COMMITTEE ON FINANCE
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Max Baucus, Chairman
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BAUCUS UNVEILS LEGISLATION TO PROVIDE TAX CERTAINTY, RELIEF TO MIDDLE INCOME FAMILIES

Finance Chairman's proposal makes permanent middle income tax rates, child tax credit, fixes estate tax and AMT for all Americans

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) today announced legislation that would make existing tax breaks permanent for working families and individuals including the child tax credit, marriage penalty relief, and lower middle-income tax rates among other provisions. The measures were originally passed as part of tax legislation in 2001 and 2003, but are set to expire in 2010. Baucus unveiled his proposal after a Finance Committee hearing today that examined the affect of the current economy and the U.S. tax code on America's middle class.

"Today we're offering a piece of certainty during an uncertain time for millions of hard-working, honest Americans. These measures are not excessive or outrageous, but timely and targeted, and will build on earlier efforts to stabilize the economy," said Baucus. **"By guaranteeing a little extra cash in the pocket of working moms and dads, and by making sure that the AMT and the estate tax can move with the economy, we avoid sweeping tax increases for millions of American families. By promising spouses tax fairness in marriage, giving help to those helping others through adoption, and by giving lower-wage workers confidence at a critical time, we can restore our footing, and begin to climb back to a position of national strength and economic security."**

Original co-sponsors of the Baucus legislation include Senator Jay Rockefeller (D-WV) and Charles Schumer (D-NY).

Elements of the Baucus proposal include:

- Permanent protection for more than 20 million Americans from being hit by the alternative minimum tax

- A measure to make permanent the 10, 25, and 28 percent individual tax rates, as established by the Economic Growth and Tax Relief Reconciliation Act of 2001

- Permanence of the income eligibility threshold for the child tax credit, recently set at $3,000 by the American Reinvestment and Recovery Act of 2009, to give families up to $1,000 for every child under age 17

- For taxpayers in the 10, 15, 25, and 28 percent tax brackets, a proposal to make permanent a reduced tax rate on capital gains and dividends, as established in the Jobs and Growth Tax Relief Act of 2003 and extended by the Tax Increase Prevention and Reconciliation Act of 2005

- Permanence of the marriage penalty relief provision, so that married couples will not be taxed more severely filing jointly than they would as two single persons filing separately

- Estate tax relief, making permanent 2009 levels for taxation of family possessions and property. The measure would also index exemption amounts for inflation

- Makes permanent the 45 percent credit rate for the refundable earned income tax credit for lower wage taxpayers with three or more children, as passed in American Recovery and Reinvestment Act of 2009

- Permanent expanded assistance for families that adopt a child including a $10,000 tax credit per eligible child

- Makes permanent the 35 percent credit rate for child care expenses up to $3,000 for one child and $6,000 for two or more children

A full summary of the Baucus proposal follows here:

The Taxpayer Certainty and Relief Act of 2009

I. <u>Permanent Middle Class Tax Relief</u>

Individual Tax Rates. Current ordinary income tax rates are imposed at 10, 15, 25, 28, 33, and 35%. These tax rates expire at the end of 2010. The proposal would make permanent the 10, 25, and 28% tax rates. (The 15% tax rate is already permanent law.)

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Capital Gains and Dividends. The proposal would make permanent the reduced tax rate on capital gains and dividends for taxpayers in the 10, 15, 25, and 28 percent brackets. The 2003 tax bill created a new tax rate of 15 percent (5 percent for low-and middle-income taxpayers, going to zero percent in 2008) for dividends. Prior to passage of this bill, dividends were taxed at ordinary income rates. The 2003 bill also reduced the capital gains tax rate from 20 percent (10 percent for low- and middle-income taxpayers) to 15 percent (5 percent for low- and middle-income taxpayers, going to zero percent in 2008). These reduced tax rates were originally set to expire at the end of 2008, but were extended until the end of 2010 in the "Tax Increase Prevention and Reconciliation Act of 2005" (TIPRA).

Child Tax Credit. Generally, a taxpayer may claim the child tax credit to reduce income tax liability by up to $1,000 for each qualifying child under the age of 17. If the amount of a taxpayer's child tax credit is greater than the amount of the taxpayer's income tax liability, the taxpayer may receive a refund if the income threshold is met. The Economic Growth and Tax Relief Reconciliation Act of 2001 set the income threshold for child tax credit refundability at $10,000 (indexed). The American Recovery and Reinvestment Act decreased the threshold for the 2009 and 2010 tax years to $3,000. The proposal would make these changes to the child tax credit permanent.

Marriage Penalty. A "marriage penalty" exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A "marriage bonus" exists when the exemption amounts and rate brackets are larger for the joint returns filed by married couples than for singles' returns. As part of the 2001 tax cuts, the standard deduction for married filers was scheduled to increase annually until 2009. In addition, the bill eliminated the marriage penalty in the 15% tax bracket and for the earned income tax credit. The marriage penalty relief expires on December 31, 2010. The proposal would make the marriage penalty relief permanent.

Dependent and Child Care Credit. The dependent care credit allows a taxpayer a credit for paid child care expenses for qualifying children under the age of 13 and disabled dependents. The credit is 35% of eligible expenses. This rate decreases by 1% for each $2,000 of income above $15,000, but the rate never falls below 20%. Eligible expenses are limited to $3,000 for one child, and $6,000 for two or more children. (After 2010, the amount of eligible expenses returns to the pre-2001 amounts of $2,400 for one child and $4,800 for two or more. In addition, the 35% credit rate decreases to 30% and the income threshold decreases to $10,000.) The proposal would make 2009 law permanent.

Earned Income Tax Credit. The EITC is a refundable tax credit available to low wage workers. Because the credit is refundable, a taxpayer will receive a refund if the amount of the EITC is greater than the amount of the income tax liability or if no income tax liability exists. The American Recovery and Reinvestment Act increased the credit rate for taxpayers with three or more children from 40% to 45% and increased the phase out range for all married couples filing a joint return (regardless of the number of children) by $1,880. The proposal would make these changes permanent.

Adoption Credit and Adoption Assistance Programs. Current law allows a maximum adoption credit of $10,000 per eligible child and a maximum exclusion of $10,000 per eligible child. These benefits are phased-out for taxpayers with modified adjusted gross income in excess of certain dollar levels. These tax incentives go back to $5,000 per child ($6,000 for child with special needs) after 2010. The proposal would make 2009 law permanent.

II. Permanent Alternative Minimum Tax Fix

For the 2009 tax year, the American Recovery and Reinvestment Act provided a patch for the AMT, setting the exemption amount at $46,700 (individuals) and $70,950 (married filing jointly), and allowed the personal credits against the AMT. When this patch expires, the exemption amounts will return to $33,750 (individuals) and $45,000 (married filing jointly) and the personal credits will not be allowed against the AMT. The proposal would make the 2009 exemption levels permanent and index them for inflation. In addition, the proposal will permanently allow the personal credits against the AMT.

III. Permanent Estate Tax Relief

Under current law, U.S. citizens and residents must pay taxes on transfers of property both during life and at death. These taxes are due under three separate tax systems: the estate tax, the generation-transfer skipping tax, and the gift tax. Currently, the top tax rate for all three taxes is 45%. Both the estate and generation-skipping transfer taxes currently have a $3.5 million exemption for individuals ($7 million for couples). The gift tax has an exemption of $1 million ($2 million for couples). For the 2010 tax year, the estate and generation skipping transfer taxes are repealed. In the same year, the gift tax rate will fall to 35%. In 2011, the estate, generation skipping transfer, and gift taxes are scheduled to revert back to pre-2001 levels, with an exemption of $1 million, a 55% rate, and a 5% surtax on large estates.

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The proposal would make permanent the 2009 estate, gift, and generation skipping transfer tax laws going forward and index the exemption amount. The proposal would also reunify the estate and gift taxes. In addition, the proposal would allow portability of exemption for spouses. Finally, the proposal would increase the amount available under the special use valuation revaluation to equal the estate tax exemption.

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