106TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
106–780

SOCIAL SECURITY BENEFITS TAX RELIEF ACT OF 2000

JULY 24, 2000.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ARCHER, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 4865]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 4865) to amend the Internal Revenue Code of 1986 to repeal the 1993 income tax increase on Social Security benefits, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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79–006

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Social Security Benefits Tax Relief Act of 2000".

SEC. 2. REPEAL OF 1993 INCOME TAX INCREASE ON SOCIAL SECURITY BENEFITS.

(a) RESTORATION OF PRIOR LAW FORMULA.—Subsection (a) of section 86 of the Internal Revenue Code of 1986 is amended to read as follows:

"(a) IN GENERAL.—Gross income for the taxable year of any taxpayer described in subsection (b) (notwithstanding section 207 of the Social Security Act) includes social security benefits in an amount equal to the lesser of—

"(1) one-half of the social security benefits received during the taxable year, or

"(2) one-half of the excess described in subsection (b)(1)."

(b) REPEAL OF ADJUSTED BASE AMOUNT.—Subsection (c) of section 86 of such Code is amended to read as follows:

"(c) BASE AMOUNT.—For purposes of this section, the term 'base amount' means—

"(1) except as otherwise provided in this subsection, $25,000,

"(2) $32,000 in the case of a joint return, and

"(3) zero in the case of a taxpayer who—

"(A) is married as of the close of the taxable year (within the meaning of section 7703) but does not file a joint return for such year, and

"(B) does not live apart from his spouse at all times during the taxable year."

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (A) of section 871(a)(3) of such Code is amended by striking "85 percent" and inserting "50 percent".

(2)(A) Subparagraph (A) of section 121(e)(1) of the Social Security Amendments of 1983 (Public Law 98–21) is amended—

(i) by striking "(A) There" and inserting "There";

(ii) by striking "(i)" immediately following "amounts equivalent to"; and

(iii) by striking ", less (ii)" and all that follows and inserting a period.

(B) Paragraph (1) of section 121(e) of such Act is amended by striking subparagraph (B).

(C) Paragraph (3) of section 121(e) of such Act is amended by striking subparagraph (B) and by redesignating subparagraph (C) as subparagraph (B).

(D) Paragraph (2) of section 121(e) of such Act is amended in the first sentence by striking "paragraph (1)(A)" and inserting "paragraph (1)".

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) SUBSECTION (c)(1).—The amendment made by subsection (c)(1) shall apply to benefits paid after December 31, 2000.

(3) SUBSECTION (c)(2).—The amendments made by subsection (c)(2) shall apply to tax liabilities for taxable years beginning after December 31, 2000.

SEC. 3. MAINTENANCE OF TRANSFERS TO HOSPITAL INSURANCE TRUST FUND.

(a) IN GENERAL.—There are hereby appropriated to the Hospital Insurance Trust Fund established under section 1817 of the Social Security Act amounts equal to the reduction in revenues to the Treasury by reason of the enactment of this Act. Amounts appropriated by the preceding sentence shall be transferred from the general fund at such times and in such manner as to replicate to the extent possible the transfers which would have occurred to such Trust Fund had this Act not been enacted.

(b) REPORTS.—The Secretary of the Treasury or the Secretary's delegate shall annually report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate the amounts and timing of the transfers under this section.

I. SUMMARY AND BACKGROUND

A. Purpose and Summary

PURPOSE

The bill, H.R. 4865, the "Social Security Benefits Tax Relief Act of 2000," as amended, provides much needed tax relief to recipients of Social Security benefits, while maintaining the fiscal integrity of the Medicare Hospital Insurance ("HI") Trust Fund.

SUMMARY

Reduction of tax.—The bill repeals the second-tier tax on up to 85 percent of Social Security benefits.[1] Thus, as under the law in effect prior to the enactment of the Revenue Reconciliation Act of 1993 (the "1993 Act"), no more than 50 percent of Social Security benefits are includible in gross income. Similarly, in the case of a nonresident individual who is not a U.S. citizen, 50 percent of Social Security benefits are includible in gross income and subject to the applicable withholding tax.

Trust funds.—An amount equal to the revenues from the income taxation of Social Security benefits which would have been credited to the HI Trust Fund under the 1993 Act (but for this bill) is to be transferred to the HI Trust Fund from the general fund in the Treasury at such times and in such manner as to replicate the present-law transfers.

B. Background and Need for Legislation

The bill approved by the Committee reflects the need for tax relief for recipients of Social Security benefits. The bill also maintains the same balance in the HI Trust Fund that would have occurred under present law.

C. Legislative History

Committee action

The Committee on Ways and Means marked up the provisions of the bill on July 19, 2000, and approved the provisions, as amended, on July 19, 2000, by a rollcall vote of 22 yeas and 15 nays, with a quorum present.

Committee hearings

The following Committee and Subcommittee hearings related to provisions in the bill were held during the 106th Congress.

Full committee hearings

Tax-related hearings were held by the full Committee as follows:

- Reducing the tax burden: Providing tax relief to strengthen the family and sustain a strong economy (June 23, 1999).

Subcommittee hearings

The Oversight Subcommittee held tax-related hearings as follows:

[1] This provision of the bill also applies to the taxation of railroad retirement tier 1 benefits, which are equivalent to Social Security benefits.

• Impact of complexity in the Tax Code on individual taxpayers and small businesses (May 25, 1999).

II. EXPLANATION OF THE BILL

A. Repeal of Second-Tier Tax on 85 Percent of Social Security Benefits (Secs. 2 and 3 of the Bill and Secs. 86 and 871 of the Code)

PRESENT LAW

In general

Under present law, the amount of Social Security benefits that is taxable depends on the taxpayer's income.[2] Social Security benefits are not taxable in the case of a married taxpayer filing a joint return with income less than or equal to $32,000 ($25,000 in the case of a single taxpayer). Up to 50 percent of Social Security benefits are taxable in the case of a married taxpayer filing a joint return with income over $32,000 but not more than $44,000 (over $25,000 but not more than $34,000 for single taxpayers). Up to 85 percent of Social Security benefits are taxable in the case of a married taxpayer filing a joint return with income over $44,000 (over $34,000 in the case of a single taxpayer).[3] The tax on 85 percent of Social Security benefits (second-tier tax) was added by the Revenue Reconciliation Act of 1993 (the "1993 Act"), effective for taxable years beginning after December 31, 1993.

If a taxpayer's income exceeds the lower threshold but does not exceed the second-tier threshold, then the amount of taxable Social Security benefits is the lesser of (1) 50 percent of the taxpayer's Social Security benefits, or (2) 50 percent of the excess of the taxpayer's income over the lower threshold.

If a taxpayer's income exceeds the second-tier threshold, then the amount of taxable Social Security benefits is the lesser of: (1) 85 percent of the taxpayer's Social Security benefits or (2) the sum of: (a) 85 percent of the excess of the taxpayer's income over the second-tier threshold, plus (b) the smaller of (i) the amount of benefits that would have been included if the 50-percent inclusion rule were applied, or (ii) one-half of the difference between the taxpayer's second-tier threshold and lower threshold.

In determining whether a taxpayer's income exceeds the threshold amounts described above, income includes adjusted gross income ("AGI"), plus one-half of Social Security benefits, plus the following nontaxable items: (1) tax-exempt interest; (2) interest on education savings bonds; (3) employer-provided adoption assistance; (4) deductible student loan interest; (5) foreign earned income; and (6) income earned in Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands.

Special rules apply to a nonresident who is not a U.S. citizen. In general, such individuals are subject to a 30-percent withholding tax on income from sources within the United States. For purposes of taxing the income of nonresident individuals who are not U.S. citizens, the income thresholds for including Social Security bene-

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[2] Similar rules apply to the taxation of railroad retirement tier 1 benefits.

[3] The threshold amount is zero in the case of a taxpayer who is married at the end of the year, who files a separate return, and who does not live apart from his or her spouse for the entire taxable year.

fits do not apply. Instead, 85 percent of Social Security benefits are included in gross income and subject to the 30-percent withholding tax. Prior to 1995, 50 percent of Social Security benefits were subject to the withholding tax.[4]

Trust funds

Revenues from the second-tier tax on Social Security benefits are credited quarterly to the Medicare Hospital Insurance ("HI") Trust Fund.[5]

REASONS FOR CHANGE

The Committee believes that the provision in the 1993 Act that increased the amount of Social Security benefits subject to tax resulted in complex and burdensome taxation of certain senior citizens. The rationale of the 1993 Act provision was to more closely conform the income tax treatment of Social Security benefits and private pension benefits. The Committee believes this rationale is flawed and does not merit continuation of the second-tier tax because Social Security is a social insurance program, not a retirement benefit. Furthermore, the Committee believes that the second-tier tax on Social Security benefits is a disincentive to earnings, savings, and investment by certain Social Security recipients. Finally, the Committee believes that budget surpluses eliminate the need for the provision in the 1993 Act which was enacted to reduce the federal budget deficit. For these reasons, the Committee believes that repeal of the 1993 Act provision is necessary to restore equity.

EXPLANATION OF PROVISION

Reduction of tax

The bill repeals the second-tier tax on up to 85 percent of Social Security benefits.[6] Thus, as under the law in effect prior to the 1993 Act, no more than 50 percent of Social Security benefits are includible in gross income. Similarly, in the case of a nonresident individual who is not a U.S. citizen, 50 percent of Social Security benefits are includible in gross income and subject to the withholding tax.

Trust funds

An amount equal to the revenues from the second-tier tax on Social Security benefits which would have been credited to the HI Trust Fund under the 1993 Act (but for this bill) is transferred to the HI Trust Fund from the general fund in the Treasury at such times and in such manner as to replicate the present-law transfers. The Secretary of the Treasury or his delegate is also required to make an annual report to the House Committee on Ways and

[4] The implementing legislation for the General Agreement on Tariffs and Trade (P.L. 103–465) increased from 50 percent to 85 percent the amount of Social Security benefits included in the gross income of a nonresident alien individual, effective for benefits paid after December 31, 1994, in taxable years ending after such date.

[5] The remainder of the proceeds from the income taxation of Social Security benefits are credited quarterly to the Old-Age and Survivors Insurance Trust Fund or the Disability Insurance Trust Fund, as appropriate.

[6] This provision of the bill also applies to the taxation of railroad retirement tier 1 benefits.

Means and the Senate Committee on Finance regarding the amount and timing of such transfers.

EFFECTIVE DATE

The bill is generally effective for taxable years beginning after December 31, 2000. The reduction in the taxation of Social Security benefits and the amount of such benefits applicable to nonresident individuals who are not U.S. citizens is effective for benefits paid after December 31, 2000.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 4865.

MOTION TO REPORT THE BILL

The bill, H.R. 4865, as amended, was ordered favorably reported by a rollcall vote of 22 yeas to 15 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Archer	X			Mr. Rangel		X	
Mr. Crane	X			Mr. Stark		X	
Mr. Thomas	X			Mr. Matsui		X	
Mr. Shaw	X			Mr. Coyne		X	
Mrs. Johnson	X			Mr. Levin		X	
Mr. Houghton	X			Mr. Cardin		X	
Mr. Herger				Mr. McDermott		X	
Mr. McCrery	X			Mr. Kleczka	X		
Mr. Camp	X			Mr. Lewis (GA)		X	
Mr. Ramstad	X			Mr. Neal		X	
Mr. Nussle	X			Mr. McNulty		X	
Mr. Johnson	X			Mr. Jefferson		X	
Ms. Dunn	X			Mr. Tanner		X	
Mr. Collins	X			Mr. Becerra		X	
Mr. Portman				Mrs. Thurman		X	
Mr. English	X			Mr. Doggett		X	
Mr. Watkins	X						
Mr. Hayworth	X						
Mr. Weller	X						
Mr. Hulshof	X						
Mr. McInnis	X						
Mr. Lewis (KY)	X						
Mr. Foley	X						

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H. R. 4865, as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2001–2005:

ESTIMATED BUDGET EFFECTS OF H.R. 4865, THE "SOCIAL SECURITY BENEFITS TAX RELIEF ACT OF 2000," AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

[Fiscal years 2001–2005, in millions of dollars]

Provision	Effective	2001	2002	2003	2004	2005	2001–05
Repeal the 85% Second Tier Taxation of Social Security and Railroad Retirement Benefits.[1]	tyba 12/31/00	−3,584	−9,149	9,816	−10,609	−11,499	−44,657

[1] The bill provides for appropriations from the general fund to the Hospital Insurance ("HI") Trust Fund to replace lost revenues.

Legend for "Effective" column: tyba=taxable years beginning after.

Note.—Details may not add to totals due to rounding.
Source: Joint Committee on Taxation.

B. Statement Regarding New Budget Authority and Tax Expenditures

Budget authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority.

Tax expenditures

In compliance with clause 2(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the revenue-reducing income tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the Congressional Budget Office ("CBO"), the following statement by CBO is provided.

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 21, 2000.

Hon. Bill Archer,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4865, the Social Security Benefits Tax Relief Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Hester Grippando and Erin Whitaker.

Sincerely,

Steven Lieberman
(For Dan L. Crippen, Director).

Enclosure.

H.R. 4865—Social Security Benefits Tax Relief Act of 2000

Summary: Under current law, up to 50 percent of Social Security and Railroad Retirement benefits are subject to taxation in the case of married taxpayers filing a joint return with certain income above $32,000 (or $25,000 for single taxpayers). Up to 85 percent of benefits received by married taxpayers filing a joint return with certain income exceeding $44,000 (or $34,000 for single taxpayers) are subject to taxation. H.R. 4865 would repeal the 85-percent (second tier) taxation of Social Security and Railroad Retirement benefits, thereby reducing the proportion of benefits subject to taxation at all incomes above $32,000 for married taxpayers filing a joint return and above $25,000 for single taxpayers. In addition, the bill provides appropriations from the general fund to the Hospital Insurance Trust Fund to replace lost revenues. The bill would take effect in the first taxable year after December 31, 2000.

The Joint Committee on Taxation (JCT) estimates that this bill would reduce governmental receipts (revenues) from personal income taxes by $4 billion in fiscal year 2001, $45 billion over the 2001–2005 period, and $117 billion over the 2001–2010 period. Because the bill would affect governmental receipts, pay-as-you-go procedures would apply.

H.R. 4865 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 4865 is shown in the following table.

	By fiscal year, in millions of dollars—				
	2001	2002	2003	2004	2005
CHANGES IN REVENUES					
Estimated Revenues	−3,584	−9,149	−9,816	−10,609	−11,499

Basis of estimate: All estimates were provided by JCT. Under current law, the revenues affected by the bill are credited to Medicare's Hospital Insurance Trust Fund. The bill would maintain those intragovernmental transfers, which would have no net effect on the budget.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	not applicable										
Changes in receipts	0	−3,584	−9,149	−9,816	−10,609	−11,499	−12,433	−13,397	−14,445	−15,590	−16,286

Intergovernmental and private-sector impact: JCT has determined that H.R. 4865 contains no intergovernmental or private-sector mandates as defined in UMRA.

Estimate prepared by: Hester Grippando and Erin Whitaker.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis. Robert A. Sunshine, Assistant Director for Budget Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. Summary of Findings and Recommendations of the Committee on Government Reform

With respect to clause 3(c)(4) of rule XII of the Rules of the House of Representatives, the Committee advises that no oversight findings or recommendations have been submitted to this Committee by the Committee on Government Reform with respect to the provisions contained in the bill.

C. Constitutional Authority Statement

With respect to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises * * *"), and from the 16th Amendment to the Constitution.

D. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

E. Applicability of House Rule XXI5(b)

Rule XXI5(b) of the Rules of the House of Representatives provides, in part, that "No bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase shall be considered as passed or agreed to unless determined by a vote of not less than three-fifths of the Members." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increase within the meaning of the rule.

F. Tax Complexity Analysis

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the "IRS Reform Act") requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Internal Revenue Code and that have "widespread applicability" to individuals or small businesses.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

Subtitle A—Income Taxes

* * * * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter B—Computation of Taxable Income

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PART II—ITEMS SPECIFICALLY INCLUDED IN GROSS INCOME

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SEC. 86. SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.

⟦(a) IN GENERAL.—

⟦(1) IN GENERAL.—Except as provided in paragraph (2), gross income for the taxable year of any taxpayer described in subsection (b) (notwithstanding section 207 of the Social Security Act) includes social security benefits in an amount equal to the lesser of—

⟦(A) one-half of the social security benefits received during the taxable year, or

⟦(B) one-half of the excess described in subsection (b)(1).

⟦(2) ADDITIONAL AMOUNT.—In the case of a taxpayer with respect to whom the amount determined under subsection (b)(1)(A) exceeds the adjusted base amount, the amount included in gross income under this section shall be equal to the lesser of—

⟦(A) the sum of—

⟦(i) 85 percent of such excess, plus

⟦(ii) the lesser of the amount determined under paragraph (1) or an amount equal to one-half of the difference between the adjusted base amount and the base amount of the taxpayer, or

⟦(B) 85 percent of the social security benefits received during the taxable year.⟧

(a) IN GENERAL.—Gross income for the taxable year of any taxpayer described in subsection (b) (notwithstanding section 207 of the Social Security Act) includes social security benefits in an amount equal to the lesser of—

(1) one-half of the social security benefits received during the taxable year, or

(2) one-half of the excess described in subsection (b)(1).

* * * * * * *

【(c) BASE AMOUNT AND ADJUSTED BASE AMOUNT.—For purposes of this section—

【(1) BASE AMOUNT.—

The term "base amount" means—

【(A) except as otherwise provided in this paragraph, $25,000,

【(B) $32,000 in the case of a joint return, and

【(C) zero in the case of a taxpayer who—

【(i) is married as of the close of the taxable year (within the meaning of section 7703) but does not file a joint return for such year, and

【(ii) does not live apart from his spouse at all times during the taxable year.

【(2) ADJUSTED BASE AMOUNT.—The term "adjusted base amount" means—

【(A) except as otherwise provided in this paragraph, $34,000,

【(B) $44,000 in the case of a joint return, and

【(C) zero in the case of a taxpayer described in paragraph (1)(C).】

(c) BASE AMOUNT.—For purposes of this section, the term "base amount" means—

(1) except as otherwise provided in this subsection, $25,000,

(2) $32,000 in the case of a joint return, and

(3) zero in the case of a taxpayer who—

(A) is married as of the close of the taxable year (within the meaning of section 7703) but does not file a joint return for such year, and

(B) does not live apart from his spouse at all times during the taxable year.

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Subchapter N—Tax Based on Income From Sources Within or Without the United States

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PART II—NONRESIDENT ALIENS AND FOREIGN CORPORATIONS

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Subpart A—Nonresident Alien Individuals

* * * * * * *

SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS

(a) INCOME NOT CONNECTED WITH UNITED STATES BUSINESS—30 PERCENT TAX

(1) * * *

* * * * * * *

(3) TAXATION OF SOCIAL SECURITY BENEFITS.—For purposes of this section and section 1441—

(A) ❲85❳ *50* percent of any social security benefit (as defined in section 86(d) shall be included in gross income (notwithstanding section 207 of the Social Security Act), and

* * * * * * *

SECTION 121 OF THE SOCIAL SECURITY AMENDMENTS OF 1983

SEC. 121. TAXATION OF SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.

(a) * * *

* * * * * * *

(e) TRANSFERS TO TRUST FUNDS.—

(1) IN GENERAL.—

❲(A) There❳ *There* are hereby appropriated to each payor fund amounts equivalent to ❲(i)❳ the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1986 which is attributable to the applications of sections 86 and 871(a)(3) of such Code (as added by this section) to payments from such payor fund❲, less (ii) the amounts equivalent to the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1986 which is attributable to the amendments to section 86 of such Code made by section 13215 of the Revenue Reconciliation Act of 1993❳.

❲(B) There are hereby appropriated to the hospital insurance trust fund amounts equal to the increase in tax liabilities described in subparagraph (A)(ii). Such appropriated amounts shall be transferred from the general fund of the Treasury on the basis of estimates of such tax liabilities made by the Secretary of the Treasury. Transfers shall be made pursuant to a schedule made by the Secretary of the Treasury that takes into account estimated timing of collection of such liabilities.❳

(2) TRANSFERS.—The amounts appropriated by paragraph (1)❲(A)❳ to any payor fund shall be transferred from time to time (but not less frequently than quarterly) from the general fund of the Treasury on the basis of estimates made by the Secretary of the Treasury of the amounts referred to in such paragraph. Any such quarterly payment shall be made on the first day of such quarter and shall take into account social security benefits estimated to be received during such quarter. Proper adjustments shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

(3) DEFINITIONS.—For purposes of this subsection—

(A) PAYOR FUND.—The term "payor fund" means any trust fund or account from which payments of social security benefits are made.

⟦(B) HOSPITAL INSURANCE TRUST FUND.—The term "hospital insurance trust fund" means the fund established pursuant to section 1817 of the Social Security Act.⟧

⟦(C)⟧ *(B)* SOCIAL SECURITY BENEFITS.—The term "social security benefits" has the meaning given such term by section 86(d)(1) of the Internal Revenue Code of 1954.

*   *   *   *   *   *   *

VII. DISSENTING VIEWS

We, the undersigned members oppose the bill, H.R. 4865, as reported by the Committee on Ways and Means on May 19, 2000, and respectfully submit these dissenting views.

We believe H.R. 4865 is part of the Republican strategy to enact, in pieces, their vetoed $792 billion tax bill. That strategy is designed to hide the overall cost of the Republican tax program and to divert attention from this Congress' failure to address the priorities of the American public—saving Social Security and Medicare, paying down the national debt, and providing a Medicare prescription drug benefit.

Like all of the other tax cuts they have passed this year, this tax cut is being pushed through without any consideration of the overall budgetary consequences. The fact is that, based on actual legislation, the Republican tax agenda so far adds up to more than $900 billion over 10 years (including debt service). This amount does not include candidate Bush's additional proposed tax cuts or the Archer-Shaw Social Security plan which would reduce surpluses by more than a trillion dollars. Republicans also say that they are for Social Security and Medicare lock boxes that reserve these trust fund surpluses. Simultaneously, their appropriations spending has gone up at 5.9 percent per year for the last two years. And they say they are for a prescription drug benefit.

The projected budget surpluses may seem large but they are more than used up by all of these Republican promises. Furthermore, these surpluses are based on projections that are more and more uncertain as they extend for 10 years into the unpredictable future. Under the circumstances, the Republican tax agenda is irresponsible because it forces indefinite postponement of so many other pressing priorities. Now, the Republicans want America to take a particular big risk by shutting off guaranteed Medicare funding without an overall plan to strengthen Social Security and Medicare and pay down the debt.

The bill as reported would repeal the provision enacted in 1993 that increased the portion of Social Security benefits included in income from 50 percent to 85 percent for upper-income retired individuals. The 85 percent inclusion rule is approximately the same amount that would be included in income if the Social Security benefit were a private employer retirement benefit and if the employee made contributions for the benefit equal to the employee's share of the payroll tax. Approximately 20 percent of elderly individuals are subject to the 85 percent inclusion rule.

At first glance, H.R. 4865 may appear to be a straightforward tax cut for some Social Security beneficiaries. However, after a full examination including extensive questioning of experts from both the Administration and the Joint Committee on Taxation, we have serious concerns about the effects of the bill on Medicare financing.

Specifically, H.R. 4865 would threaten the Medicare Trust Fund by eliminating a dedicated tax source and replacing it with a promise to make payments to Medicare from the General Fund.

The size of the promise is enormous, totaling $13.7 trillion over the 75-year period used to measure long-term Medicare solvency. If all of the Republicans tax cuts already passed were to be signed into law, there would be insufficient General Fund resources available to fund those promises. Furthermore, since the Republican leadership already has backed a budget that breaks the so-called Medicare lock-box, we are compelled to approach these promises with intense skepticism.

By depriving Medicare of this dedicated tax, H.R. 4865 would create a massive unfunded promise estimated (by the Medicare actuaries) at roughly $13.7 trillion over the next 75 years. Five years would be stripped off the life of the trust fund immediately with no guarantee that Congress will find the funds needed to make up the shortfall by cutting elsewhere in the budget or curtailing other tax cuts.

Ironically, when Democrats proposed strengthening Social Security by supplementing automatic payroll tax transfers with some of the money saved, due to lower interest payments on the debt, the Republicans criticized such "general revenue transfers." Now, the sponsors of H.R. 4865 are asking the American people to accept a scheme where they *replace* a vital source of Medicare financing with a promise that they will support future general revenue transfers to Medicare.

Some wrongly have stated that the fiscal crisis which resulted in the 1993 legislation has fully passed. We do affirm that the Congress and the President acted responsibly in 1993 to reduce deficits and turn them into the large budget surpluses we have today. However, the revenue lost in H.R. 4865 does not reduce General Fund deficits or increase General Fund surpluses; it is devoted specifically to the Medicare Hospital Insurance Trust Fund. Enacting H.R. 4865 would remove this dedicated revenue stream.

Although Medicare financing is secure in the short run, its long-term financing must be strengthened. Congress should be acting to increase the strength of the Medicare Trust Fund, not weaken it and put the future of Medicare in doubt. Yet, H.R. 4865 would gamble with Medicare's finances at the worst time, when the imminent retirement of the baby-boom generation will cause the number of people using Medicare to double, from 40 million to 80 million, between now and 2030.

Only the top-earning one-fifth of Social Security beneficiaries would get any benefit from this bill. This regressive distribution of the benefits from the Chairman's bill is consistent with the generous treatment of wealthy taxpayers in the other Republican tax bills. According to the Treasury Department, approximately 50 percent of the tax benefits passed by the House this year would go to the wealthiest 5 percent of households. The other 95 percent of household would share the other 50 percent.

We are not blind to the election-year politics surrounding H.R. 4865. By presenting members with a tax cut for some senior citizens, the Republican leadership intentionally may be placing members in the awkward situation of choosing whether to be perceived as opposing a tax cut for some seniors or risking the financing of Medicare for seniors. We strongly support tax cuts that are fiscally responsible and are targeted to help lower- and middle-income families, and not mainly the very wealthy.

Moreover, this Congress must pass a true Medicare prescription drug benefit to make vital medications more affordable for all senors. H.R. 4865 is an attempt to distract seniors from the House Republican leadership's unwillingness to enact a bipartisan Medicare prescription drug plan or pass legislation to strengthen Social Security and Medicare.

Like a kind of Trojan Horse, the bill may appear as a gift for seniors, but it is far more dangerous for all seniors than it is beneficial to some. If it is possible to replace the revenue stream cut off by H.R. 4865, then legislation should be possible that builds up the life of Medicare and improves Medicare benefits. We believe Congress's priority should be to develop such legislation benefitting all seniors. H.R. 4865 cuts taxes for some while refusing to provide *all* elderly individuals with a true Medicare prescription drug benefit. The Republican bill uses $100 billion over 10 years that could be used to extend Medicare solvency or offset Medicare reductions made in 1997.

While we might be assured by our Republican colleagues on the Committee on Ways and means that they intend to make Medicare whole after the loss of this dedicated revenue stream, we also must not forget the history of Republican attitudes toward Medicare. Former Senate Majority Leader and Republican nominee for President Robert Dole admitted, "I was there, fighting the fight, one of twelve, voting against Medicare in 1965 because we knew it wouldn't work." Former Speaker Newt Gingrich once pledged the would let Medicare "wither on the vine." Majority Leader Richard Armey once called Medicare, "a program I would have no part of in a free world."

With statements like these from Republican leaders, we must be skeptical of Republican pledges. We believe that as Members of Congress, it is our duty to strengthen and secure the Medicare and Social Security programs that have been entrusted to us, for current beneficiaries and for future beneficiaries. We therefore oppose the Committee action to report H.R. 4865.

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