower rates)
   b. Beginning in 2004, convert the unified credit to a true exemption
   c. Beginning in 2007, increase exemption from $1 million to $1.5 million
2. Modify the rule for conservation easements to increase 25 miles to 50 miles, effective in 2000; clarify that the date for determining easement compliance is the date on which the donation is made
3. Increase annual gift tax exclusion from $10,000 to:
   a. $15,000 in 2001, 2002, 2003
   b. $20,000 in 2004 and thereafter
4. Simplification of GST rules, generally effective on date of enactment

Tax exempt organizations:

1. Provide tax exemption for organizations created by a State to provide property and casualty coverage for property for which insurance coverage is otherwise unavailable, effective for tyba 12/31/99
2. Modify section 512(b)(13) to exempt income received by a tax-exempt organization from certain subsidiaries when fair market value pricing is used, effective for income received after date of enactment. Income in excess of fair market value pricing is subject to UBIT and a 20% penalty
3. Allow tax free withdrawals from IRAs for charitable donations after age 59-1/2, effective beginning in 2001
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6. Simplify lobbying rules for certain tax exempt organizations (eliminate separate percentage limitation for grassroots lobbying), effective beginning in 2000

International tax relief:

1. Allocate interest deduction on a worldwide basis (including foreign businesses owned 80% or more by the taxpayer), effective for tyba 12/31/02
2. Modify look-through treatment for dividends and excess credit carryovers for 10/50 companies, effective for tyba 12/31/02

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4. Prohibit disclosure of advance pricing agreements and related information; increase fee for APAs; require the IRS to submit to Congress an annual report on such agreements; $500 increase in user fee; effective on date of enactment
5. Exempt from the 7.5% air passenger ticket tax frequent flier miles of persons with foreign addresses

Housing and real estate tax relief:

1. Increase low income housing per capital amount from $1.25 to $1.75 and allow $2 million small state minimum, effective beginning in 2001
2. 20% tax credit for renovating homes in historic districts with median income less than two times the State median income (maximum credit of $20,000, effective beginning 2001; must live in the home for 5 years (pro rata recapture)
3. REIT modernization proposal, effective beginning in 2001

Miscellaneous:

1. Repeal 4.3 cents per gallon fuel tax on railroads and inland waterway carriers currently paid into the general fund, effective 10/1/00
2. Exempt from tax distributions from Alaska Native Corporations to Alaska Native Settlement Trusts; distributions taxed to beneficiaries as ordinary income when received; normal trust rules apply to income earned by Settlement Trusts; effective beginning in 2000
3. Corporate alternative minimum tax -- allow AMT credit carryovers to reduce AMT by 50% but not below regular tax, effective in 2004
4. 5-year carryback of net operating losses from oil and gas businesses, effective for tyba 12/31/98
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8. Increase the Joint Committee on Taxation refund review threshold from $1 million to $2 million, effective on date of enactment

Extension of expired and expiring provisions:

1. R&E credit with 1 percentage point increase in AIC rates (through 6/30/04)
2. Exception from Subpart F for active financing income (through 12/31/04)
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6. Clarify treatment of income and losses from certain derivative and hedging transactions, effective on date of enactment
7. Loophole closers:
   a. Limit use of nonaccrual experience method of accounting to amounts received for the performance of qualified professional services, effective tyea doc
   b. Impose limitation on pre-funding of certain employee benefits, effective for contributions made on or after 6/9/99
   c. Repeal installment method for most accrual basis taxpayers; adjust pledge rules; generally effective for sales on or after date of enactment
   d. Prevent conversion of ordinary income or short-term capital gains into income eligible for long-term capital gain rates, effective for transactions entered into on or after 7/12/99
   e. Deny deduction and impose excise tax with respect to so-called charitable split dollar life insurance arrangements, effective for transfers made after

2/8/99 and for premiums paid after the date of enactment

f. Modify estimated tax rules for closely owned REITS, effective beginning with estimated payments due on September 15, 1999
g. Impose excise tax on employers and income inclusion for employees for prohibited allocations of S corporation stock in an ESOP, effective for ESOPs established after 7/14/99
h. Modify anti-abuse rules related to section 357(b) assumption of liabilities, effective for assumptions of liabilities after 7/14/99
i. Require consistent treatment and provide basis allocation rules for transfers of intangibles in certain nonrecognition transactions, effective for transfers after 7/14/99
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k. Modify basis rules for distributions by a partnership to a corporate partner of stock in another corporation, effective for distributions after 7/14/99

<u>Technical corrections:</u>

Various technical corrections to the Tax and Trade Relief Extension Act of 1998, Internal Revenue Service Restructuring and Reform Act of 1998, Taxpayer Relief Act of 1997, and other legislation.

PRESIDENT CLINTON and VICE PRESIDENT GORE'S NEW BUDGET FRAMEWORK

The President's New Framework has Six Key Components:

1. ***Balances the budget each year without using Social Security funds.***
2. ***Creates a new Social Security lockbox that keeps Social Security solvent until 2053.***
3. ***Keeps Medicare solvent for over 25 years while adding a new prescription drug benefit.***
4. ***Establishes a Children and Education Trust Fund, while protecting military readiness, education, environment, agriculture, veterans affairs and core government.***
5. ***Calls for USA Accounts -- the largest and most progressive tax relief plan for savings – and targeted tax credits for childcare, long-term care, school construction, new markets investment, and aiding disabled Americans in the workplace.***
6. ***Eliminates debt held by the public by 2015.***

A New Social Security Lockbox Strengthens Solvency and Doubles Protection Against Diverting Social Security Resources

- The President, in the State of the Union Address, called for saving the entire amount of the Social Security surplus over the next 15 years for debt reduction and higher returns for Social Security.
- Building on that proposal the President is calling for a new lockbox that provides double protection for Social Security by: (1) ensuring that each year all payroll taxes go to savings and debt reduction for Social Security; and (2) that after a decade of debt reduction from the Social Security lockbox, the interest savings resulting from the debt reduction will be dedicated to lengthening the solvency of Social Security instead of being diverted to other uses.

The President's Plan is the First Budget Proposal that Calls for Balancing the Budget Each Year -- Without Using Social Security Surpluses -- While Strengthening the Solvency of Social Security and Medicare and Still Leaving Resources for Military Readiness, Key Investments in People and Communities, and Significant Tax Relief

- The Republican Budgets sought to answer the President's call to save the surplus for Social Security by setting aside the entire Social Security Surplus. Yet, they (1) failed to lengthen the solvency of Social Security by even a single day; (2) failed to dedicate any resources to strengthening the solvency of Medicare; and (3) called for discretionary budgets that would have resulted in severe cuts in such key priorities as law enforcement, education, health, and environment.

Maintains Commitment to Strengthening Social Security and Medicare First, While Eliminating Our Publicly Held Debt by 2015

- The President's framework continues its commitment to pay down the debt for Social Security and Medicare first before making commitments to spending or new tax cuts. The framework extends Social Security solvency into the second half of the next century and we expect an even greater extension of Medicare than we expected in February---to at least 2025.
- Between 1981 and 1992, the publicly held debt quadrupled. As a result of new fiscal discipline that has occurred since 1993, the publicly held debt as a percent of GDP has dropped from 50 percent in 1993 to 44 percent in 1998. Under the President's framework to save Social Security, the publicly held debt will be eliminated by 2015.

SOCIAL SECURITY LOCK BOX
PROTECTS TRUST FUNDS AND STRENGTHENS SOLVENCY

Building on a Commitment To Save Social Security First: In the State of the Union Address, the President called for locking the entire amount of the Social Security surplus over the next 15 years for debt reduction and higher returns for Social Security. Stronger budgetary numbers now allow us to lock in the entire amount of the Social Security surplus *each and every year*, while still maintaining enough funding to strengthen and extend the solvency of Medicare, make needed discretionary investments, and provide targeted tax cuts.

A Basis To Build On: While the President's framework extends Social Security solvency to 2053, he remains committed to working together with Congress in a bi-partisan fashion to enact reforms to make Social Security solvent for 75 years.

The President therefore calls for a new Social Security lock box that:

- ensures that each year all payroll taxes go to savings and debt reduction for Social Security;

- after a decade of debt reduction from the Social Security lock box, dedicates the interest savings resulting from that debt reduction to extend the solvency of Social Security; and

- provides the basis for bipartisan agreement on debt reduction and Social Security.

How the Social Security Lock Box Would Work:

(1) All current-law Social Security surpluses – an estimated $3.1 trillion -- would be devoted solely to debt reduction and national savings.

(2) As an added protection, the receipts and outlays of the Social Security Trust Fund would be taken out of the budget.

(3) There will be tough protections, including maintaining the pay/go rules to ensure that the Social Security surpluses can not be used for any purpose other than Social Security.

(4) After a decade of fiscal responsibility, annual interest savings from that cumulative debt reduction would be transferred to the Social Security Trust Fund, instead of being diverted to other spending and tax priorities. For example, by 2011 we will have reduced the debt by a projected $2.1 trillion, yielding projected interest savings in that year of $107 billion. This amount will be transferred to Social Security.

6/28/99 11:07 AM

THE MID-SESSION REVIEW AND MEDICARE

Challenges Facing Medicare: Medicare is one of our most successful public programs, providing critical health care services to our nation's elderly and people with disabilities. Medicare faces serious challenges, however, in the next century.

- *Demographic explosion:* Enrollment will double between 1999 (39 million) and 2032 (78 million) as the baby boom generation retires. Not only will there be more elderly, but they will live longer, spending a greater amount of their lives on Medicare.

- *Advances in medicine and health:* Changing disease patterns, technological advances, and a high value placed on health will also affect Medicare in the next century. As a result, both Medicare and private health spending growth per person are projected to increase at rates considerably above general inflation.

President's Commitment to Strengthening and Improving Medicare: The President has an unparalleled record of strengthening and improving Medicare. When he took office, the Medicare Hospital Insurance (HI) Trust Fund was projected to be bankrupt this year -- 1999. Today, because of improvements enacted in the President's 1993 budget plan and the bipartisan 1997 Balanced Budget Act, the Trust Fund is projected to be solvent through 2015 and the Medicare spending growth rate per beneficiary is below that of private health spending in the next few years.

Plan to Strengthen and Improve Medicare for the 21st Century: Despite this impressive improvement, Medicare is still projected to become insolvent shortly after the baby boom generation retires. Equally as important, Medicare benefits and payment systems still, in large part, reflect the best practices of the 1960s when Medicare was created.

- To address these challenges, the President will submit a proposal that will: (1) make Medicare more competitive and efficient; (2) modernize and reform Medicare's benefits, including the provision of a long-overdue prescription drug benefit; and (3) make an unprecedented long-term financing commitment to the program that, in the context of the President's reform plan, will significantly extend the life of the Medicare Trust Fund.

Today, the President Renews *and Extends* the Commitment He Made in the State of the Union Address. This framework renews the commitment to dedicating 15 percent of the unified budget surplus to Medicare. Over the 15-year window covered by the President's Framework, more than $700 billion would be dedicated to strengthening and extending the solvency of Medicare – more than the $686 billion from the budget since the surplus has increased.

- Under the latest projections, this would push the forecasted date of insolvency back to later than 2025.

6/28/99 11:07 AM

PRESIDENT CLINTON AND VICE PRESIDENT GORE: WORKING TO HELP CHILDREN AND EDUCATION IN THE 21ST CENTURY AND INVEST IN A SECURE FUTURE

Investing in Our Future: A Children and Education Trust Fund: President Clinton's and Vice President Gore's growth and productivity agenda calls for not only significant debt reduction to spur private investment, but also public investment in a secure future and in the skills, education, and health of our youth to ensure that they can graduate from school with the real competencies needed for the workforce.

This is why, even though since 1993, the deficit has been eliminated, funding in Head Start has increased 67 percent, and participation in WIC has increased 30 percent, the President and Vice President are today going further to propose a Children and Education Trust Fund.

Elements of the Trust Fund:

- It dedicates $156 billion in outlays from fiscal years 2001 to 2014 to improve the health and education of children in the opening years of the 21st Century.
- These resources will be in addition to and provide increments above the discretionary levels provided for in the 1997 Balanced Budget Act. Regular appropriations will separately provide at least those base levels.
- The President wants to work with Congress to develop the appropriate allocations among major education and health programs for children.

Programs Included: Among the programs whose resources could be augmented by the Trust Fund are: Head Start, Title I - Education for the Disadvantaged, After-school programs, Class Size Reduction, the Safe Schools/Health Students initiative, Special Education, Pell Grants, Maternal and Child Health Block Grant, childhood immunizations, research on children's health, the Women, Infant and Children Supplementary Nutrition Program, and other education and health programs.

Illustrative Benefits: By way of illustration, this fund could:

- help reach the goal of 1 million Head Start opportunities for low-income children;
- raise the quality of education available to all children through reducing class sizes in the early grades by hiring 100,000 qualified new teachers;
- triple the number of communities that develop and implement comprehensive strategies for ensuring safe and drug-free schools and promoting healthy childhood development; and
- provide primary health care and support services for over 5,000 families living with HIV.

Investing in a Secure Future: The Trust Fund will allow this needed investment while maintaining military readiness ($183 over 15 years), and investing in crime prevention, agriculture, veterans, environmental protection, health research, protecting Americans at home and abroad, and other priorities (($183 over 15 years).

6/28/99 11:07 AM

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release June 28, 1999

REMARKS BY THE PRESIDENT
ON MID-SESSION REVIEW

The South Grounds

8:59 A.M. EDT

THE PRESIDENT: Good morning. Six years ago, we put in place a new economic strategy for the Information Age. We put our fiscal house in order, we invested in our people, we expanded trade in American goods and services. By making tough decisions, America has reaped rich rewards. We built the longest peacetime expansion in our history.

Last week we learned that in the first three months of 1999, the economy grew at a 4.3 percent rate, with very low inflation. With record numbers of new homes being built, paychecks increasing, hundreds of thousands of young people getting new help to go to college, new businesses opening their doors, a surging market on Wall Street, we are truly widening the circle of opportunity in America.

I'm here to report to the American people on more good news about our budget. As required by law, my administration is releasing the mid-session review of the budget. Here is what we have found. When I took office, the national government had a record deficit of $290 billion, projected to increase indefinitely. Last year, for the first time in 29 years, we balanced the budget.

In January this year, we projected a surplus for this year of $79 billion. Today, I am pleased to report that, in fact, the budget surplus for 1999 will be $99 billion, the largest as a share of our economy since 1951. For next year, we now project a budget surplus of $142 billion, a surplus of $5 billion not counting the receipts from Social Security. In fact, improvements in the outlook since February have added $179 billion to the projected budget surplus over five years, half a trillion dollars over ten years, and $1 trillion over 15 years.

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Fiscal discipline does bring real results. I want to thank my economic team for all the work that they have done. Lower interest rates have led to a boom in business investment, to lower mortgage rates, to lower credit card rates, to lower student loan rates. Fiscal discipline has widened opportunity and created hope for all working people in our country. Now we have a chance to do even more -- to use the fruits of our prosperity today to strengthen our prospects for tomorrow; indeed, for tomorrows well into the 21st century.

In my State of the Union address, I set out a plan for how to use the budget surplus. Today, in light of the unexpectedly large surplus, I am proposing to build on that budget framework, with a new approach that honors our values, meets our commitments, and makes it possible to reach bipartisan agreement on a budget for America.

First, we can strengthen our commitment to use the bulk of the surplus to save Social Security and Medicare, and to pay down the national debt. The new budget numbers mean that we will run a surplus in the non-Social Security part of the budget, starting next year, much earlier than previously expected. I am pleased that Republicans and Democrats in Congress have agreed to use the Social Security surpluses to reduce the national debt. But we must go forward and achieve an even stronger lock box than one proposed by Congress. Social Security taxes should be saved for Social Security, period. Let's finish the job and work to extend the solvency of Social Security. I'm encouraged that Republicans and Democrats on the House Ways and Means Committee are meeting together to try to accomplish this goal.

Second, our new large surplus will help us to strengthen and modernize Medicare while providing a prescription drug benefit. Tomorrow I will reveal the details of my plan to modernize Medicare. The steps I will propose to use the surplus will increase Medicare's solvency for at least 25 years. By taking additional measures to increase competition, combat fraud, and reduce costs, we can provide a new prescription drug benefit and still pay down our national debt.

Third, our new budget framework will use part of the surplus to provide substantial tax relief. It will maintain USA accounts, the largest and most progressive tax incentive ever offered to encourage savings. USA accounts will allow every American to begin saving from the first day in the work force, providing more help for those who need it, giving every American a stake in our shared prosperity.

In addition to the USA accounts, I have proposed tax cuts, targeted and paid for, for child care, for stay-at-home mothers, for long-term care, to encourage businesses to invest in poor communities, and to modernize 6,000 schools. But first things first.

Fourth, we can use this surplus to meet other vital national needs, such as maintaining military readiness, honoring our veterans, protecting the environment, promoting health research, farm security and other core functions of our government.

Beyond this, we have a chance to use the surplus not only to care for our parents through Social Security and Medicare, but to give a greater chance in life to our young children. So today I am proposing a new $156 billion children's and education trust fund. This commitment can enable us to offer Head Start pre-school to a million children, to hire those 100,000 teachers, to provide extra help for a million children in our poorest communities, to pay for dramatic improvements in children's health.

And finally, by investing to save Social Security and strengthen Medicare, my plan now will entirely pay off our national debt. In the 12 years before I took office, reckless fiscal policies quadrupled our debt, bringing us higher interest rates, higher unemployment, higher inflation. By balancing the budget we have begun to reduce the debt. But today our national debt still totals $13,400 for every man, woman and child. If we maintain our fiscal discipline, using the surplus to pay down the debt and using the savings to strengthen Social Security, America will entirely pay off the national debt by 2015.

If you look at this chart, you will see that we have now cut up Washington's credit card. Now we can pay off the debt; by 2015, this country can be entirely out of debt. This is a remarkable milestone, but it is clearly within reach, if we do not squander the surplus by choosing short-term gain over long-term national goals.

The surplus is the hard-earned product of our fiscal discipline. We should use it to prepare for the great challenges facing our country -- caring for our parents, caring for our children, freeing our nation from the shackles of debt so that we can have long-term, sustained economic prosperity.

Keep in mind what this means to ordinary people. If you pay this debt off, it means interest rates will be lower. It

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means there will be more business investment. It means there will be more new jobs. It means there will be more money left over for higher wages. It means the cost to families of homes and cars and college educations will be lower. That's what being out of debt means.

It means the next time there is an international financial crisis, we will be relatively less vulnerable because we won't have to borrow so much money, and the poorer countries will be able to borrow more money at lower interest rates, bringing greater global prosperity and stability. This is a very significant achievement for our country, and for a more stable and peaceful and prosperous world.

So I hope very much to work with Congress in the weeks ahead -- to pay off the debt, to finish the work of strengthening Social Security and Medicare, and to make a real commitment to our children and our future.

Again, let me thank the national economic team, and all others who have supported these initiatives over the last six years. Thank you very much.

Q Are you open to tax cuts beyond those that you mentioned, Mr. President?

THE PRESIDENT: I think we should achieve these objectives. Within the framework of achieving these objectives, obviously I'll be working with the Congress to achieve them. Thank you.

Q Do you want to run for Senate from Arkansas? (Laughter.)

THE PRESIDENT: I think Rubin should run for the Senate from Arkansas. (Laughter.) He's got the best timing of anybody alive.

END 9:10 A.M. EDT

PRESIDENT CLINTON AND VICE PRESIDENT GORE:
CHALLENGING CONGRESS TO INVEST MORE IN EDUCATION
July 28, 1999

Today, in his address to the 1999 classes of Girls and Boys Nation, President Clinton will call on Congress to invest more in education and will announce new Administration estimates of the severe long-term impact on education of the Republican tax and budget plans. President Clinton also will threaten to veto any tax bill failing to leave room for adequate investments in education.

The President will emphasize that the risky, expensive Republican tax and budget could force devastating cuts in key initiatives to reduce class size, support after-school programs, help children read well, keep schools safe and drug-free, and expand access to college. He will urge Congress instead to enact a responsible tax plan targeted to help communities modernize schools and help families finance their retirement, child care, and long-term care while saving Social Security and Medicare, and leaving room for vital investments in education and defense.

REPUBLICAN TAX BILL SQUEEZES OUT FUNDING FOR EDUCATION. The President will announce new Administration estimates of the long-term impact of the Republican tax and budget plans on key investments needed to improve our public schools and expand access to college. These estimates assume defense funding at the President's requested level and pay down of the debt by as much as Republicans promise. In the tenth year alone of the Republican tax plan, the nation could be forced to:

- **Deny 5.9 million children in high-poverty communities academic support under the Title I program.** Title I of the Elementary and Secondary Education Act currently provides much-needed academic support to 12 million children in high-poverty communities, and the President has proposed important reforms to make sure they master the basics and reach high standards. The Republican plan goes in the opposite direction and could reduce the number of children served by this program to pre-1992 levels.

- **Deny 480,000 children the assistance they need to learn to read.** The Reading Excellence program currently provides funding that will help one million children learn to read independently and well by the end of the 3rd grade. Under the Republican budget and tax plans, 480,000 fewer children could get the help they need to learn to read.

- **Deny smaller classes to more than a million young children in the early grades.** The Republican plans could deprive more than one million students of the opportunity to learn in smaller classes in the early grades. Last year, a bipartisan agreement was reached to make a down payment on the President's plan to hire 100,000 teachers to reduce class size in the early grades to a nationwide average of 18, and earlier this month the U.S. Education Department awarded funds to help local school districts hire 30,000 teachers before school starts this fall. While the President wants to finish the job and hire 100,000 teachers, the Republican tax and budget plans could force cuts from current levels by more than half. And just last week, a narrow majority in the House even voted for a bill the President has pledged to veto, which would remove the guarantee that any class size reductions will be achieved at all.

- **Deny early childhood and preschool services to 430,000 kids.** Head Start currently provides early childhood and preschool services to 835,000 students. The Republican plan could deny 430,000 children access to this essential support.

- **Deny 215,000 students the after-school and summer school programs they need.** The 21st Century Community Learning Centers Program currently provides funding to help provide after-school and summer school programs to about 400,000 students in safe and enriching academic environments. While the President wants to nearly quadruple this number to 1.5 million, the Republican budget and tax plans would reduce it by 215,000 students.

- **Slash funding for children with disabilities.** Special Education could be cut by $3.4 billion by the tenth year of the tax cut, severely limiting the federal contribution to programs that help children with disabilities.

- **Deny local school districts vital support to build and modernize 5400 public schools across the nation**. The President's targeted tax cut would cover the interest on state and local efforts to build and modernize 6,000 public schools across the nation. The Republican tax cut provides marginal help to address the needs of only one-tenth that many schools. The President's proposal to rebuild our public schools could be fully funded using about 1% of the Republican tax cut approved by the House.

- **Cut violence and drug prevention programs.** By the tenth year of the Republican tax cut, Safe and Drug Free Schools and Communities funding would be reduced by nearly $334 million. This is less than half of the $696 million that would be invested in violence and drug-prevention under current spending patterns. Republican plans could also slash funding for crisis counseling and increased security in schools experiencing violent incidents, such as the recent tragic shootings in Littleton, Colorado and Conyers, Georgia.

- **Make college less affordable for nearly 4 million low and middle-income students by slashing Pell Grants.** The Pell Grant program, which benefits nearly 4 million students, would have its maximum grant level slashed to $2175, the lowest level since 1987. This would be a sharp cut from the $3850 which would otherwise be reached by FY2009 under current spending patterns, and it would deny low-and middle-income students critical financial aid to make college more affordable.

- **Deny nearly 500,000 students the opportunity to work their way through college**. The Work-Study program currently helps approximately 930,000 low and middle-income students work their way through college. Nearly 500,000 students could be denied access to this program under Republican tax and budget plans.

- **Deny nearly 500,000 disadvantaged students the extra guidance and support they need to prepare for college.** Under the Republican plan, nearly 500,000 young people would not get the extra support they need to prepare for college through the GEAR-UP and TRIO programs. GEAR-UP is a nationwide initiative to help about 180,000 low-income middle and high school students receive academic and support services to prepare for college. About 41,000 fewer students could receive these service under the Republican plans. The President has proposed doubling funding for this program. TRIO provides counseling and educational support for 725,000 students nationwide, but the Republican plans could deny 400,000 students access to this crucial support.

- **Deny hundreds of thousands of disadvantaged young people the summer jobs and job training they need to succeed**. Under the Republican plan, 329,000 fewer disadvantaged students would get the education, training, and summer jobs they need. Sixty-two out of 118 Job Corps centers could be forced to close, taking away job training from 21,000 disadvantaged youth, and more than 26,000 thousand students in high-poverty communities would be denied access to education, training, and employment assistance through Youth Opportunity Grants.

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