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THE PRESIDENT'S AGENDA FOR TAX RELIEF

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A PLAN TO PROVIDE NEEDED TAX RELIEF TO THE AMERICAN PEOPLE



FEBRUARY 12, 2001.—Message and accompanying papers referred to the Committee on Ways and Means and ordered to be printed

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To the Congress of the United States:

Enclosed please find my plan to provide needed tax relief to the American people. Over the last several months, the economy has slowed dramatically. I believe that the best way to ensure that our prosperity continues is to put more money in the hands of consumers and entrepreneurs as soon as possible. I look forward to working with the Congress to enact meaningful tax cuts into law.

GEORGE W. BUSH.

THE WHITE HOUSE, *February 8, 2001.*

THE PRESIDENT'S AGENDA
FOR
TAX RELIEF



PRESIDENT GEORGE W. BUSH

"Lower income taxes for all, with the greatest help for those most in need."

The President's Agenda for Tax Relief

"These are the basic ideas that guide my tax policy: lower income taxes for all, with the greatest help for those most in need. Everyone who pays income taxes benefits – while the highest percentage tax cuts go to the lowest income Americans. I believe this is a formula for continuing the prosperity we've enjoyed, but also expanding it in ways we have yet to discover. It is an economics of inclusion. It is the agenda of a government that knows its limits and shows its heart."

– President George W. Bush

Executive Summary

The President has proposed a bold and fair tax relief plan that will reduce the inequities of the current tax code and help ensure that America remains prosperous. This tax relief plan promotes the values that make the American economy second to none -- access to the middle class, family, equal opportunity, and the entrepreneurial spirit. This plan will reduce taxes for everyone who pays income taxes, and it will encourage enterprise by lowering marginal tax rates.

Under the President's tax relief plan, the typical American family of four will be able to keep at least $1,600 more of their own money.

Over the past several months, the economy has slowed dramatically. President Bush's tax cut will give the economy a timely second wind by placing more money in the hands of consumers and entrepreneurs. President Bush also understands that, over the long run, wealth is created by hard-working, risk-taking individuals, not government programs. Countries with low taxes, limited regulation, and open trade grow faster, create more jobs, and enjoy higher standards of living than countries with bigger, more centralized governments and higher taxes. The United States has led the way in economic performance over the last century because America is a freer country. If people are given the freedom to create, they do. If people are given a stake in the outcome, they succeed.

President Bush's tax relief plan reflects this basic trust in the American people and confidence in the American ideal by increasing tax fairness and enhancing the performance of the economy. It includes:

- Replacing the current tax rates of 15, 28, 31, 36, and 39.6 percent with a simplified rate structure of 10, 15, 25, and 33 percent (see Appendix for rate schedule);
- Doubling the child tax credit to $1,000 per child and applying the credit to the Alternative Minimum Tax (AMT);
- Reducing the marriage penalty by reinstating the 10 percent deduction for two-earner couples;
- Eliminating the death tax;
- Expanding the charitable deduction to non-itemizers; and
- Making the Research and Experimentation (R&D) tax credit permanent.

Increasing Tax Fairness

"My tax cut plan is not just about productivity, it is about people. Economics is more than narrow interests or organized envy. A tax plan must apply market principles to the public interest. And my plan sets out to make life better for average men, women and children."

– President George W. Bush

The current tax code is full of inequities. Many single moms face higher marginal tax rates than the wealthy. Couples frequently face a higher tax burden after they marry. The majority of Americans cannot deduct their charitable donations. Family farms and businesses are sold to pay the death tax. And the owners of the most successful small businesses share nearly half of their income with the government. President Bush's tax cut will greatly reduce these inequities. It is a fair plan that is designed to provide tax relief to everyone who pays income taxes.

Increasing Access to the Middle Class:

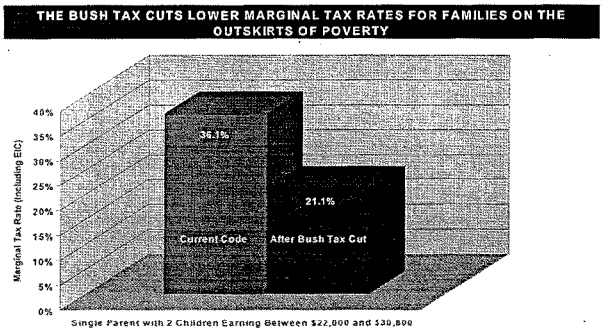
High marginal tax rates act as a tollgate, limiting the access of low and moderate-income earners to the middle class. The belief that any worker, with enough effort, can join the middle class is at the heart of the American Dream. But when government attempts to help the poor by simply redistributing income, it often undermines incentives to work harder and earn more.

Because the benefit of the Earned Income Credit diminishes as a worker's income increases, a single mother with two children on the outskirts of poverty will lose nearly half of any additional dollar she earns (taking into account social insurance taxes, state income taxes, and federal income taxes). The benefit of taking an extra training course, working an extra shift, or assuming additional responsibility is cut in half by the government. As a result, a single mother with two children earning $25,000 a year faces a higher marginal tax rate than a lawyer earning $250,000.

Lowering these barriers to the middle class is one of President Bush's top priorities. To provide a greater reward for those who make the sacrifices needed to move ahead, the President's tax cut plan will substantially lower the marginal tax rate for low-income parents. The marginal federal income tax rate would fall by over 40 percent for low-income families with two children (see Chart 1), and by nearly 50 percent for families with one child. These lower rates result from two key changes in the tax code:

- Cuts the current 15 percent tax bracket to 10 percent for the first $6,000 of taxable income for singles, the first $10,000 for single parents, and the first $12,000 for married couples; and
- Doubles the existing child tax credit to $1,000 and applying the credit to the AMT.

CHART 1



Lowering the High Tax Burden on Families:

Federal income tax revenue rose dramatically in the 1990s. Today, federal taxes from all sources are the highest they have ever been during peacetime, topping 20 percent of GDP. High taxes force families to work harder each year to fuel a growing government. Overall, Americans now work over four months of the year to fund government at all levels.

This high tax burden strips families of resources needed to help solve their most pressing problems. Every family faces different challenges: some need better childcare, some need tutoring for their children, and others need a greater variety of after-school programs. Government cannot tailor its programs to the needs of each family. That is why President Bush believes that the best way to help *all* families is to let each family keep more of its income – and spend it as it deems appropriate. His plan will lower the tax burden on families by, among other things, reducing tax rates, expanding the child credit, and reducing the marriage penalty. His plan will also raise the threshold for the phase-out of the child tax credit from $110,000 to $200,000 for married couples, and from $75,000 to $200,000 for single parents.

Reducing the Marriage Penalty

The current tax code frequently taxes couples more after they get married. This marriage tax contradicts our values and any reasonable sense of fairness. President Bush's tax relief plan will greatly reduce the marriage penalty by restoring the deduction for two-earner families. This will allow the lower-earning spouse to deduct 10 percent – up to $3,000 – of the first $30,000 of income. The marriage penalty will be further mitigated by lowering marginal tax rates, which will reduce the portion of the marriage penalty that is derived from a steep rate structure.

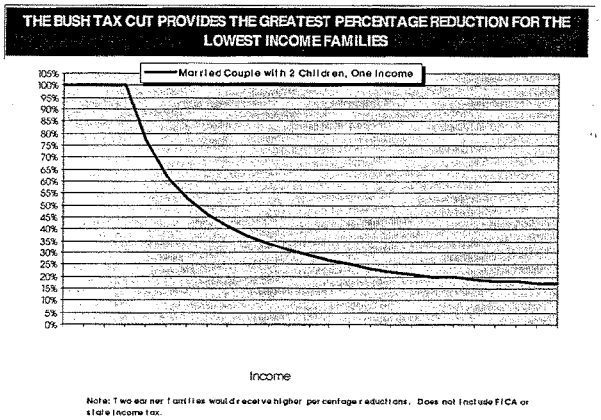
Promoting Charitable Giving:

Since the introduction of the income tax, the law has recognized the importance of encouraging charitable giving by providing a deduction. Today, however, 70 percent of all filers cannot deduct their charitable donations because they do not itemize deductions. Thus, to encourage an outpouring of giving, President Bush's plan will expand the federal charitable deduction to non-itemizers. This change will allow every taxpayer to deduct his or her charitable donations and will generate billions of dollars annually in additional charitable contributions. The President also supports other proposals to increase charitable giving.

A Fair and Balanced Tax Cut:

President Bush believes that a fair tax cut does not pick winners and losers. Everyone who pays income taxes should receive a tax cut. He also believes that a tax cut should especially benefit lower and middle-income families. Accordingly, the lowest income families will receive the largest percentage reduction (see Chart 2). As a result, more affluent Americans will shoulder a larger portion of the federal income tax burden. The President looks forward to working with the Congress to address other fairness issues, such as the Alternative Minimum Tax, to further his goal of lowering income taxes for all Americans that pay them.

CHART 2



Real Tax Relief for Real Families:

When President Bush's proposal is fully in place, the typical family with two children will receive at least $1,600 in tax relief. This is real and practical help:

- Sixteen hundred dollars will pay the average mortgage for almost two months;
- Sixteen hundred dollars will pay for a year's tuition at a community college;
- Sixteen hundred dollars will pay the gasoline cost for two cars for a year; and
- Sixteen hundred dollars will buy an average family 24 months worth of electric power.

Preserving Prosperity

"The momentum of today's prosperity began in the 1980s – with sound money, deregulation, the opening of global trade and a 25 percent tax cut. Along the way we have confirmed some truths and discarded some dogmas. Government can be an ally of enterprise – by creating an environment that rewards work and inspires investment. But government does not create wealth. Wealth is the economic measure of human creativity and enterprise."

– President George W. Bush

In addition to making the tax code more fair, President Bush's agenda will also improve the performance of the economy. His tax cut will help prevent a prolonged economic downturn, and it will encourage innovation. His plan will also allow workers to pay down consumer debt, while leaving growing surpluses to pay down a record amount of public debt.

A Slowing Economy:

The evidence that the economy is slowing continues to build:

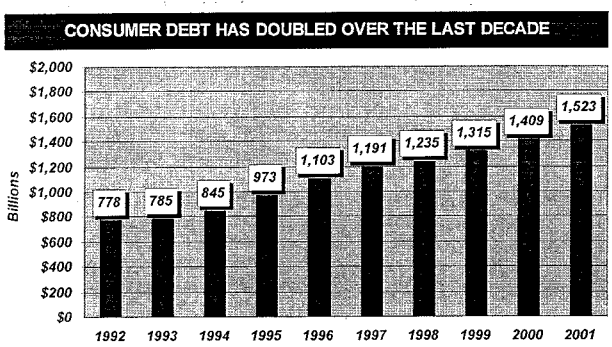
- Consumer confidence has dropped for four straight months;
- The manufacturing sector has contracted for six straight months;
- Bankruptcies are on the rise;
- The unemployment rate is beginning to climb; and
- Economic growth slowed to a 1.4 percent annual rate at the end of 2000.

Every week we hear about another round of layoffs. Last month, Federal Reserve Chairman Alan Greenspan testified that the economy had almost stopped growing. President Bush believes that the best way to ensure that prosperity continues is to put more money in the hands of consumers and entrepreneurs. That is why he advocates cutting tax rates now. President Bush will work with the Congress to accelerate a portion of his tax plan to the beginning of 2001. An immediate tax cut would give the economy a timely second wind.

Lowering the Debt Burden on Working Americans:

Although the federal government is facing an enormous surplus, many Americans are not. Consumer debt has reached an all-time high and now exceeds $1.5 trillion (see Chart 3). Credit card debt alone totals over $600 billion, more than $2,000 for every man, woman, and child in the country. This high debt level will eventually restrict consumer spending. And if consumer spending slows, the economy will slow also. Tax relief would give these families the ability to pay down their debt.

CHART 3



Source: Federal Reserve Board

Cutting Marginal Tax Rates to Raise the Standard of Living:

One of the most powerful tools the federal government has to raise standards of living is to lower marginal tax rates. The marginal tax rate is the tax on each additional dollar of income. The lower the marginal rate, the greater the incentive to find a better job, to save for the future, or start a new business. Lower marginal tax rates also leave more resources with innovative entrepreneurs, instead of funding government bureaucracies.

The marginal tax cuts of the 1980s helped generate the venture capital that is now fueling the growth of the Internet and other technologies. New technologies are boosting productivity and economic growth by helping companies achieve new efficiencies. In this environment, entrepreneurship has become the path to prosperity for many minorities, women, and young people. Yet, today's high marginal tax rates tend to penalize continued innovation and business formation and expansion.

High marginal tax rates inhibit entrepreneurial activity because they act as a success tax, claiming a larger share of income from flourishing enterprises, while the government shares little of the risk of loss. For most entrepreneurs, income taxes reduce their companies' cash flow – the money businesses need to expand, buy more equipment, and hire more workers.

To ensure continued innovation, President Bush believes the tax system should be revised to resto incentives for success. In this period of revolutionary technological change, the government shou leave as many resources as possible with the entrepreneurs and companies that are generating ne ideas, better jobs, and greater wealth. The President's tax relief plan will cut the top marginal ra which many small businesses pay, from nearly 40 percent to 33 percent. Reducing the top rate w spur entrepreneurial activity and investment, helping to attract the best workers from around t globe to America.

Encouraging Innovation through the Research and Experimentation Tax Credit:

Another impediment to innovation and economic growth is the uncertainty surrounding whether the current Research and Experimentation tax credit will continue to exist. The tax credit was originally enacted in 1981 and currently provides companies with a 20 percent tax credit for incremental R&D expenditures. The credit encourages the technological developments that are an important component of economic growth. However, extensions of the tax credit have resulted in three gaps in coverage, two of which were retroactively filled. The on-again, off-again nature of the tax credit impedes long-term research in the U.S. Thus, President Bush will make the Research and Experimentation tax credit permanent. This should help spur the sustained, long-term investment in R&D that America needs to develop the next generation of critical technologies.

Ending the Death Tax:

The death tax also impedes economic growth because it levies yet another layer of taxes on capital. More capital investment means higher incomes for all workers. Since the marginal federal tax rate on savings can reach 68 percent (the 40 percent top income tax rate combined with the effect of the 55 percent top death tax rate and the state death tax credit), the death tax can also create a disincentive for seniors who want to save for their children or grandchildren.

The punitively high death tax can fall most heavily on small businesses and family farms that are asset rich but cash poor. According to a 1993 survey, nine of ten successors whose family businesses failed within three years of the owner's death listed the death tax as a contributing factor. Finally, by encouraging intricate planning techniques to reduce taxes, the death tax has created an entire industry of specialized lawyers and accountants. The added complexity and compliance costs make this one of the least efficient federal taxes.

President Bush believes that the bias of the death tax against the family farm and family business is the antithesis of the American Dream. Accordingly, his tax relief plan will eliminate the death tax. Eliminating the death tax will allow family farms and businesses to be passed from one generation to the next without having to break up or sell the assets to pay a punitive tax to the federal government. As a result, wealth would be taxed only when it is earned, not again when entrepreneurs and senior citizens pass the fruits of their labors to the next generation.

APPENDIX

Tax Rates by 2001 Taxable Income*

Current Code			Bush Plan**		
	Single			Single	
$0	$27,050	**15%**	$0	$6,000	**10%**
$27,050	$65,550	**28%**	$6,000	$27,050	**15%**
$65,550	$136,750	**31%**	$27,050	$136,750	**25%**
$136,750	$297,350	**36%**	$136,750	--	**33%**
$297,350	--	**39.6%**			
	Head of Household			Head of Household	
$0	$36,250	**15%**	$0	$10,000	**10%**
$36,250	$93,650	**28%**	$10,000	$36,250	**15%**
$93,650	$151,650	**31%**	$36,250	$151,650	**25%**
$151,650	$297,350	**36%**	$151,650	--	**33%**
$297,350	--	**39.6%**			
	Married- Joint Filing			Married- Joint Filing	
$0	$45,200	**15%**	$0	$12,000	**10%**
$45,200	$109,250	**28%**	$12,000	$45,200	**15%**
$109,250	$166,500	**31%**	$45,200	$166,500	**25%**
$166,500	$297,350	**36%**	$166,500	--	**33%**
$297,350	--	**39.6%**			

* Taxable income is income less deductions and personal exemptions.
**Rate schedule assumes tax plan is fully phased in.

