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# SUMMARY OF TAX CUTS
# IN THE PRESIDENT'S FISCAL YEAR 1998 BUDGET

The President's 1998 budget provides about $100 billion of tax cuts (99.88 billion) through FY 2002: a child credit for middle-income families, tax cuts to encourage education and training, expanded IRAs, exclusion of a gain on the sale of a home, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged.

## I. MIDDLE-CLASS TAX CUTS

These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- **Tax Credit for Dependent Children ($46.7 billion)**
  Provide a phased-in $500 tax credit for dependent children, phased out for taxpayers with adjusted gross income between $60,000 and $75,000.

- **Education and Training Tax Incentive ($38.6 billion)**
  - Provide **HOPE Scholarship tax credits** of up to $1,500 per year, available for the first two years of post-secondary education, phased out for taxpayers with adjusted gross incomes between $50,000 and $70,000 ($80,000 and $100,000 joint). ($18.6 billion)
  - Provide a phased-in **$10,000 tax deduction** for post-secondary education and training, available to all families for tuition and fees for any college, graduate school or qualified lifelong learning, with the same phase-out ranges as for HOPE Scholarships. ($17.6 billion)
  - Provide income **exclusion for forgiveness of certain student loans**, including loans extended by educational institutions to their students where loan forgiveness is contingent on the student's working for a certain period of time in certain professions or for a broad class of employers. ($.03 billion)
  - Extend the **exclusion for employer-provided educational assistance** through December 21,2000 (currently expires mid-1997), reinstate exclusion for graduate courses, and provide **small businesses a ten percent income tax credit** for payments for education of employees. ($2.4 billion)

- **Expand Individual Retirement Accounts (IRAs) ($5.5 billion)**
  Double, over time, the income limits on deductible IRAs, increasing them to $70,000 ($100,000 joint); expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" backloaded IRAs.

- **Exclusion of Gain on Sale of a Home** ($1.5 billion)
  Allow exclusion of $500,000 ($250,000 singles) of capital gains from selling a principal residence. The exclusion could be used every two years and would replace the current-law one-time exclusion of $125,000 and the deferral of capital gains when buying a more expensive home. This change would exempt over 99 percent of home sales from capital gains taxes and would dramatically simplify taxes and record-keeping for over 60 million homeowners.

## II. TAX INCENTIVES FOR DISTRESSED AREAS ($2.4 billion)

- **"Brownfields" Initiative**
  Allow immediate expensing of qualified environmental remediation costs, to encourage companies to clean up abandoned, contaminated industrial properties, known as "brownfieds," in economically distressed rural and urban areas.

- **Incentives to Empower Communities**
  To help stimulate revitalization of economically distressed urban and rural communities, authorize the designation of 20 additional Empowerment Zones and 80 additional Enterprise Communities, with new tax incentives, including the brownfields initiative, additional small business expensing, and new private activity bonds.

- **Community Development Financial Institution (CDFI) Tax Credit**
  Provide $100 million of credits to be allocated among equity investors in community development banks. The credit can be as much as 25 percent of the amount invested.

## III. WELFARE-TO-WORK INITIATIVE ($0.5 billion)

To encourage hiring long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a **50 percent credit on the first $10,000 of annual wages** that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax-Credit to include able-bodied adults, ages 18-50, who are subject to the time limits for Food Stamps under the Administration's legislative proposal to amend last year's welfare reform law.

## IV. SMALL BUSINESS AND FARM ESTATE TAX RELIEF ($0.7 billion)

To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred estate tax from $1 million to $2.5 million, and eliminate distinctions based on form of ownership.

## V. OTHER INITIATIVES

- Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, contributions of appreciated stock to private foundations, and orphan drug tax credit) ($2.7 billion)
- Ensure that disabled persons are fairly treated when filing for tax refunds by modifying the statutes of limitations ($0.05 billion)
- Provide District of Columbia tax incentives to encourage employment of D.C. residents and to revitalize distressed areas ($0.26 billion )
- Provide a more efficient and effective tax incentive for the economic development of Puerto Rico ($.417 billion)
- Allow FSC software benefits for computer software licenses ($0.560 billion)

*All estimates are OMB estimates for the period FY 1997-2002

February 1, 1997