PRESIDENT CLINTON'S TAX CUT PROPOSAL

SUMMARY DOCUMENTS

June 30, 1997

TABLE OF CONTENTS

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Today, President Clinton unveils a tax cut proposal. It is a fair proposal that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. The proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve.

- ✔ *A 2-year modified $1,500 HOPE Scholarship to make two years of college universally available and a 20% tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.*
- ✔ *A $500 child tax credit for tax-paying working families with children under 17 through 2002 and under 19 thereafter. Families could put the credit plus $500 in a Kidsave Account.*
- ✔ *Two-thirds of the President's tax cut goes to the middle 60 percent of families, twice as large a share as the congressional alternatives provide these middle-income families.*
- ✔ *To honor the agreement, the President's plan allows taxpayers to exclude 30% of their long-term capital gains from taxation and provides small businesses and farmers estate tax relief.*
- ✔ *Includes no tax time bombs that would explode in cost.*

Major Provisions (Treasury estimates unless otherwise indicated)	**5 Years ($ billion)**	**10 Years ($ billion)**
Education Tax Cuts:		
HOPE Scholarship and 20% Tuition Credit	34.5	94.1
Education and Retirement Savings Accounts	1.3	6.0
Tax Incentives for School Construction	2.9	7.6
Employer-Provided Education Benefits	3.8	8.5
Student Loan Interest Deduction and Forgiveness	1.8	4.4
Deduction for K-12 Computer Donations (JCT)	0.3	0.7
Repeal of bond cap for universities	0.3	1.0
Child Tax Credit	70.2	176.1
Brownfields, EZ/EC Expansion, CDFIs	2.4	3.9
Welfare-to-Work Tax Credit	0.6	0.6
Home Office Deduction	0.6	1.7
Small Business Capital Gains Relief	0.4	1.7
President's Home Sales Tax Cut	1.1	1.9
30% Exclusion of Capital Gains	7.1	15.6
Estate Tax Cut	2.3	7.2
DC Tax Incentives and Other Presidential Initiatives	1.3	6.3
Extensions of expiring provisions	3.9	3.9
GROSS TAX CUT	134.8	341.1
Revenue Raisers	(49.8)	(100.5)
NET TAX CUT	85.0	240.5

President Clinton's Tax Cut Proposal
A Fact Sheet

EDUCATION TAX CUTS

- *Two-year HOPE Scholarship.* A maximum $1,500 credit beginning in 1998. Students attending on at least a half-time basis would receive a 100% credit for the first $1,000 of tuition and required fees for enrollment in a post-secondary degree or certificate program and a 50% credit for up to the next $1,000. For example, a student attending a community college with tuition costs of $1,400 would receive a $1,200 HOPE Scholarship. Scholarships would be phased out for joint filers earning between $80,000 and $100,000. Eligible students could receive both a full Pell Grant and a HOPE Scholarship. The previously proposed B-rule has been dropped. After 2002, the HOPE Scholarship increases to a 100% credit for the first $1,500 and a 50% credit for the next $1,000 of tuition and required fees.

- *20% Tuition Tax Credit.* Third and fourth year students, graduate students, plus working people going to school to improve their education and skills, would benefit from a 20% tax credit on the first $5,000 of tuition and required fees through the year 2000 and after 2000 a 20% tax credit on the first $10,000 of tuition and required fees. The credit would be phased out for joint filers earning between $80,000 and $100,000.

- *Education and Retirement Savings Accounts.* Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expense and the first-time purchase of a home. Additionally, taxpayers are given the opportunity to contribute their child tax credit plus an additional $500, up to $1,000, to a Kidsave Account for the child's education, first-time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the Kidsave Account and no taxes would be due upon withdrawal for an approved purpose.

- *Tax Incentives for School Construction.* Provides tax credits to finance construction and/or rehabilitation of elementary or secondary schools in distressed communities. States would be able to allocate a fixed amount of tax credits (based on population) to public schools to help pay for construction or renovation projects. The allocation would be for projects in schools that are in empowerment zones or enterprise communities, or that have a high percentage of low-income students. This program would function similarly to the current low-income housing tax credit program.

- *Employer-Provided Education Benefits.* Extends permanently Section 127 of the tax code, which allows people to exclude $5,250 of employer provided education benefits from their taxable income. Both undergraduate and graduate education would be eligible. Additionally, a 10% employer credit for small business training is included. This credit would apply to payments made to third parties to cover expenses of education for employees under employer-provided education assistance programs. The credit would be available to employers with average annual gross receipts of $10 million or less for the prior three years.

- *Student Loan Interest Deduction and Forgiveness.* Allows a deduction of up to $2,500 per year of interest on education loans for expenses of students enrolled at least half-time at an institution of higher education. The deduction would be allowed for the first 60 months interest is due on a loan. The deduction would phase out for taxpayers making between $45,000 and $65,000 ($65,000 and $85,000 for married taxpayers filing jointly). This deduction would be available even if the taxpayer does not itemize deductions.

  To encourage people to use their education and training in community service, the income exclusion for student loan forgiveness would be expanded to include loan forgiveness extended by nonprofit tax-exempt charitable or educational institutions, and to loans forgiven under the Direct Loan Program's income-contingent repayment program. Currently, the exclusion generally covers only contingent forgiveness arrangements between students and government entities.

- *Incentives for K-12 Computer Donations.* Provides tax incentives for private sector donations of computer equipment to schools. The proposal would work in combination with the Telecommunications Act of 1996 to ensure that public schools have access to modern computer technology.

- *Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities.* Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

CHILD TAX CREDIT

The President's child tax credit includes the following features:

- **Age.** Covers children under 17 through 2002 and under 19 thereafter.
- **Amount per child.** $400 in 1998, $500 in 1999 and then indexed.
- **Income Limits.** Phased out for families making $60,000 to $75,000 until 2000, and then $80,000 to $100,000 thereafter.
- **Refundability to Cover Out-of-Pocket Income and Payroll Taxes.** Working families that pay out of pocket federal taxes would benefit from the child tax credit. Child tax credit is calculated before the EITC and will be partially refundable. A family will get a child credit for their income taxes plus the extent to which their out-of-pocket (employee share) payroll taxes exceed their EITC.
- **Savings Incentive Feature.** As described above, taxpayers who are entitled to a child credit would be given the opportunity to contribute their child tax credit plus an additional $500 each year to a Kidsave Account for the child's education, first time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the account and no taxes would be due upon withdrawal for an approved purpose.

URBAN REVITALIZATION

- ***Incentives to Clean Up and Redevelop Contaminated Sites (Brownfields).*** Certain environmental remediation costs would provided tax favorable treatment, allowing them to be fully deducted immediately, to spur clean-up and redevelopment of contaminated sites in high poverty areas. To qualify for this tax incentive, sites would have to satisfy use, geographic, and contamination requirements.

- ***Expand Empowerment Zones and Enterprise Communities.*** The proposal has the three main components that were in the President's budget. First, within 180 days of enactment, two additional urban empowerment zones would be authorized and would benefit from current tax incentives. Second, technical changes would be made to allow a broader range of businesses in EZs and ECs to borrow the proceeds of tax-exempt bonds. Third, the proposal authorizes the additional designation of 20 (15 urban and 5 rural) Empowerment Zones and 80 (50 urban and 30 rural) Enterprise Communities. The newly designated zones would have different available tax incentives than existing zones. The current law wage credit would not be available. The brownfields incentives would be available as would special expensing of business assets and qualification for private-activity bonds.

- ***Community Development Financial Institutions Fund.*** Up to $100 million in tax credits would be made available to the CDFI Fund to allocate to equity investors in community development financial institutions to leverage private investment in distressed areas and to stimulate economic revitalization.

WELFARE-TO-WORK TAX CREDIT

As proposed in the President's budget, to help move people from welfare to work, a new 50% tax credit would be made available on the first $10,000 in annual wages of certain long-term family assistance recipients for two years of employment.

SMALL BUSINESS TAX CUTS:

Home office deduction

The existing home office deduction would be broadened to cover small businesses where: (1) the office is exclusively used to conduct substantial and essential administrative or management activities on a regular basis; and (2) the taxpayer has no other location to conduct these essential administrative or management activities.

Small Business Capital Gains

Increases the existing exclusion for equity investments in small businesses held at least five years to a 75% exclusion for up to $20 million in gains and doubles the eligibility limits on firm size from $50 million to $100 million.

PRESIDENT'S HOME SALES TAX CUT

Provides a $500,000 exclusion for capital gains on home sales for couples, providing tax relief and greatly simplifying record-keeping and compliance. The exclusion for single filers would be $250,000.

30% EXCLUSION FOR CAPITAL GAINS

Taxpayers would be allowed to exclude 30% of their long-term capital gains from taxation. Long-term capital gains will be defined, as under current law, as assets held for more than one year. For example, a family in the 28% income tax bracket would face a capital gains tax rate of 19.6 percent.

ESTATE TAXES

A special exclusion is added for qualified family-owned businesses and farms. Currently, for married couples, only estates valued above $1.2 million pay any estate taxes. A special exclusion of $900,000 would be added to ensure that the first $2.1 a million of family-owned business or farm would not be subject to estate taxes. This is a proposal advanced by Senator Daschle.

OTHER PRESIDENTIAL INITIATIVES

- ***Washington, DC*** - provides tax incentives for firms to hire District residents, and a new credit that will be allocated to debt and equity by a new economic development corporation, and to allow the issuance of additional tax-exempt debt to help finance new business activity in the District.
- ***Puerto Rico Tax Credit*** - would be extended indefinitely and modified to provide an incentive for new investments and increase the economic-activity credit.
- ***FSC Software*** - would extend the foreign sales corporation benefit, exempting a portion of income for tax purposes, to include computer software licensed for reproduction abroad.
- ***Equitable Tolling*** - would extend time people are allowed to claim a tax refund to include time that they are medically determined to be mentally or physically impaired.

EXTENSIONS OF EXPIRING PROVISIONS

The R&E tax credit would be extended through the end of 1998. Contributions of appreciated stock to private foundations, the Work Opportunity Tax Credit (including new targeted group), and the orphan drug credit would be extended for one year.

TOBACCO TAXES

The proposal includes a 20 cent increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health.

Alternative Tax Cut Proposals
A Comparison of Distributional Impact

Income by Quintile	***President Clinton***	***House***	***Senate***
Lowest	1.2%	0.6%	0.4%
Second	10.1	2.5	2.7
Third	22.2	9.6	10.2
Fourth	34.6	20.0	21.3
Highest	31.5	66.8	65.0
Top 10%	11.7	47.3	42.3
Top 5%	6.5	34.9	28.2
Top1%	2.6	18.8	12.5
Middle 60% (Second,third, fourth quintiles)	**66.9%**	**32.1%**	**34.2%**

Source: U.S. Department of Treasury

Tables assumes fully phased-in (2007) law and behavior, in 1998 dollars. It includes major tax cut provisions in each of the plans: HOPE Scholarship, tuition credit, Section 127, Student loan interest deduction, child tax credit, Kidsave accounts, capital gains provisions, home office deduction, distressed areas initiatives, Puerto Rico tax incentives, individual and corporate AMT changes, prepaid tuition programs, IRAs, DC tax incentives, safe harbor for independent contractors, modifications of treatment of company owned life insurance.

How the President's Tax Cut Proposals Benefit Typical American Families

Example #1

Consider a family of four who makes $40,000 a year. The father is a carpenter and makes $25,000 and the mother makes $15,000 working at a local department store. They have two kids, a son who is 14 and a freshman in high school and a daughter enrolled full-time in her first year at the local community college. Her tuition is $1,200 a year.

The President's tax cut proposal will benefit this family in at least two ways. They will receive a child tax credit of $500 for their son plus a HOPE Scholarship of $1,100 for their daughter. In total, they will receive a $1,600 tax cut in the President's proposal.

	Tax Cut under Clinton Proposal
Family of four with two children aged 14 and 18 and $40,000 income:	
Child Tax Credit for 14 year old	$500
HOPE Scholarship for 18 year old	$1,100
Total tax cut:	$1,600

Example #2

Consider a family of three making $55,000 a year. The father has a degree in accounting and works for a local business in the accounting department. The mother works part-time at the local library. They have one daughter aged 14. The father would like to return to school to prepare for his CPA examination. He is going to attend the local liberal arts college. He has signed up for two courses with total tuition of $4,000.

This family will receive a $500 tax child tax credit for their daughter and a $800 tuition tax credit to help pay for the father's course work.

	Tax Cut under Clinton Proposal
Family of three with one child aged 14 and $55,000 income:	
Child Tax Credit for 14 year old	$500
Tuition tax credit	$800
Total tax cut:	$1,300

Example #3:

A single mother lives with her six year old daughter in California. She's been working as a bank teller for several years and her pay is now $20,000 a year. When she tallies up her taxes, she owes $1,200 in federal income taxes. A $1,150 Earned Income Tax Credit offsets much of this income tax. However, she pays $1,530 a year in payroll taxes, not to mention the additional $1,530 the bank pays on her behalf.

Under the President's plan this single mom would receive a $500 child tax credit for her daughter. (Note: This woman and her daughter would receive no tax cut under either the House or Senate plans).

	Tax Cut under <u>Clinton Proposal</u>
Family of two with one child aged 6 and $20,000 income:	
Child Tax Credit for 6 year old	<u>$500</u>
Total tax cut:	$500

Example #4

A teacher with six years experience, earning $40,000 a year, would like to get her masters degree before she marries and has children. Her principal has agreed to adjust her schedule so that she can attend classes in the afternoon and evening. The tuition and fees charged for the program total $6,500.

She will receive a 20 percent tax credit on the first $5,000 of the tuition she pays.

	Tax Cut under <u>Clinton Proposal</u>
Single teacher making $40,000, attending graduate school:	
Tuition Tax Credit:	<u>$1,000</u>
Total Tax Cut:	$1,000

(Note: All examples are for tax year 1999)

IT IS WRONG TO DENY TAX RELIEF TO AMERICA'S WORKING FAMILIES

Compared to the President's proposal, four million working families will largely be denied a child tax credit under the congressional tax plans. The President strongly believes that families who work hard, play by the rules and make approximately $18,000 or $28,000, who pay taxes, and who are trying to do the best for their kids just like everybody else, deserve a tax cut too.

This is an issue that is susceptible to both eye-glazing technical jargon, talk of "stacking," and misleading rhetoric: "It's welfare." Setting aside the jargon and the rhetoric, this is an issue best weighed by looking at real people:

Example -- Family of Four with Two Children

Consider a family of four with two children living in a medium sized southern city. The father is a rookie police officer making $23,000, and the mother is taking a few years off from working. This family pays federal taxes well above the amount of EITC they receive:

Federal Tax Situation Before Any Child Tax Credit:

Income taxes owed before EITC	$675
Payroll Taxes (just employee share)	$1,760
Excise Taxes/1	$354
Federal out of pocket taxes owed before EITC	$2,789
Employer Share of Payroll taxes	$1,760
Federal Taxes before EITC	$4,549
Benefit from EITC	$1,668

	President Clinton's Proposal	House Bill	Senate Bill
Child Tax Credit for family of rookie police officer making $23,000	$767	$0	$0

Notes:

1: Estimate calculated from Congressional Budget Office Data. CBO estimates that in 1998, families with incomes between $20,000 and $30,000 would pay 1.54 percent of their income in federal excise taxes.

Change in Income Tax: Comparison of Current Law with The President's Proposal and the House and Senate Tax Bills

Couple with Income of $23,000 and Two Children
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	23,000	23,000	23,000	23,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	4,500	4,500	4,500	4,500
Income Before Tax Credits	675	675	675	675
Employee Payroll Tax (7.65% of earnings)	1,760	1,760	1,760	1,760
Child Credits	0	767	0	0
Earned Income Credit (refundable)	1,668	1,668	1,668	1,668
Income Tax After Credits	-993	-1,760	-993	-993
Tax Savings Compared to Current Law		767	0	0

Department of the Treasury
Office of Tax Analysis

June 27, 1997

The President's Higher Education Tax Cuts: Greater Benefits for More Families

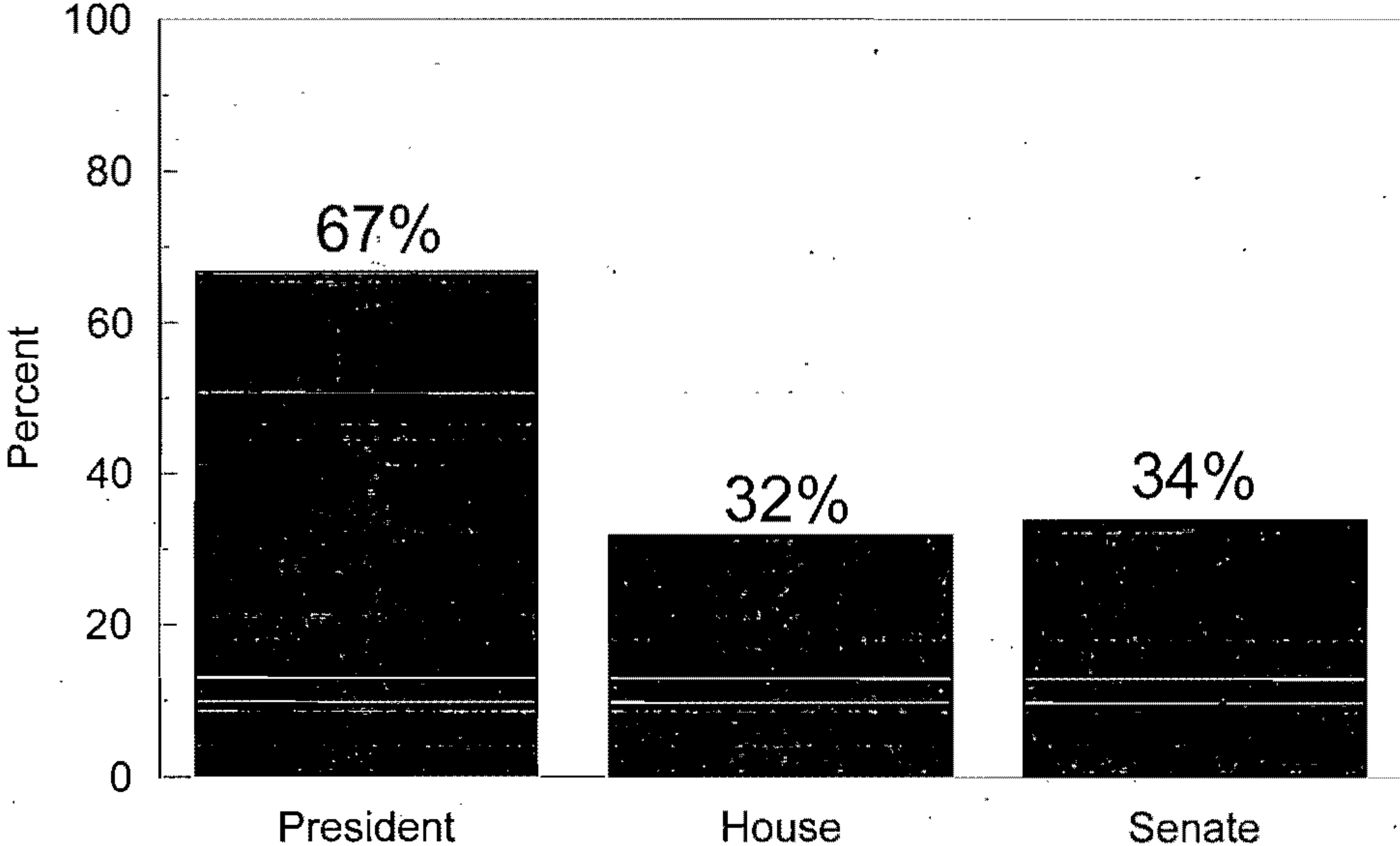
While providing the greatest help in the first two years, the President's plan has always gone *much* further, granting a substantial tax cut for *any* investment in postsecondary education or training. Unlike the Congressional plans, the Administration's higher education tax cut covers *all types and ages of students*, including:

- part-time students;
- students beyond their first two years of undergraduate study;
- graduate students;
- workers who are improving job skills rather than seeking a degree;
- those not fortunate enough to have been able to put a lot of money into savings.

For many situations that families find themselves in, the plans passed by the Senate and the House provide little or no help. Consider the following common situations:

	House Plan	Senate Plan	President
Family with $50,000 income, one child going to an average two-year community college full-time ($1,200 tuition and fees)	$600	$900	$1,100
Family with $30,000 income, one parent going to a public four-year college less than half-time ($2,000 tuition and fees)	$0	$0	$400
Family with $40,000 income, one child is **junior** at average private college ($12,000 tuition and fees)	$0	$0	$1,000
Homemaker, family income of $70,000, decides to go to graduate school at public university after being out of college for 20 years ($3,500 tuition and fees)	$0	$0	$700

Share of Tax Cuts Going to Middle Sixty Percent of Families



Source: Department of Treasury

File:
Tax Plan

TO: Jack Lew
Bruce Reed
Gene Sperling
FROM: Jennifer Klein
DATE: June 25, 1997
RE: Proposals on Child Care and Adoption

Attached please find a document describing our priorities for spending. Melanne asked me to get this to you.

The Dependent Care Tax Credit could also be expanded without making it refundable, but our first priority is to make it refundable to help low-income working families. Please feel free to call with any questions or concerns.

cc: Melanne Verveer, Elena Kagan, Nicole Rabner

DRAFT DRAFT DRAFT DRAFT DRAFT

CHILD CARE

1. Expand the Dependent Care Tax Credit to reach one to two million more families by making it refundable.

The Dependent Care Tax Credit is an income tax credit for taxpayers who incur employment related expenses for child care. The credit is available to single parents who work and to two-parent families in which both parents work. The maximum allowable credit, available on a sliding scale depending on income, ranges from $480 to $720 for families with one child, and from $960 to $1440 for families with two or more children.

Since the credit is not refundable, it can not be used by low income working families with incomes below the federal income tax threshold (approximately $24,000 for family of four). Thus the credit is not available to the low income working families most in need of child care assistance.

Cost estimate: $3-5 billion

2. Increase by $1 billion the Child Care Development Fund in order to:

Double the number of working families receiving child care assistance. $500 million

Low income working parents face major obstacles paying for the child care they need in order to remain in the workforce. It is estimated that more than 10 million children from working families will be eligible for federal child care assistance, yet such assistance is currently provided to less than 1.5 million children. Among working families earning 150 percent of poverty, 4 out of 5 are not receiving assistance. Among working families earning at or below the poverty line, 2 out of 3 are not receiving this assistance.

Improve program quality by adopting the military approach to quality enhancement. $200 million

At the Early Childhood Development Conference held at the White House in April, President Clinton pointed to the military child care program as a model for the rest of the country. Of particular note was the focus on establishing family child care networks, accreditation, and training tied to compensation. Unfortunately, very limited dollars are available to programs in the civilian community to promote such quality provisions. Adopting the military approach for quality enhancement and providing assistance to child care programs to implement this approach will make a significant contribution to improving the quality of child care services across the country.

<u>Through a collaborative approach with the Department of Education, increase the number of school programs providing before and after school care</u>. $300 million

Each day, millions of school age children across the country go home to an empty house after school. The vast majority of mothers with school-age children are now in the labor market. Despite this fact, most schools still close at 3:00 and remain closed for the summer months. While the number of school-age programs has grown over the last decade, there are still dramatically few school-age programs for low-income working families. Despite the poor access to quality programs, recent research has documented the positive effects that school-age programs can have on academic achievement of low-income children. This proposal would double the number of schools providing extended day services.

ADOPTION

1. One-year Reimbursement for Reunification Services.
(Section 304 of the Chafee/Rockefeller legislation - S.511)

The ability to use foster care maintenance funds to provide reunification services will promote timely decisions regarding permanency. The availability of such services will allow the child welfare agency to better identify those families who are likely to reunify and those that are not -- thus expediting their ability to develop alternate permanent plans for these children.

Cost estimate: Approximately $500 million over five years.

2. Innovation Grants to Reduce Backlogs of Children in Awaiting Adoption.
(Section 401 of S. 511)

Funds grants for innovative projects that will reduce barriers to adoption and reduce backlog of children awaiting adoption. (Similar to $10 million for barrier grants proposed in Adoption 2002 Report).

Cost estimate: $250 million over five years