FEDERAL RECEIPTS AND COLLECTIONS

3. FEDERAL RECEIPTS

Receipts (budget and off-budget) are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between receipts and outlays determines the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the following chapter.

Growth in receipts.—Total receipts in 2002 are estimated to be $2,191.7 billion, an increase of $54.8 billion or 2.6 percent relative to 2001. Receipts are projected to grow at an average annual rate of 3.6 percent between 2002 and 2006, rising to $2,528.7 billion. This growth in receipts is largely due to assumed increases in incomes resulting from both real economic growth and inflation, partially offset by the effects of the President's proposed tax reductions. In the absence of the President's proposed tax reductions, receipts are projected to grow at an average annual rate of 5.0 percent between 2002 and 2006.

As a share of GDP, receipts are projected to decline from 20.7 percent in 2001 to 20.2 percent in 2002. As the President's proposed tax plan phases in, the receipts share of GDP is projected to decline annually, falling to 18.9 percent in 2006; this is 1.3 percentage points below the share of 20.2 percent that would be attained in the absence of the proposed reductions.

Table 3–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

Source	2000 actual	Estimate					
		2001	2002	2003	2004	2005	2006
Individual income taxes	1,004.5	1,072.9	1,078.8	1,092.3	1,117.9	1,157.0	1,196.6
Corporation income taxes	207.3	213.1	218.8	227.3	235.5	244.2	252.2
Social insurance and retirement receipts	652.9	689.7	725.8	766.0	806.0	855.8	896.4
(On-budget)	(172.3)	(185.8)	(194.9)	(205.2)	(215.8)	(226.8)	(237.9)
(Off-budget)	(480.6)	(503.9)	(530.9)	(560.8)	(590.3)	(629.0)	(658.5)
Excise taxes	68.9	71.1	74.0	76.3	78.3	80.5	82.3
Estate and gift taxes	29.0	31.1	28.7	26.6	28.3	24.9	22.5
Customs duties	19.9	21.4	22.5	24.3	25.0	26.0	27.7
Miscellaneous receipts	42.8	37.6	43.1	45.4	47.8	49.3	51.0
Total receipts	**2,025.2**	**2,136.9**	**2,191.7**	**2,258.2**	**2,338.8**	**2,437.8**	**2,528.7**
(On-budget)	*(1,544.6)*	*(1,633.1)*	*(1,660.8)*	*(1,697.4)*	*(1,748.5)*	*(1,808.8)*	*(1,870.2)*
(Off-budget)	*(480.6)*	*(503.9)*	*(530.9)*	*(560.8)*	*(590.3)*	*(629.0)*	*(658.5)*

Table 3–2. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE

(In billions of dollars)

	Estimate				
	2002	2003	2004	2005	2006
Social security (OASDI) taxable earnings base increases:.					
$80,400 to $84,600 on Jan. 1, 2002	1.9	5.2	5.8	6.5	7.2
$84,600 to $88,800 on Jan. 1, 2003	....	1.9	5.2	5.9	6.5
$88,800 to $93,600 on Jan. 1, 2004	....	....	2.2	6.0	6.6
$93,600 to $98,100 on Jan. 1, 2005	....	....	....	2.1	5.6
$98,100 to $102,600 on Jan. 1, 2006	....	....	....	....	2.1

ENACTED LEGISLATION

Several laws were enacted in 2000 that have an effect on governmental receipts. The major legislative changes affecting receipts are described below.

Community Renewal Tax Relief Act of 2000.—This Act contains a package of tax incentives designed to encourage investment in economically distressed communities, a provision that extends the availability of tax-favored Medical Savings Accounts (MSAs), and several administrative and technical provisions. The major incentives and changes provided in this Act include the following:

Designate "renewal communities".—The Secretary of HUD is authorized to designate up to 40 "renewal communities" (12 of which must be rural), which will be eligible for the following tax incentives: (1) a zero-percent capital gains tax rate on the sale of qualifying assets held more than five years; (2) a 15-percent wage credit to employers for the first $10,000 of qualified wages; (3) a "commercial revitalization deduction;" (4) an additional $35,000 of section 179 expensing for qualified property; and (5) an expansion of the work opportunity tax credit with respect to individuals who live in a renewal community. These communities must be designated before January 1, 2002 and the tax benefits will be available for the period beginning on January 1, 2002 and ending December 31, 2009.

Extend and expand empowerment zones.—The Omnibus Budget Reconciliation Act of 1993 (OBRA93) authorized the designation of 9 empowerment zones (Round I empowerment zones). Two additional Round I empowerment zones were authorized under the Taxpayer Relief Act of 1997; the designation of 20 Round II empowerment zones was also authorized. The tax incentives with respect to the original 9 Round I empowerment zones, which differ from those provided the two additional Round I zones and the Round II zones, generally would have expired after 2004. The tax incentives with respect to the Round II empowerment zones generally are available through 2008. The Community Renewal Tax Relief Act of 2000 extends Round I and Round II empowerment zone designations through December 31, 2009. In addition, the tax incentives provided Round I and Round II empowerment zones are equalized and in some cases (the wage credit, tax-exempt bond financing and section 179 expensing) enhanced. The Secretaries of HUD and Agriculture are authorized to designate nine additional empowerment zones (seven in urban areas and two in rural areas) before January 1, 2002. Businesses in these new zones are eligible for the same tax incentives provided to existing zones (as modified by this Act), which will be available through December 31, 2009. In addition, this Act (1) permits taxpayers to rollover gain from the sale or exchange of any qualified empowerment zone asset held for more than one year if the proceeds are used to purchase other qualifying empowerment zone assets, and (2) increases from 50 percent to 60 percent the exclusion of gain from the sale of qualifying small business stock held more than five years if such stock satisfies the requirements of a qualifying business under the empowerment zone rules.

Provide New Markets Tax Credit.—A new tax credit is provided for qualified equity investments made after December 31, 2000 to acquire stock in a selected community development entity (CDE). A credit of five percent is provided to the investor for the first three years of investment. The credit increases to six percent for the following four years. The maximum amount of annual qualifying equity investment is capped at $1.0 billion for 2001, $1.5 billion for 2002 and 2003, $2.0 billion for 2004 and 2005, and $3.5 billion for 2006 and 2007. A CDE is any domestic corporation or partnership (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons, (2) that maintains accountability to residents, and (3) is certified by the Department of Treasury as an eligible CDE.

Increase and modify the low-income housing tax credit.—The low-income housing tax credit may be claimed over a 10-year period for the cost of rental housing occupied by tenants having incomes below specified levels. The aggregate first-year credit authority provided annually to each State under prior law was $1.25 per resident. This Act increases the per-capita housing credit cap to $1.50 per capita in calendar year 2001, to $1.75 in 2002, and provides for annual indexation for inflation beginning in 2003. A minimum annual cap of $2 million (to be adjusted annually for inflation beginning in 2003) is provided for small States beginning in calendar year 2001.

Accelerate scheduled increase in State volume limits on tax-exempt private activity bonds.—Interest on bonds issued by State and local governments to finance activities carried out and paid for by private persons (private activity bonds) is taxable unless the activities are specified in the Internal Revenue code. The volume of certain tax-exempt private activity bonds that State and local governments may issue in each calendar year is limited by State-wide volume limits. Under prior law the annual volume limits were the greater of $50 per resident of the State or $150 million, increasing to the greater of $55 per resident or $165 million in 2003, and increasing ratably each succeeding year, reaching the greater of $75 per resident or $225 million in 2007. This Act accelerates the scheduled increase in the volume limits to the greater of $62.50 per resident or $187.5 million in 2001 and to the greater of $75 per resident or $225 million in 2002. Beginning in 2003, the volume limits are increased annually for inflation.

Extend the expensing of brownfields remediation costs.—Taxpayers can elect to treat certain environmental remediation expenditures that would otherwise be chargeable to capital accounts as deductible in the year paid or incurred. This Act extends the expensing of these costs, which was scheduled to expire with respect to expenditures paid or incurred after December 31, 2001, through December 31, 2003 and removes the geographic targeting of this provision.

Extend District of Columbia homebuyer tax credit.—The $5,000 tax credit provided for the first-time purchase of a principal residence in the District of Columbia, which was scheduled to expire after December 31, 2001, is extended through December 31, 2003.

Extend District of Columbia Enterprise Zone designation.—The Taxpayer Relief Act of 1997 designated certain economically depressed census tracts within the District of Columbia as the District of Columbia Enterprise Zone, within which businesses and individual residents are eligible for special tax incentives through December 31, 2002. This Act extends the D.C. enterprise zone designation through December 31, 2003.

Extend and modify deduction for corporate donations of computer technology.—The charitable contribution deduction that may be claimed by a corporation for donations of inventory property generally is limited to the lesser of fair market value or the corporation's basis in the property. However, corporations are provided augmented deductions, not subject to this limitation, for certain contributions. These augmented deductions equal the lesser of (1) the basis of the property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, or (2) twice the basis of the donated property. Under prior law, an augmented deduction was provided for contributions of computer technology and equipment to U.S. schools for educational purposes in grades K-12, provided the contribution was made before January 1, 2001. This Act extends this augmented deduction to apply to donations made before January 1, 2004. In addition, the deduction is expanded to apply to donations to public libraries, to apply to property donated no later than three years (instead of two years as required under prior law) after the date the taxpayer acquires the property, and to apply to property donated after reacquisition by a computer manufacturer.

Treat Indian Tribal Governments as non-profit organizations or State or local governments for purposes of the Federal unemployment tax (FUTA).—Non-profit organizations and State and local governments are not required to pay FUTA taxes. Instead, they may elect to reimburse the unemployment compensation system for unemployment compensation benefits actually paid to their former employees. This Act provides that an Indian tribal government be treated like a non-profit organization or State or local government for FUTA tax purposes.

Extend the Medical Savings Account (MSA) program.—Within limits, contributions to an MSA are deductible in determining adjusted gross income if made by an eligible individual and are excludable from gross income and wages for employment tax purposes if made by the employer of an eligible individual. Earnings on amounts in an MSA are not currently taxable. Distributions from an MSA for medical expenses are not taxable. Distributions not used for medical expenses are taxable and subject to an additional 15-percent tax unless the distribution is made after age 65, death, or disability. MSAs are available to self-employed individuals and to employees covered under a high-deductible plan sponsored by a small employer. This Act extends the MSA program through December 31, 2002 and renames MSAs as Archer MSAs. Under prior law, no new contributions could be made to MSAs after December 31, 2000, except by and on behalf of self-employed individuals and employees who had participated in the program before that date or were employed by a participating employer.

Make administrative and technical changes.—Several administrative and technical provisions are provided in this Act, including the following: (1) clarification of the allowance of certain tax benefits with respect to kidnaped children, (2) authorization of agencies to use corrected levels of the consumer price index (CPI) for purposes of determining benefits and taxes, (3) prevention of the duplication or acceleration of loss through assumption of certain liabilities, and (4) disclosure of return information to the Congressional Budget Office.

FSC Repeal and Extraterritorial Income Exclusion Act of 2000.—This Act repeals the foreign sales corporation (FSC) tax provisions of the Internal Revenue Code that the World Trade Organization (WTO) found to be a prohibited export subsidy in violation of international tax standards. In the absence of the repeal, the United States would have faced WTO-approved sanctions. The repealed rules are replaced with an exclusion from U.S. tax for extraterritorial income. Because the exclusion of such income is a means of avoiding double taxation, no foreign tax credit is allowed for foreign income taxes paid with respect to such excluded income. Extraterritorial income is eligible for the exclusion to the extent that it is "qualifying foreign trade income."

Installment Tax Correction Act of 2000.—Generally, an accrual method of accounting requires a taxpayer to recognize income when all events have occurred that fix the right to its receipt and its amount can be determined with reasonable accuracy. The installment method of accounting provides an exception to these general recognition principles by allowing a taxpayer to defer recognition of income from the disposition of certain property until payment is received. This Act repeals provisions of law provided in the Ticket to Work and Work Incentives Improvement Act of 1999 that generally prohibited the use of the installment method of accounting for dispositions of property entered into on or after December 17, 1999 that would otherwise have been reported for Federal income tax purposes using an accrual method of accounting.

Trade and Development Act of 2000.—This Act provides eligibility for expanded trade benefits to 48 sub-Saharan African and 27 Caribbean Basin countries, reduces tariffs for certain worsted wool fabric, and shifts $32 million in rum excise tax cover over payments to Puerto Rico and the Virgin Islands from 2001 to 2000.

Tariff Suspension and Trade Act of 2000.—Technical corrections and miscellaneous amendments are made to certain trade laws, including the temporary suspension or refund of duties on approximately 200 categories of imported items and the alteration of the treatment of certain imported goods. The items affected by these changes include a wide variety of chemicals, some of which are used to develop cancer and AIDS-fighting drugs, environmentally-friendly herbicides and insecticides, and a number of pigments and dyes.

Department of Transportation Appropriations Act for Fiscal Year 2001.—Under prior law, the required retirement contribution of Federal employees participating in the Civil Service Retirement System (CSRS) was to increase to 7.5 percent of salary for calendar years 2001 and 2002 and to decline to 7 percent of salary effective January 1, 2003. This Act amends Federal civil service retirement law by reducing the required retirement contribution of Federal employees participating in CSRS to 7 percent of salary effective January 1, 2001. Similar reductions (from 1.3 to 0.8 percent) are made for participants in the Federal Employees' Retirement System (FERS).

Federal Employee Thrift Savings Plan Amendments.—Under prior law, contributions of employees to the Federal Thrift Savings Plan (TSP) could not begin until the second open season following an employee's date of commencing service. This Act allows employees to elect to contribute to the TSP on the date of commencing service. Matching and automatic contributions by agencies will continue to begin during the second open season after an employee's date of commencing service. This Act also allows Federal employees to contribute eligible rollover distributions from a qualified trust to the TSP.

National Defense Authorization Act for Fiscal Year 2001.—Participation in the Federal Thrift Savings Plan (TSP) is extended to members of the uniformed services on active duty and to members of the Ready Reserve in any pay status.

Miscellaneous Appropriations Act, 2001.—The maximum percentage contribution limitations to the TSP (5 percent for CSRS and 10 percent for FERS) are increased by one percentage point in each year, 2001 through 2005. The maximum percentage is eliminated beginning in 2006, thus allowing for a 100 percent contribution, subject to the annual dollar contribution limitation provided under prior law.

ADMINISTRATION PROPOSALS

The President's plan provides tax relief to individuals who pay income taxes, reduces the marriage penalty, permanently extends the research and experimentation (R&E) tax credit, phases out the death tax, and provides tax incentives for education, farmers, the disabled, health care, the environment, and charitable purposes. These proposed reductions will allow taxpayers to keep roughly one-fourth of the surplus that would be produced under existing tax law.

PRESIDENT'S TAX PLAN PRESENTED TO CONGRESS ON FEBRUARY 8TH

Create new 10-percent individual income tax bracket.—Under current law, there are five statutory individual income tax rate brackets ranging from 15 to 39.6 percent. The 15-percent bracket covers the first $27,050 of taxable income (for calendar year 2001) for single taxpayers, the first $36,250 for taxpayers who file as heads of household, and the first $45,200 for married taxpayers filing joint returns ($22,600 for married taxpayers filing separate returns). The Administration proposes to split the existing 15-percent tax rate bracket into two tax rate brackets of 10 and 15 percent. The 10-percent tax rate would apply to the first $6,000 of taxable income for single taxpayers (and married taxpayers filing separate returns), the first $10,000 of taxable income for unmarried heads of household, and the first $12,000 of taxable income for married taxpayers filing jointly. Taxable income above these thresholds that is currently taxed at the 15-percent rate would continue to be taxed at that rate. The new 10-percent rate would be phased in over 5 years, beginning in 2002. The tax rate for the new bracket would be 14 percent in 2002, 13 percent in 2003, 12 percent in 2004, 11 percent in 2005 and 10 percent in 2006 and subsequent years. The income thresholds for the new tax rate bracket would be adjusted annually for inflation beginning in 2007.

Reduce individual income tax rates.—The Administration proposes to replace the five statutory individual income tax rate brackets of current law (15, 28, 31, 36, and 39.6) with a simplified rate structure of 10, 15, 25 and 33 percent. In addition to splitting the existing 15-percent tax rate bracket into two rate brackets (see preceding discussion), the Administration proposes to reduce the tax rates in the existing 28-percent and 31-percent tax rate brackets to 25 percent, and to reduce the tax rates in the existing 36-percent and 39.6-percent tax rate brackets to 33 percent. The new, lower tax rates would be phased in over 5 years, beginning in 2002. The income thresholds for these tax rate brackets would be adjusted annually for inflation as provided under current law.

The current 31-percent tax rate would be reduced to 30 percent in 2002, 29 percent in 2003, 28 percent in 2004, 27 percent in 2005 and 25 percent in 2006 and subsequent years. The current 28-percent tax rate would be reduced to 27 percent in 2002 and 2003, 26 percent in 2004 and 2005, and 25 percent in 2006 and subsequent years.

The current 39.6-percent tax rate would be reduced to 38 percent in 2002, 37 percent in 2003, 36 percent in 2004, 35 percent in 2005, and 33 percent in 2006. The current 36-percent tax rate would be reduced to 35 percent in 2002 and 2003, 34 percent in 2004 and 2005, and 33 percent in 2006 and subsequent years.

Increase the child tax credit.—Current law provides taxpayers a tax credit of up to $500 for each qualifying child under the age of 17. The credit is reduced by $50 for each $1,000 (or fraction thereof) by which the taxpayer's modified adjusted gross income (AGI) exceeds $110,000 ($75,000 if the taxpayer is not married and $55,000 if the taxpayer is married but filing a separate return). These income thresholds are not adjusted for inflation. Generally, the credit is nonrefundable; however, taxpayers with three or more qualifying children may be eligible for an additional refundable child tax credit if they have little or no individual income tax liability. The additional credit may be offset against social security payroll tax liability, provided that liability exceeds the refundable portion of the earned income tax credit (EITC). Beginning in taxable year 2002, the child tax credit (as well as other nonrefundable personal tax credits) will be allowed only to the extent that an individual's regular individual income tax liability exceeds his or her tentative minimum tax. In addition, beginning in taxable year 2002, the refundable child tax credit and the EITC will be reduced by the amount of the individual's alternative minimum tax.

To assist families with the costs of raising children, the Administration proposes to double the amount of the child tax credit to $1,000 per child, and to phase out the credit more slowly and at higher levels of income. The increase in the amount of the credit would be phased in over 5 years, rising to $600 in 2002, $700 in 2003, $800 in 2004, $900 in 2005, and $1,000 in 2006 and subsequent years. Beginning in 2006, the credit would be reduced by $20 for each $1,000 (or fraction thereof) by which the taxpayer's modified AGI exceeds $200,000 ($100,000 if the taxpayer is married but filing a separate return). The increase in the modified AGI threshold would be gradually implemented in $18,000 annual increments ($25,000 if the taxpayer is not married and $9,000 if the taxpayer is married and filing a separate return) between 2002 and 2006. Under the Administration's proposal the credit could offset both the regular tax and the alternative minimum tax; in addition, refundable credits would no longer be reduced by the amount of the alternative minimum tax.

Reduce the marriage penalty.—A couple has a marriage penalty if they file a joint return and their individual income tax liability is greater than what it would be if they were not married and each filed a separate return. The Administration proposes to reduce the marriage penalty by restoring the two-earner deduction that was in effect between 1982 and 1986, effective for taxable years beginning after December 31, 2001. Joint filers would be allowed to deduct 10 percent of the first $30,000 of the earned income of the lower paid spouse. The limitation on eligible earnings would be phased in over 5 years, increasing from $6,000 in 2002 to $12,000 in 2003, $18,000 in 2004, $24,000 in 2005 and $30,000 in 2006 and subsequent years.

Provide charitable contribution deduction for nonitemizers.—Under current law, individual taxpayers who do not itemize their deductions (nonitemizers) are not able to deduct contributions to qualified charitable organizations. The Administration proposes to allow nonitemizers to deduct charitable contributions in addition to claiming the standard deduction, effective for taxable years beginning after December 31, 2001. The deduction would be phased in between 2002 and 2006 by allowing deductible amounts to increase as a percentage of contributions from 20 percent in 2002 to 40 percent in 2003, 60 percent in 2004, 80 percent in 2005, and 100 percent in 2006 and subsequent years. Deductible contributions would be limited to the amount of the taxpayer's standard deduction and would be subject to existing rules governing itemized charitable contributions, such as the substantiation requirements and the percentage-of-AGI limitations.

Permit tax-free withdrawals from Individual Retirement Accounts (IRAs) for charitable contributions.—Under current law, eligible individuals may make deductible or non-deductible contributions to a traditional IRA. Pre-tax amounts (including earnings) in a traditional IRA are included in income when withdrawn. Effective for distributions after December 31, 2001, the Administration proposes to allow individuals who have attained age 59½ to exclude from gross income IRA distributions made directly to a charitable organization. The exclusion would apply without regard to the percentage-of-AGI limitations that apply to deductible charitable contributions. The exclusion would apply only to the extent the individual receives no return benefit in exchange for the transfer, and no charitable deduction would be allowed with respect to any amount that is excludable from income under this provision.

Raise the cap on corporate charitable contributions.—Current law limits deductible charitable contributions by corporations to 10 percent of net income (calculated before the deduction of the charitable contributions and certain other deductions). The Administration proposes to increase the limit on deductible charitable contributions by corporations from 10 percent to 15 percent of net income, effective for taxable years beginning after December 31, 2001.

Increase and expand education savings accounts.—Under current law, taxpayers may elect to contribute up to $500 per year to an education savings account (an "education IRA") for beneficiaries under age

18. The contribution limit is phased out for taxpayers with modified AGI between $95,000 and $110,000 ($150,000 and $160,000 for married couples filing a joint return). Contributions are not deductible, but earnings on contributions accumulate tax-free. Distributions are excludable from gross income to the extent they do not exceed qualified higher education expenses incurred during the year the distributions are made. The earnings portion of a distribution not used to cover qualified education expenses is included in the gross income of the beneficiary and is generally subject to an additional 10-percent tax. If any portion of a distribution from an education savings account is excluded from gross income, an education tax credit may not be claimed with respect to the same student in the same taxable year.

The Administration proposes to increase the annual contribution limit to education savings accounts to $5,000. The higher contribution limit would be phased in over 5 years, increasing to $1,000 in 2002, $2,000 in 2003, $3,000 in 2004, $4,000 in 2005, and $5,000 in 2006 and subsequent years. The Administration also proposes to expand education savings accounts to allow tax-free and penalty-free distributions for certain elementary, secondary, and after-school program expenses. Eligible expenses generally would include tuition, fees, academic tutoring, special needs services, books, supplies, computer equipment, and certain expenses for room and board, uniforms, and transportation. Expenses for both public and private educational institutions would qualify. Under the proposal, both an education tax credit and a tax-free distribution from an education savings account would be allowed with respect to the same student in the same taxable year, provided the credit and the distribution were not used for the same expenses. These changes are proposed to be effective for contributions and distributions made after December 31, 2001.

Permanently extend the research and experimentation (R&E) tax credit.—The Administration proposes to permanently extend the 20-percent tax credit for qualified research and experimentation expenditures above a base amount and the alternative incremental credit, which are scheduled to expire on June 30, 2004.

Phase out death tax.—The Administration proposes to reduce estate tax rates between 2002 and 2008, and to repeal the estate, gift and generation-skipping transfer tax completely in 2009. The tax rate reductions would begin in 2002, with a 5-percentage-point reduction in each existing tax rate bracket. The 5-percentage-point surtax, which currently phases out the benefit of the graduated rate schedule, would be repealed in 2002. State death tax credit rates would be reduced to maintain the current relationship between the credit rates and the Federal estate tax rates. After repeal of the estate, gift and generation-skipping transfer taxes, inherited assets generally would carry the decedent's tax basis. However, there would be an adjustment to basis, so that in general, to the extent that taxpayers are not currently subject to estate tax, they would not be subject to capital gains tax on inherited assets. There would also be provisions to discourage transfers made for the purpose of avoiding income or capital gains tax.

ADDITIONAL TAX INCENTIVES

Strengthen and Reform Education

Allow teachers to deduct out-of-pocket classroom expenses.—Under current law, teachers who incur unreimbursed, job-related expenses may deduct those expenses to the extent that when combined with other miscellaneous itemized deductions they exceed 2 percent of AGI. Effective for expenses incurred in taxable years beginning after December 31, 2001, the Administration proposes to allow teachers and other elementary and secondary school professionals to treat up to $400 in qualified out-of-pocket classroom expenses as a non-itemized deduction (above-the-line deduction). Unreimbursed expenditures for certain books, supplies and equipment related to classroom instruction and for certain professional training programs would qualify for the deduction.

Allow tax-free distributions from Qualified State Tuition Plans (QSTPs) for certain higher education expenses and allow private colleges to offer prepaid tuition plans.—Current law provides two basic tax benefits to contributions to, and beneficiaries of, QSTPs: (1) earnings on amounts invested in a QSTP are not subject to tax until a distribution is made (or educational benefits are provided), and (2) distributions made on behalf of a beneficiary are taxed at the beneficiary's (rather than the contributor's) individual income tax rate. These programs generally take two forms - prepaid tuition plans and savings plans. Under a prepaid tuition plan, an individual may purchase tuition credits or certificates on behalf of a designated beneficiary, which entitle the beneficiary to the waiver or payment of qualified higher education expenses at participating educational institutions. Under a savings plan, an individual may make contributions to an account, which is established for the purpose of meeting the qualified higher education expenses of a designated beneficiary. Distributions from QSTPs for nonqualified expenses generally are subject to a more than de minimus penalty (typically 10 percent of the earnings portion of the distribution). There is no specific dollar cap on annual contributions to a QSTP; in addition, there is no limit on contributions to a QSTP based on the contributor's income. Contributions to a QSTP are permitted at any time during the beneficiary's lifetime and the account can remain open after the beneficiary reaches age 30. However, a QSTP must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of amounts necessary to provide for qualified education expenses.

Effective for taxable years beginning after December 31, 2001, the Administration proposes to allow tax-free withdrawals from QSTPs for qualified higher education expenses, including room and board, tuition and fees, and certain expenses for books, supplies, and equipment. An education tax credit, a tax-free distribution from an education savings account, and a tax-free distribution from a QSTP would be allowed with respect to the same student in the same taxable year, provided the credit and the distributions were not used for the same expenses. The Administration also proposes to allow private educational institutions to establish qualified prepaid tuition plans (but not savings plans), provided the institution is eligible to participate in Federal financial aid programs under Title IV of the Higher Education Act of 1965.

Allow States to issue tax-exempt private activity bonds for school construction.—Current law does not exclude from income the interest on private activity bonds used to finance school construction or equipment. The Administration proposes to provide States with annual authority of $10 per resident (a minimum of $5 million is provided for small States) to issue tax-exempt, private activity bonds for constructing and equipping public elementary and secondary schools. Private entities would construct the schools and own the schools while the bonds are outstanding; ownership would revert to the school district when the bonds are retired. The proposal would be effective for bonds issued after December 31, 2001.

Invest in Health Care

Provide refundable tax credit for the purchase of health insurance.—Current law provides a tax preference for employer-provided group health insurance plans, but not for individually purchased health insurance coverage except to the extent that deductible medical expenses exceed 7.5 percent of AGI or the individual has self-employment income. The Administration proposes to make health insurance more affordable for individuals not covered by an employer plan nor eligible for public programs. Effective for taxable years beginning after December 31, 2001, a new refundable tax credit would be provided for the cost of health insurance purchased by individuals under age 65. The credit, which would equal 90 percent of health insurance premiums, would be capped at $750 for single policies and $1,500 for family policies in 2002 and 2003, and $1,000 for single policies and $2,000 for family policies in 2004 and subsequent years. The credit would be phased out for single taxpayers with AGI between $15,000 and $30,000 ($30,000 and $60,000 for married couples filing a joint return and purchasing a family policy). The maximum credit amounts and the income phase-out thresholds would be indexed annually for inflation beginning in 2003. The Administration is looking at ways to implement the credit so it is available to potential beneficiaries when they need it. To qualify for the credit, the purchased health insurance would be required to include coverage for catastrophic medical expenses. Individuals would not be allowed to claim the credit and make a contribution to an MSA for the same taxable year.

Provide an above-the-line deduction for long-term care insurance premiums.—Current law provides a tax preference for employer-paid long-term care insurance, but not for individually-purchased long-term case insurance except to the extent that deductible medical expenses exceed 7.5 percent of AGI or the individual has self-employment income. Premiums on qualified long-term care insurance are deductible as a medical expense, subject to annual dollar limitations that increase with age. The Administration proposes to make individually-purchased long-term care insurance (the vast majority of the long-term care insurance market) more affordable by creating an above-the-line deduction for qualified long-term care insurance premiums. To qualify for the deduction, the long-term care insurance would be required to meet certain standards providing consumer protections. The deduction would be available to taxpayers who individually purchase qualified long-term care insurance and to those who pay at least 50 percent of the cost of employer-provided coverage (the employer-paid share of the cost is less than 50 percent). The deduction would be effective for taxable years beginning after December 31, 2001 but would be phased in over six years. The deduction would be subject to current law annual dollar limitations on qualified long-term care insurance premiums.

Allow up to $500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year.—Under current law, unused benefits in a health flexible spending arrangement under a cafeteria plan for a particular year revert to the employer at the end of the year. Effective for plan years beginning after December 31, 2001, the Administration proposes to allow up to $500 in unused benefits in a health flexible spending arrangement at the end of a particular year to be carried forward to the next plan year.

Provide additional choice with regard to unused benefits in a health flexible spending arrangement.—In addition to the proposed carryforward of unused benefits (see preceding discussion), the Administration proposes to allow up to $500 in unused benefits in a health flexible spending arrangement at the end of a particular year to be distributed to the participant as taxable income, contributed to an Archer MSA, or contributed to the employer's 401(k), 403(b), or governmental 457(b) retirement plan. Amounts distributed to the participant would be subject to income tax withholding and employment taxes. Amounts contributed to an Archer MSA or retirement plan would be subject to the normal rules applicable to elective contributions to the receiving plan or account. The proposal would be effective for plan years beginning after December 31, 2001.

Permanently extend and reform Archer MSAs.—Current law allows only self-employed individuals and employees of small firms to establish Archer MSAs, and caps the number of accounts at 750,000. In addition to other requirements, (1) individuals who establish MSAs must be covered by a high-deductible health plan (and no other plan) with a deductible of at least $1,600 but not greater than $2,400 for policies covering a single person and a deductible of at least $3,200 but not greater than $4,800 in all other cases, (2) tax-preferred contributions are limited to 65 percent of the deductible for single policies and 75 percent of the deductible for other policies, and (3) either an individual or an employer, but not both, may make a tax-preferred contribution to an MSA for a particular year. The Administration proposes to permanently extend the MSA program, which is scheduled to expire on December 31, 2002. Effective after December 31, 2001, the Administration proposes to remove the 750,000 cap on the number of accounts. In addition, the program would be reformed by (1) expanding eligibility to include all individuals and employees of firms of all sizes covered by a high-deductible health plan, (2) modifying the definition of high deductible to permit a deductible as low as $1,000 for policies covering a single person and $2,000 in all other cases, (3) increasing tax-preferred contributions to 100 percent of the deductible, (4) allowing tax-preferred contributions by both employers and employees for a particular year, up to the applicable maximum, and (5) allowing contributions to MSAs under cafeteria plans. Individuals would not be allowed to make a contribution to an MSA and claim the proposed refundable tax credit for health insurance premiums for the same taxable year.

Provide an additional personal exemption to home caretakers of family members.—Current law provides a tax deduction for certain long-term care expenses. In addition, taxpayers are allowed to claim exemptions for themselves (and their spouses, if married) and dependents who they support. However, neither provision may meet the needs of taxpayers who provide long-term care in their own home for close family members. Effective for taxable years beginning after December 31, 2001, the Administration proposes to provide an additional personal exemption to taxpayers who care for certain qualified spouses or ancestors with long-term care needs. The spouse or ancestor must be a member of the taxpayer's household for the entire year. There would be no support requirement for the additional exemption. An individual would be considered to have long-term care needs if he or she were certified by a licensed physician as being unable for at least 180 consecutive days to perform at least two activities of daily living without substantial assistance from another individual due to a loss of functional capacity. Alternatively, an individual would be considered to have long-term care needs if he or she were certified by a licensed physician (1) as requiring substantial supervision for at least 180 consecutive days to be protected from threats to his or her own health and safety due to severe cognitive impairment and (2) being unable for at least six months to perform at least one activity of daily living or being unable to engage in age appropriate activities.

Provide tax relief for awards under certain health education programs.—Current law provides tax-free treatment for certain scholarship and fellowship grants used to pay qualified tuition and related expenses, but not to the extent that any grant represents compensation for services. The Administration proposes to provide that any amounts received by an individual under the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program are "qualified scholarships" excludable from income, without regard to the recipient's future service obligation. The proposal would be effective for awards received after December 31, 2001.

Assist Americans With Disabilities

Exclude from income the value of employer-provided computers, software and peripherals.—The Administration proposes to allow individuals with disabilities to exclude from income the value of employer-provided computers, software or other office equipment that are necessary for the individual to perform work for the employer at home. To qualify for the exclusion, the employee would be required to make substantial use of the equipment (relative to overall use) performing work for his or her employer. However, unlike current law, which limits the exclusion to the extent that the equipment is used to perform work for the employer, the proposed exclusion would apply to all use of such equipment, including use by the employee for personal or non-employer-related trade or business purposes. Employees would be required to provide their employer with a certification from a licensed physician that they meet eligibility criteria. The proposal would be effective for taxable years beginning after December 31, 2001.

Strengthen Families

Permanently extend and increase the adoption tax credit.—Current law provides a permanent nonrefundable 100-percent tax credit for the first $6,000 of qualified expenses incurred in the adoption of a child with special needs. A nonrefundable 100-percent tax credit is provided for the first $5,000 of qualified expenses incurred before January 1, 2002 in the adoption of a child without special needs. The dollar limits are cumulative per adoption but may be used over more than one calendar year. Qualified expenses do not include any expenses that are paid or reimbursed under any other government or non-government program. The credit is phased out ratably for taxpayers with incomes between $75,000 and $115,000; in addition, it is not available for adoptions by stepparents. The Administration proposes to make the tax credit for the adoption of children without special needs permanent. In addition, effective for expenses incurred after December 31, 2001, the Administration proposes to increase the credit to $8,500 for the adoption of a child with special needs and to $7,500 for the adoption of a child without special needs.

Help Farmers and Fishermen Manage Economic Downturns

Establish Farm, Fish and Ranch Risk Management (FFARRM) savings accounts.—Current law does not provide for the elective deferral of farm or fishing income. However, farmers can elect to average their farming income over a three-year period, and farmers may carry back net operating losses over the five previous years. In addition, taxes can be deferred on certain forms of income, including disaster payments, crop insurance and proceeds from emergency livestock sales. The Administration proposes to allow up to 20 percent of taxable income attributable to an eligible farming or fishing business to be contributed to a FFARRM savings account each year and deducted from income. Earnings on contributions would be taxable as earned and distributions from the account (except those attributable to earnings on contributions) would be included in gross income. Any amount not distributed within five years of deposit would be deemed to have been distributed and included in gross income; in addition, such distributions would be subject to a 10-percent surtax. The proposal would be effective for taxable years beginning after December 31, 2001.

Increase Housing Opportunities

Provide tax credit for developers of affordable single-family housing.—The Administration proposes to provide annual tax credit authority to States (including U.S. possessions) designed to promote the development of affordable single-family housing in low-income urban and rural neighborhoods. Beginning in calendar year 2002, first-year credit authority of $1.75 per capita (indexed annually for inflation thereafter) would be made available to each State. State housing agencies would award first-year credits to single-family housing units comprising a project located in a census tract with median income equal to 80 percent or less of area median income. Units in condominiums and cooperatives could qualify as single-family housing. Credits would be awarded as a fixed amount for individual units comprising a project. The present value of the credits, determined on the date of a qualifying sale, could not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. The taxpayer (developer or investor partnership) owning the housing unit immediately prior to the sale to a qualified buyer would be eligible to claim credits over a 5-year period beginning on the date of sale. Eligible homebuyers would be required to have incomes equal to 80 per cent or less of area median income. Technical features of the provision would follow similar features of current law with respect to the low-income housing tax credit and mortgage revenue bonds.

Encourage Saving

Establish Individual Development Accounts (IDAs).—The Administration proposes to allow eligible individuals to make contributions to a new savings vehicle, the Individual Development Account, which would be set up and administered by financial institutions. Financial institutions would be allowed a tax credit for a portion of their matching contributions to an IDA. Matching contributions and the earnings on those contributions would be deposited in a separate "parallel account." Contributions to an IDA by an eligible individual would not be deductible, and earnings on those contributions would be included in income. Matching contributions by financial institutions and the earnings on those contributions would be tax free, provided they are withdrawn for qualified purposes (higher education, the first-time purchase of a home, business start-up, and qualified rollovers). Withdrawals for other than qualified purposes would result in the forfeiture of matching contributions and the earnings on those contributions. Individuals eligible to contribute to an IDA would be required to be at least 18 years of age, a citizen or legal resident of the United States, and meet certain income limitations. The proposal would be effective for contributions to IDAs and matching contributions made with respect to such IDAs after December 31, 2001.

Promote Trade

Extend and expand Andean trade preferences.—The Administration proposes to renew and enhance the Andean Trade Preference Program (ATPA) when it expires on December 4, 2001. The current ATPA program was enacted in 1991 to augment beneficiary countries' efforts to diversify their economies away from narcotics production and drug trafficking. The current program provides duty-free treatment on most, but not all, imports from Bolivia, Columbia, Peru and Ecuador. The Administration is seeking to work with Congress to expand the list of products eligible for duty free treatment under a renewed ATPA. It supports extending ATPA benefits for the period until the entry into force of the Free Trade Area of the Americas (FTAA). The Administration is seeking to conclude the FTAA negotiations in time for entry into force of the agreement by January 1, 2005.

Protect the Environment

Permanently extend expensing of brownfields remediation costs.—Taxpayers may elect to treat certain environmental remediation expenditures that would otherwise be chargeable to capital account as deductible in the year paid or incurred. Under current law, the ability to deduct such expenditures expires with respect to expenditures paid or incurred after December 31, 2003. The Administration proposes to permanently extend this provision, facilitating its use by businesses to undertake projects that may extend beyond the current expiration date and be uncertain in overall duration.

Exclude 50 percent of gains from the sale of property for conservation purposes.—The Administration proposes to create a new incentive for private, voluntary land protection. This incentive is a cost-effective, non-regulatory approach to conservation. Under the proposal, when land (or an interest in land or water) is sold for conservation purposes, only 50 percent of any gain would be included in the seller's income. To be eligible for the exclusion, the sale may be either to a government agency or to a qualified conservation organization, and the buyer must supply a letter of intent that the acquisition will serve conservation purposes. In addition, the taxpayer or a member of the taxpayer's family must have owned the property for the three years immediately preceding the sale. The provision would be effective for sales taking place on or after the date of first committee action.

Energy Policy Proposals

Extend and modify the tax credit for producing electricity from certain sources.—Taxpayers are provided a 1.5-cent-per-kilowatt-hour tax credit, adjusted for inflation after 1992, for electricity produced from wind, closed-loop biomass (organic material from a plant grown exclusively for use at a qualified facility to produce electricity), and poultry waste. To qualify for the credit, the electricity must be sold to an unrelated third party and must be produced during the first 10 years of production at a facility placed in service before January 1, 2002. The Administration proposes to extend the credit for electricity produced from wind and biomass to facilities placed in service before January 1, 2005. In addition, eligible biomass sources would be expanded to include certain biomass from forest-related resources, agricultural sources, and other specified sources. Special rules would apply to biomass facilities placed in service before January 1, 2002. Electricity produced at such facilities from newly eligible sources would be eligible for the credit only from January 1, 2002 through December 31, 2004, and at a rate equal to 60 percent of the generally applicable rate. Electricity produced from newly eligible biomass co-fired in coal plants would also be eligible for the credit only from January 1, 2002 through December 31, 2004, and at a rate equal to 30 percent of the generally applicable rate.

Provide tax credit for residential solar energy systems.—Current law provides a 10-percent investment tax credit to businesses for qualifying equipment that uses solar energy to generate electricity; to heat, cool or provide hot water for use in a structure; or to provide solar process heat. A credit currently is not provided for nonbusiness purchases of solar energy equipment. The Administration proposes a new tax credit for individuals who purchase solar energy equipment to generate electricity (photovoltaic equipment) or heat water (solar water heating equipment used exclusively for purposes other than heating swimming pools) for use in a dwelling unit that the individual uses as a residence. The proposed nonrefundable credit would be equal to 15 percent of the cost of the equipment and its installation; each individual taxpayer would be allowed a maximum credit of $2,000 for photovoltaic equipment and $2,000 for solar water heating equipment. The credit would apply to photovoltaic equipment placed in service after December 31, 2001 and before January 1, 2008 and to solar water heating equipment placed in service after December 31, 2001 and before January 1, 2006.

Modify treatment of nuclear decommissioning funds.—Under current law, deductible contributions to nuclear decommissioning funds are limited to the amount included in the taxpayer's cost of service for ratemaking purposes. For deregulated utilities, this limitation may result in the denial of any deduction for contributions to a nuclear decommissioning fund. The Administration proposes to repeal this limitation.

Also under current law, deductible contributions are not permitted to exceed the amount the IRS determines to be necessary to provide for level funding of an amount equal to the taxpayer's post-1983 decommissioning costs. The Administration proposes to permit funding of all decommissioning costs through deductible contributions. Any portion of these additional contributions relating to pre-1983 costs that exceeds the amount previously deducted (other than under the nuclear decommissioning fund rules) or excluded from the taxpayer's gross income on account of the taxpayer's liability for decommissioning costs, would be allowed as a deduction ratably over the remaining useful life of the nuclear power plant.

The Administration's proposal would also permit taxpayers to make deductible contributions to a qualified fund after the end of the nuclear power plant's estimated useful life and would provide that nuclear decommissioning costs are deductible when paid. These changes in the treatment of nuclear decommissioning funds are proposed to be effective for taxable years beginning after December 31, 2001.

ONE-YEAR EXTENSION OF PROVISIONS EXPIRING IN 2001

Extend the work opportunity tax credit.—The work opportunity tax credit provides an incentive for employers to expand the number of entry level positions for individuals from certain targeted groups. The credit generally applies to the first $6,000 of wages paid to several categories of economically disadvantaged or handicapped workers. The credit rate is 25 percent of qualified wages for employment of at least 120 hours but less than 400 hours and 40 percent for employment of 400 or more hours. The Administration proposes to extend the credit for one year, making the credit available for workers hired after December 31, 2001 and before January 1, 2003.

Extend the welfare-to-work tax credit.—The welfare-to-work tax credit entitles employers to claim a tax credit for hiring certain recipients of long-term family assistance. The purpose of the credit is to expand job opportunities for persons making the transition from welfare to work. The credit is 35 percent of the first $10,000 of eligible wages in the first year of employment and 50 percent of the first $10,000 of eligible wages in the second year of employment. Eligible wages include cash wages plus the cash value of certain employer-paid health, dependent care, and educational fringe benefits. The minimum employment period that employees must work before employers can claim the credit is 400 hours. The Administration proposes to extend the credit for one year, to apply to individuals who begin work after December 31, 2001 and before January 1, 2003.

Extend exclusion for employer-provided educational assistance.—Certain amounts paid or incurred by an employer for educational assistance provided to an employee are excluded from the employee's gross income for income and payroll tax purposes. The exclusion is limited to $5,250 of educational assistance with respect to an individual during a calendar year and applies whether or not the education is job-related. The Administration proposes to extend the exclusion, which is limited to undergraduate courses, to apply to courses beginning after December 31, 2001 and before January 1, 2003.

Extend minimum tax relief for individuals.—A temporary provision of prior law permits nonrefundable personal tax credits to be offset against both the regular tax and the alternative minimum tax; in addition, refundable credits are not reduced by the amount of the alternative minimum tax. The temporary provision expires after taxable year 2001. The Administration is concerned that the AMT may limit the benefit of personal tax credits and impose financial and compliance burdens on taxpayers who have few, if any, tax preference items and who were not the originally intended targets of the AMT. The Administration proposes to extend minimum tax relief for nonrefundable personal tax credits (other than the child credit) one year, to apply to taxable year 2002. The Administration's proposal to double the child credit (see earlier discussion) includes a provision providing permanent minimum tax relief for the child credit and refundable personal credits.

Extend exceptions provided under subpart F for certain active financing income.—Under the Subpart F rules, certain U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed to the shareholders. The income subject to current inclusion under the subpart F rules includes, among other things, "foreign personal holding company income" and insurance income. Foreign personal holding company income generally includes many types of income derived by a financial service company, such as dividends; interest; royalties; rents; annuities; net gains from the sale of certain property, including securities, commodities and foreign currency; and income from notional principal contracts and securities lending activities. For taxable years beginning before 2002, certain income derived in the active conduct of a banking, financing, insurance, or similar business is excepted from Subpart F. The Administration proposes to extend the exception for one year, to apply to taxable years beginning in 2002.

Extend suspension of net income limitation on percentage depletion from marginal oil and gas wells.—Taxpayers are allowed to recover their investment in oil and gas wells through depletion deductions. For certain properties, deductions may be determined using the percentage depletion method; however, in any year, the amount deducted generally may not exceed 100 percent of the net income from the property. For taxable years beginning after December 31, 1997 and before January 1, 2002, domestic oil and gas production from "marginal" properties is exempt from the 100-percent of net income limitation. The Administration proposes to extend the exemption to apply to taxable years beginning after December 31, 2001 and before January 1, 2003.

Extend Generalized System of Preferences (GSP).—Under GSP, duty-free access is provided to over 4,000 items from eligible developing countries that meet certain worker rights, intellectual property protection, and other criteria. The Administration proposes to extend this program, which is scheduled to expire after September 30, 2001, through September 30, 2002.

Extend authority to issue Qualified Zone Academy Bonds.—Prior law allows State and local governments to issue "qualified zone academy bonds," the interest on which is effectively paid by the Federal government in the form of an annual income tax credit. The proceeds of the bonds must be used for teacher training, purchases of equipment, curricular development, or rehabilitation and repairs at certain public school facilities. A nationwide total of $400 million of qualified zone academy bonds was authorized to be issued in each of calendar years 1998 through 2001. In addition, unused authority arising in 1998 and 1999 may be carried forward for up to three years and unused authority arising in 2000 and 2001 may be carried forward for up to two years. The Administration proposes to authorize the issuance of an additional $400 million of qualified zone academy bonds in calendar year 2002.

OTHER PROVISIONS THAT AFFECT RECEIPTS

Recover State bank supervision and regulation expenses (receipt effect).—The Administration proposes to require the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve to recover their respective costs for supervision and regulation of State-chartered banks and bank holding companies. The Federal Reserve currently funds the costs of such examinations from earnings; therefore, deposits of earnings by the Federal Reserve, which are classified as governmental receipts, will increase by the amount of the recoveries.

Table 3–3. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	Estimate							
	2001	2002	2003	2004	2005	2006	2002–2006	2002–2011
President's Tax Plan presented to Congress on February 8th:								
Create new 10-percent individual income tax bracket	....	–5,678	–13,847	–21,932	–29,849	–37,407	–108,713	–310,618
Reduce individual income tax rates	....	–11,793	–21,047	–33,493	–42,306	–57,299	–165,938	–500,666
Increase the child tax credit [1]	....	–1,238	–7,505	–11,455	–16,347	–20,963	–57,508	–192,657
Reduce the marriage penalty	....	–1,435	–4,844	–7,773	–10,343	–12,675	–37,070	–112,834
Provide charitable contribution deduction for nonitemizers	....	–482	–1,690	–2,963	–4,448	–6,065	–15,648	–52,171
Permit tax-free withdrawals from IRAs for charitable contributions	....	–53	–181	–195	–210	–225	–864	–2,261
Raise the cap on corporate charitable contributions	....	–85	–136	–136	–143	–149	–649	–1,579
Increase and expand education savings accounts	....	–3	–25	–88	–204	–373	–693	–5,645
Permanently extend the R&E tax credit	....	....	....	–1,055	–3,431	–5,415	–9,901	–49,576
Phase out death tax	–154	–4,930	–10,435	–11,442	–13,411	–16,263	–56,481	–261,257
Total, President's Tax Plan presented to Congress on February 8th [1]	**–154**	**–25,697**	**–59,710**	**–90,532**	**–120,692**	**–156,834**	**–453,465**	**–1,489,264**
Provide refundable tax credit for the purchase of health insurance [1]	....	–219	–1,513	–3,966	–5,796	–6,143	–17,637	–52,858
Additional tax incentives [2]	–18	–1,812	–3,602	–4,322	–5,090	–6,001	–20,827	–66,531
One-year extension of provisions expiring in 2001 [2]	....	–1,614	–1,355	–170	–94	–66	–3,299	–3,410
Total tax reduction [1, 2]	**–172**	**–29,342**	**–66,180**	**–98,990**	**–131,672**	**–169,044**	**–495,228**	**–1,612,063**
Other provisions that affect receipts:								
Recover State bank supervision and regulation expenses [1, 2]	....	70	74	76	80	84	384	866

[1] Affects both receipts and outlays. Only the receipt effect is shown here; the outlay effect is shown in Table S–9 of the *Budget of the United States Government, Fiscal Year 2002.*

[2] Net of income offsets

Table 3–4. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006
Individual income taxes (federal funds):							
Existing law	1,004,462	1,073,088	1,102,871	1,148,882	1,205,565	1,273,084	1,345,297
Proposed Legislation (PAYGO)	....	–161	–24,082	–56,592	–87,684	–116,040	–148,690
Total individual income taxes	**1,004,462**	**1,072,927**	**1,078,789**	**1,092,290**	**1,117,881**	**1,157,044**	**1,196,607**
Corporation income taxes:							
Federal funds:							
Existing law	207,286	213,080	219,984	228,800	237,816	249,059	259,360
Proposed Legislation (PAYGO)	....	–11	–1,198	–1,507	–2,319	–4,907	–7,201
Total Federal funds corporation income taxes	207,286	213,069	218,786	227,293	235,497	244,152	252,159
Trust funds:							
Hazardous substance superfund	3	....	....	....	....	....	....
Total corporation income taxes	**207,289**	**213,069**	**218,786**	**227,293**	**235,497**	**244,152**	**252,159**
Social insurance and retirement receipts (trust funds):							
Employment and general retirement:							
Old-age and survivors insurance (Off-budget)	411,677	430,916	453,853	479,405	504,598	537,690	562,913
Disability insurance (Off-budget)	68,907	72,954	77,067	81,407	85,689	91,307	95,594
Hospital insurance	135,529	147,228	154,098	162,932	171,656	182,952	191,783
Railroad retirement:							
Social Security equivalent account	1,650	1,713	1,755	1,801	1,836	1,877	1,916
Rail pension and supplemental annuity	2,688	2,694	2,758	2,826	2,881	2,932	2,981
Total employment and general retirement	620,451	655,505	689,531	728,371	766,660	816,758	855,187
On-budget	139,867	151,635	158,611	167,559	176,373	187,761	196,680
Off-budget	480,584	503,870	530,920	560,812	590,287	628,997	658,507
Unemployment insurance:							
Deposits by States [1]	20,701	22,405	24,601	25,944	27,623	27,362	29,485
Federal unemployment receipts [1]	6,871	7,105	7,257	7,437	7,619	7,805	7,998
Railroad unemployment receipts [1]	68	50	88	134	149	105	74
Total unemployment insurance	27,640	29,560	31,946	33,515	35,391	35,272	37,557
Other retirement:							
Federal employees' retirement—employee share	4,691	4,523	4,259	4,106	3,948	3,767	3,582
Non-Federal employees retirement [2]	70	68	62	53	50	45	41
Total other retirement	4,761	4,591	4,321	4,159	3,998	3,812	3,623
Total social insurance and retirement receipts	**652,852**	**689,656**	**725,798**	**766,045**	**806,049**	**855,842**	**896,367**
On-budget	172,268	185,786	194,878	205,233	215,762	226,845	237,860
Off-budget	480,584	503,870	530,920	560,812	590,287	628,997	658,507
Excise taxes:							
Federal funds:							
Alcohol taxes	8,140	7,688	7,810	7,885	7,946	8,011	8,074
Tobacco taxes	7,221	7,548	8,140	8,175	7,941	7,778	7,643
Transportation fuels tax	819	779	743	759	766	784	306
Telephone and teletype services	5,670	5,914	6,295	6,687	7,097	7,526	7,976
Ozone depleting chemicals and products	125	94	65	39	20	....	....
Other Federal fund excise taxes	717	1,961	1,863	1,774	1,772	1,826	1,885
Total Federal funds excise taxes	22,692	23,984	24,916	25,319	25,542	25,925	25,884
Trust funds:							
Highway	34,972	35,431	36,539	37,646	38,727	39,823	40,867
Airport and airway	9,739	10,414	11,183	11,875	12,578	13,311	14,085
Aquatic resources	342	352	392	401	420	429	440
Black lung disability insurance	518	555	570	583	596	609	618
Inland waterway	101	93	93	94	95	96	97
Hazardous substance superfund	2	....	....	....	....	....	....
Oil spill liability	182	....	....	....	....	....	....

Table 3–4. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006
Vaccine injury compensation	133	134	137	140	142	143	145
Leaking underground storage tank	184	185	190	196	200	207	210
Total trust funds excise taxes	46,173	47,164	49,104	50,935	52,758	54,618	56,462
Total excise taxes	**68,865**	**71,148**	**74,020**	**76,254**	**78,300**	**80,543**	**82,346**
Estate and gift taxes:							
Federal funds	29,010	31,072	32,068	34,480	37,036	35,364	35,605
Proposed Legislation (PAYGO)	....	....	–3,369	–7,841	–8,739	–10,467	–13,107
Total estate and gift taxes	**29,010**	**31,072**	**28,699**	**26,639**	**28,297**	**24,897**	**22,498**
Customs duties:							
Federal funds	19,172	20,635	22,403	23,650	24,299	25,302	26,775
Proposed Legislation (PAYGO)	....	....	–716	–264	–274	–285	–74
Trust funds	742	807	850	895	936	972	1,023
Total customs duties	**19,914**	**21,442**	**22,537**	**24,281**	**24,961**	**25,989**	**27,724**
MISCELLANEOUS RECEIPTS: [3]							
Miscellaneous taxes	99	104	109	111	113	115	118
United Mine Workers of America combined benefit fund	155	149	143	135	129	125	121
Deposit of earnings, Federal Reserve System	32,293	26,599	31,800	33,345	34,944	35,881	36,693
Proposed Legislation (PAYGO)	....	....	93	98	102	107	112
Defense cooperation	12	6	6	6	6	6	6
Fees for permits and regulatory and judicial services	7,664	8,919	9,189	9,969	10,771	11,314	12,189
Fines, penalties, and forfeitures	2,422	1,923	1,880	1,907	1,915	1,923	1,932
Gifts and contributions	260	286	183	172	168	170	166
Refunds and recoveries	–79	–354	–298	–305	–317	–325	–327
Total miscellaneous receipts	**42,826**	**37,632**	**43,105**	**45,438**	**47,831**	**49,316**	**51,010**
Total budget receipts	**2,025,218**	**2,136,946**	**2,191,734**	**2,258,240**	**2,338,816**	**2,437,783**	**2,528,711**
On-budget	1,544,634	1,633,076	1,660,814	1,697,428	1,748,529	1,808,786	1,870,204
Off-budget	480,584	503,870	530,920	560,812	590,287	628,997	658,507
MEMORANDUM							
Federal funds	1,325,755	1,401,028	1,416,473	1,440,883	1,479,627	1,526,937	1,575,483
Trust funds	426,651	450,829	478,176	504,047	527,620	557,380	586,271
Interfund transactions	–207,772	–218,781	–233,835	–247,502	–258,718	–275,531	–291,550
Total on-budget	**1,544,634**	**1,633,076**	**1,660,814**	**1,697,428**	**1,748,529**	**1,808,786**	**1,870,204**
Off-budget (trust funds)	**480,584**	**503,870**	**530,920**	**560,812**	**590,287**	**628,997**	**658,507**
Total	**2,025,218**	**2,136,946**	**2,191,734**	**2,258,240**	**2,338,816**	**2,437,783**	**2,528,711**

[1] Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.
[2] Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.
[3] Includes both Federal and trust funds.