CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 6, 2001

H.R. 3
Economic Growth and Tax Relief Act of 2001

As ordered reported by the House Committee on Ways and Means on March 1, 2001

SUMMARY

H.R. 3 would decrease personal income taxes and increase direct spending by reducing statutory income tax rates and altering the income brackets at which those rates apply. In addition, the bill would reduce taxes and increase direct spending by repealing certain elements of the alternative minimum tax. The Joint Committee on Taxation (JCT) has determined that these changes would reduce revenues by $5.6 billion in 2001, by $359.5 billion over the 2001-2006 period, and by $947.4 billion over the 2001-2011 period. In addition, JCT estimates that the bill would increase direct spending by $4.3 billion over the 2001-2006 period and by $10.8 billion over the 2001-2011 period. Because H.R. 3 would affect both direct spending and receipts, pay-as-you-go procedures would apply.

H.R. 3 would establish a new regular income tax bracket for a portion of taxable income that is taxed at a rate of 15 percent under current law. In 2001, the new rate would be 12 percent, effective retroactive to the beginning of the year. By 2006, the rate applied to that bracket would be phased down to a rate of 10 percent. H.R. 3 also would modify the bracket subject to a rate of 15 percent under current law to begin at the end of the new lowest income bracket and end at the same income level as under current law. In addition, starting in 2002, the bill would consolidate the four remaining income brackets (which bear rates of 28 percent, 31 percent, 36 percent, and 39.6 percent) into two income brackets. By 2006, the two lower brackets would bear a rate of 25 percent; the income level for the 25 percent bracket would begin at the level at which the 28 percent bracket begins and end at the level at which the 31 percent bracket ends under current law. Also by 2006, the two higher brackets would bear a rate of 33 percent; the income level for the 33 percent bracket would begin at the level at which the 36 percent bracket begins under current law.

Under current law, individuals also must calculate their income taxes under the alternative minimum tax (AMT), a parallel system of taxation with its own set of income items, exclusions, exemptions, and rates. The taxpayer, in effect, pays the greater of the tax calculated under the AMT structure and regular tax structure. The AMT reduces the amount

of the earned income credit and the amount of the child credit provided to families with three or more children. H.R. 3 would repeal the provisions that reduce the amount of these credits. That change reduces the tax payments of individuals receiving those credits and increases outlays to the extent that those credits are refundable.

H.R. 3 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3 is shown in the following table. All estimates were provided by JCT.

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN REVENUES						
Estimated Revenues	-5,642	-48,431	-53,650	-69,898	-79,887	-101,977
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	*	700	700	900	1,000	1,000
Estimated Outlays	*	700	700	900	1,000	1,000

SOURCE: Joint Committee on Taxation
*= Less than $500,000

Most of the budgetary effects of H.R. 3 are to reduce revenues. However, H.R. 3 also increases outlays by changing the bracket amounts and reducing the rates of taxation. By reducing the amount of taxes owed, these changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. H.R. 3 would also repeal the provision of current law that reduces earned income and child credits by the amount of the alternative minimum tax. This provision of H.R. 3 would also increase tax credits, namely the earned income credit and the child credit, that are refundable under the tax code and counted as outlays in the budget.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up procedures for legislation affecting receipts or direct spending. 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										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	-5,642	-48,431	-53,650	-69,898	-79,887	-101,977	-112,076	-114,656	-117,473	-120,386	-123,369
Changes in outlays	*	700	700	900	1,000	1,000	1,300	1,300	1,300	1,300	1,300

*= Less than $500,000

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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