I. MARGINAL TAX RATE REDUCTION

A. INDIVIDUAL INCOME TAX RATE STRUCTURE (SECS. 2 AND 3 OF THE HOUSE BILL, SEC. 101 OF THE SENATE AMENDMENT AND SEC. 1 OF THE CODE)

PRESENT LAW

Under the Federal individual income tax system, an individual who is a citizen or a resident of the United States generally is subject to tax on worldwide taxable income. Taxable income is total gross income less certain exclusions, exemptions, and deductions. An individual may claim either a standard deduction or itemized deductions.

An individual's income tax liability is determined by computing his or her regular income tax liability and, if applicable, alternative minimum tax liability.

Regular income tax liability

Regular income tax liability is determined by applying the regular income tax rate schedules (or tax tables) to the individual's taxable income. This tax liability is then reduced by any applicable tax credits. The regular income tax rate schedules are divided into several ranges of income, known as income brackets, and the marginal tax rate increases as the individual's income increases. The income bracket amounts are adjusted annually for inflation. Separate rate schedules apply based on filing status: single individuals (other than heads of households and surviving spouses), heads of households, married individuals filing joint returns (including surviving spouses), married individuals filing separate returns, and estates and trusts. Lower rates may apply to capital gains.

For 2001, the regular income tax rate schedules for individuals are shown in Table 1, below. The rate bracket breakpoints for married individuals filing separate returns are exactly one-half of the rate brackets for married individuals filing joint returns. A separate, compressed rate schedule applies to estates and trusts.

TABLE 1.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2001

If taxable income is over:	But not over:	Then regular income tax equals:
Single individuals		
$0	$27,050	15% of taxable income
$27,050	$65,550	$4,057.50, plus 28% of the amount over $27,050
$65,550	$136,750	$14,837.50, plus 31% of the amount over $65,550
$136,750	$297,350	$36,909.50, plus 36% of the amount over $136,750
Over $297,350		$94,725.50, plus 39.6% of the amount over $297,350
Heads of households		
$0	$36,250	15% of taxable income
$36,250	$93,650	$5,437.50, plus 28% of the amount over $36,250
$93,650	$151,650	$21,509.50, plus 31% of the amount over $93,650
$151,650	$297,350	$39,489.50, plus 36% of the amount over $151,650
Over $297,350		$91,941.50, plus 39.6% of the amount over $297,350
Married individuals filing joint returns		
$0	$45,200	15% of taxable income
$45,200	$109,250	$6,780.00, plus 28% of the amount over $45,200
$109,250	$166,500	$24,714.50, plus 31% of the amount over $109,250
$166,500	$297,350	$42,461.50, plus 36% of the amount over $166,500
Over $297,350		$89,567.50, plus 39.6% of the amount over $297,350

HOUSE BILL

In general

The House bill creates a new low-rate regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent. The bill reduces the other regular income tax rates and consolidates rate brackets. By 2006, the present-law structure of five regular income tax rates (15 percent, 28 percent, 31 percent, 36 percent and 39.6 percent) will be reduced to four rates of 10 percent, 15 percent, 25 percent, and 33 percent.

New low-rate bracket

The bill establishes a new regular income tax rate bracket for a portion of taxable income that is currently taxed at 15 percent, as shown in Table 2, below. The taxable income levels for the new low-rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2006.

TABLE 2.—PROPOSED NEW LOW-RATE BRACKET

Calendar Year	Taxable income			Proposed new rate
	Single individuals	Heads of household	Married filing joint returns	
2001–2002	0-$6,000	0-$10,000	0-$12,000	12%
2003–2005	0-$6,000	0-$10,000	0-$12,000	11%
2006	0-$6,000	0-$10,000	0-$12,000	10%
2007 and later	Adjust annually for inflation [1]			10%

[1] The new low-rate bracket for joint returns and head of household returns will be rounded down to the nearest $50. The bracket for single individuals and married individuals filing separately will be one-half the bracket for joint returns (after adjustment of that bracket for inflation).

Modification of 15-percent bracket

The 15-percent regular income tax bracket is modified to begin at the end of the new low-rate regular income tax bracket. The 15-percent regular income tax bracket ends at the same level as under present law. H.R. 6 also makes other changes to the 15-percent rate bracket.[1]

Reduction of other rates and consolidation of rate brackets

The present-law regular income tax rates of 28 percent and 31 percent are phased down to 25 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 25-percent rate bracket begins at the level at which the 28-percent rate bracket begins under present law and ends at the level at which the 31-percent rate bracket ends under present law.

The present-law regular income tax rates of 36 percent and 39.6 percent are phased down to 33 percent over five years, effective for taxable years beginning after December 31, 2001. The taxable income level for the new 33-percent rate bracket begins at the level at which the 36-percent rate bracket begins under present law.

Table 3, below, shows the schedule of proposed regular income tax rate reductions.

TABLE 3.—PROPOSED REGULAR INCOME TAX RATE REDUCTIONS

Calendar Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2002	27%	30%	35%	38%
2003	27%	29%	35%	37%
2004	26%	28%	34%	36%
2005	26%	27%	34%	35%
2006 and later	25%	25%	33%	33%

Projected regular income tax rate schedules under the proposal

Table 4, below, shows the projected individual regular income tax rate schedules when the rate reductions are fully phased in (i.e., for 2006). As under present law, the rate brackets for married taxpayers filing separate returns under the bill are one half the rate brackets for married individuals filing joint returns. In addition, appropriate adjustments are made to the separate, compressed rate schedule for estate and trusts.

TABLE 4.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2006 (PROJECTED)

If taxable income is:	Then regular income tax equals:
Single individuals	
$0–6,000	10% of taxable income
$6,000–30,950	$600, plus 15 percent of the amount over $6,000
$30,950–$156,300	$4,342.50, plus 25% of the amount over $30,950
Over $156,300	$35,680, plus 33% of the amount over $156,300
Heads of households	
$0–$10,000	10% of taxable income
$10,000–$41,450	$1,000, plus 15% of the amount over $10,000
$41,450–$173,300	$5,717.50, plus 25% of the amount over $41,450
Over $173,300	$38,680, plus 33% of the amount over $173,300
Married individuals filing joint returns	
$0–$12,000	10% of taxable income
$12,000–$51,700	$1,200, plus 15% of the amount over $12,000
$51,700–$190,300	$7,155, plus 25% of the amount over $51,700
$190,300	$41,805, plus 33% of the amount over $190,300

Revised wage withholding for 2001

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate income tax withholding tables or computational procedures for the withholding of income taxes from wages paid by employers. The Secretary is expected to make appropriate revisions to the wage withholding tables to reflect the proposed rate reduction for calendar year 2001 as expeditiously as possible.

Transfer to Social Security and Medicare trust funds

The House bill provides that the amounts transferred to the Social Security and Medicare trust funds are determined as if the rate reductions in the bill were not enacted. Thus, there will be no reduction in transfers to these funds as a result of the bill.

Effective date

The provisions of the House bill generally apply to taxable years beginning after December 31, 2000, except that the conforming amendments to certain withholding provisions under the bill are effective for amounts paid more than 60 days after the date of enactment.

SENATE AMENDMENT

In general

The Senate amendment creates a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. The Senate amendment also reduces other regular income tax rates. By 2007, the present-law individual income tax rates of 28 percent, 31 percent, 36 percent and 39.6 percent will be lowered to 25 percent, 28 percent, 33 percent, and 36 percent, respectively.

New low-rate bracket

The Senate amendment establishes a new 10-percent regular income tax rate bracket for a portion of taxable income that is currently taxed at 15 percent, as shown in Table 3, below. The taxable income levels for the new 10-percent rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2006. The new low-rate bracket for joint returns and head of household returns will be rounded down to the nearest $50. The bracket for single individuals and married individuals filing separately will be one-half the bracket for joint returns (after adjustment for inflation).

The 10-percent rate bracket applies to the first $6,000 of taxable income for single individuals, $10,000 of taxable income for heads of households, and $12,000 for married couples filing joint returns.

Modification of 15-percent bracket

The 15-percent regular income tax bracket is modified to begin at the end of the new low-rate regular income tax bracket. The 15-percent regular income tax bracket ends at the same level as under present law. The Senate amendment also makes other changes to the 15-percent rate bracket.[2]

Reduction of other rates

The present-law regular income tax rates of 28 percent, 31 percent, 36 percent, and 39.6 percent are phased-down over six years to 25 percent, 28 percent, 33 percent, and 36 percent, effective for taxable years beginning after December 31, 2001. The taxable income levels for the new rates are the same as the taxable income levels that apply under the present-law rates.

Table 5, below, shows the schedule of regular income tax rate reductions.

TABLE 5.—REGULAR INCOME TAX RATE REDUCTIONS

Calendar year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2002–2004	27%	30%	35%	38.6%
2005–2006	26%	29%	34%	37.6%
2007 and later	25%	28%	33%	36%

Projected regular income tax rate schedules under the Senate amendment

Table 6, below, shows the projected individual regular income tax rate schedules when the rate reductions are fully phased-in (i.e., for 2007). As under present law, the rate brackets for married taxpayers filing separate returns will be one half the rate brackets for married individuals filing joint returns. In addition, appropriate adjustments will be made to the separate, compressed rate schedule for estate and trusts.

TABLE 6.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2007 (PROJECTED)

If taxable income is:	But not over:	Then regular income tax equals:
Single individuals		
$0	$6,150	10% of taxable income
$6,150	$31,700	$615, plus 15% of the amount over $6,150
$31,700	$76,800	$4,447.50, plus 25% of the amount over $31,700
$76,800	$160,250	$15,722.50 plus 28% of the amount over $76,800
$160,250	$348,350	$39,088.50 plus 33% of the amount over $160,250
Over $348,350		$101,161.50, plus 36% of the amount over $348,350
Heads of households		
$0	$10,250	10% of taxable income

[1] See discussion of the marriage penalty relief in the 15–percent bracket.

[2] See the discussion of marriage penalty relief in sec. 302 of the Senate amendment.

TABLE 6.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2007 (PROJECTED)—Continued

If taxable income is:	But not over:	Then regular income tax equals:
$10,250	$42,500	$1,025, plus 15% of the amount over $10,250
$42,500	$109,700	$5,862.50, plus 25% of the amount over $42,500
$109,700	$177,650	$22,662.50, plus 28% of the amount over $109,700
$177,650	$348,350	$41,688.50, plus 33% of the amount over $177,650
Over $348,350		$98,019.50, plus 36% of the amount over $348,350
Married individuals filing joint returns		
$0	$12,300	10% of taxable income
$12,300	$59,250 [3]	$1,230, plus 15% of the amount over $12,300
$59,250	$128,000	$8,272.50, plus 25% of the amount over $59,250
$128,000	$195,050	$25,460, plus 28% of the amount over $128,000
$195,050	$348,350	$44,234, plus 33% of the amount over $195,050
Over $348,350		$94,823, plus 36% of the amount over $348,350

Revised wage withholding for 2001

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate income tax withholding tables or computational procedures for the withholding of income taxes from wages paid by employers. The Secretary is expected to make appropriate revisions to the wage withholding tables to reflect the rate reduction for calendar year 2001 as expeditiously as possible.

Effective date

The new 10-percent rate bracket is effective for taxable years beginning after December 31, 2000. The reduction in the 28 percent, 31 percent, 36 percent, and 39.6 percent rates is phased-in beginning in taxable years beginning after December 31, 2001.

CONFERENCE AGREEMENT

In general

The conference agreement creates a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent, effective for taxable years beginning after December 31, 2000. The conference agreement also reduces the other regular income tax rates, effective July 1, 2001. By 2006, the present-law regular income tax rates (28 percent, 31 percent, 36 percent and 39.6 percent) will be lowered to 25 percent, 28 percent, 33 percent, and 35 percent, respectively.

New low-rate bracket

The conference agreement establishes a new 10-percent income tax rate bracket for a portion of taxable income that is currently taxed at 15 percent. The 10-percent rate bracket applies to the first $6,000 of taxable income for single individuals, $10,000 of taxable income for heads of households, and $12,000 for married couples filing joint returns. This $6,000 increases to $7,000 and this $12,000 increases to $14,000 for 2008 and thereafter.

The taxable income levels for the new low-rate bracket will be adjusted annually for inflation for taxable years beginning after December 31, 2008. The new low-rate bracket for joint returns and head of household returns will be rounded down to the nearest $50. The bracket for single individuals and married individuals filing separately will be one-half for joint returns (after adjustment of that bracket for inflation).

Rate reduction credit for 2001

The conference agreement includes a rate reduction credit for 2001 to more immediately achieve one of the purposes behind the new bottom rate bracket for 2001 that was included in both the House bill and the Senate amendment. The conferees have chosen to utilize this credit mechanism (and the issuance of checks described below) because it will deliver economic stimulus to the economy more rapidly than would implementation of a new 10-percent rate bracket, even if that were accompanied by an immediate implementation of new wage withholding tables. Accordingly, this rate reduction credit operates in lieu of the new 10-percent income tax rate bracket for 2001.

This credit is computed in the following manner. Taxpayers would be entitled to a credit in tax year 2001 of 5 percent (the difference between the 15-percent rate and the 10-percent rate) of the amount of income that would have been eligible for the new 10-percent rate. Taxpayers may not receive a credit in excess of their income tax liability (determined after nonrefundable credits).

Most taxpayers will receive this credit in the form of a check issued by the Department of the Treasury. The amount of the check would be computed in the same manner as the credit, except that it will be done on the basis of tax returns filed for 2000 (instead of 2001). The conferees anticipate that the Department of the Treasury will make every effort to issue all checks before October 1, 2001, to taxpayers who timely filed their 2000 tax returns. Taxpayers who filed late or pursuant to extensions will receive their checks later in the fall.

Taxpayers would reconcile the amount of the credit with the check they receive in the following manner. They would complete a worksheet calculating the amount of the credit based on their 2001 tax return. They would then subtract from the credit the amount of the check they received. For many taxpayers, these two amounts would be the same. If, however, the result is a positive number (because, for example, the taxpayer paid no tax in 2000 but is paying tax in 2001), the taxpayer may claim that amount as a credit against 2001 tax liability. If, however, the result is negative (because, for example, the taxpayer paid tax in 2000 but owes no tax for 2001), the taxpayer is not required to repay that amount to the Treasury. Otherwise, the checks have no effect on tax returns filed in 2001; the amount is not includible in gross income and it does not otherwise reduce the amount of withholding. In no event may the Department of the Treasury issue checks after December 31, 2001.[4] This is designed to prevent errors by taxpayers who might claim the full amount of the credit on their 2001 tax returns and file those returns early in 2002, at the same time the Treasury check might be mailed to them. Payment of the credit (or the check) is treated, for all purposes of the Code,[5] as a payment of tax. As such, the credit or the check is subject to the refund offset provisions, such as those applicable to past-due child support under section 6402 of the Code.

In general, taxpayers eligible for the credit (and the check) are individuals other than estates or trusts, nonresident aliens, or dependents. The determination of this status for the relevant year is made on the basis of the information filed on the tax return.

The conferees understand that, in light of the large number of checks that are being issued, the issuance of checks will take several months.[6] Accordingly, no interest will be paid with respect to these checks. The conferees understand that checks will be issued in the order of the last two digits of the taxpayer identification number (which is generally a taxpayer's social security number), from lowest to highest. Payment by check is the only mechanism for receiving the payment prior to filing the 2001 tax return; taxpayers may not file either amended returns or claims for tentative refunds for tax year 2000 to claim these amounts.

The conferees anticipate that the IRS will send notices to most taxpayers approximately one month after enactment. The notices will inform taxpayers of the computation of their checks and the approximate date by which they can expect to receive their check. This information should decrease the number of telephone calls made by taxpayers to the IRS inquiring when their check will be issued.

Modification of 15-percent bracket

The 15-percent regular income tax bracket is modified to begin at the end of the new low-rate regular income tax bracket. The 15-percent regular income tax bracket ends at the same level as under present law. The conference agreement also makes other changes to the 15-percent rate bracket.[7]

Reduction of other rates and consolidation of rate brackets

The present-law regular income tax rates of 28 percent, 31 percent, 36 percent, and 39.6 percent are phased down over six years to 25 percent, 28 percent, 33 percent, and 35 percent, effective after June 30, 2001. Accordingly, for taxable years beginning during 2001, the rate reduction will come in the form of a blended tax rate. The taxable income levels for the new rates in all taxable years are the same as the taxable income levels that apply under the present-law rates.

Table 7, below, shows the schedule of regular income tax rate reductions.

TABLE 7.—REGULAR INCOME TAX RATE REDUCTIONS

Calendar year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001[1]–2003	27%	30%	35%	38.6%
2004–2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

[1] Effective July 1, 2001.

[3] The end point of the 15-percent rate bracket for married individuals filing joint returns also reflects the phase-in of the increase in the size of the 15-percent bracket in section 302 of the Senate amendment.

[4] For administrative reasons, the Department of the Treasury may need to establish an earlier termination date in order to fully implement the intent of this provision.

[5] A special rule provides that no interest will be paid with respect to the checks.

[6] The conferees investigated the possibility of utilizing electronic means, instead of paper checks, to deliver these amounts even more rapidly, but doing so was not possible because of limitations on available data on individual's banking accounts.

[7] See discussion of the conference agreement regarding marriage penalty relief in the 15-percent bracket.

Projected regular income tax rate schedules under the proposal

Table 8, below, shows the projected individual regular income tax rate schedules when the rate reductions are fully phased in (i.e., for 2006). As under present law, the rate brackets for married taxpayers filing separate returns under the bill are one half the rate brackets for married individuals filing joint returns. In addition, appropriate adjustments are made to the separate, compressed rate schedule for estates and trusts.

TABLE 8.—INDIVIDUAL REGULAR INCOME TAX RATES FOR 2006 (PROJECTED)

If taxable income is:	But not over:	Then regular income tax equals:
	Single individuals	
$0	$6,000	10% of taxable income
$6,000	$30,950	$600, plus 15% of the amount over $6,000
$30,950	$74,950	$4,342.50, plus 25% of the amount over $30,950
$74,950	$156,300	$15,342.50, plus 28% of the amount over $74,950
$156,300	$339,850	$38,120.50, plus 33% of the amount over $156,300
Over $339,850	....	$98,692, plus 35% of the amount over $339,850
	Heads of households	
$0	$10,000	10% of taxable income
$10,000	$41,450	$1,000, plus 15% of the amount over $10,000
$41,450	$107,000	$5,717.50, plus 25% of the amount over $41,450
$107,000	$173,300	$22,105, plus 28% of the amount over $107,000
$173,300	$339,850	$40,669, plus 33% of the amount over $173,300
Over $339,850	....	$95,630.50, plus 35% of the amount over $339,850
	Married individuals filing joint returns	
$0	$12,000	10% of taxable income
$12,000	[8] $57,850	$1,200, plus 15% of the amount over $12,000
$57,850	$124,900	$8,077.50, plus 25% of the amount over $57,850
$124,900	$190,300	$24,840, plus 28% of the amount over $124,900
$190,300	$339,850	$43,152, plus 33% of the amount over $190,300
Over $339,850	....	$92,503.50, plus 35% of the amount over $339,850

Revised wage withholding for 2001

Under present law, the Secretary of the Treasury is authorized to prescribe appropriate income tax withholding tables or computational procedures for the withholding of income taxes from wages paid by employers. The Secretary is expected to make appropriate revisions to the wage withholding tables to reflect the rate reduction that will be effective beginning July 1, 2001, as expeditiously as possible.

Transfer to Social Security and Medicare trust funds

The conference agreement does not follow the House bill.

Effective date

The provisions of the conference agreement generally apply to taxable years beginning after December 31, 2000. The reductions in the tax rates, other than the new 10-percent rate, are effective after June 30, 2001. The conforming amendments to certain withholding provisions under the bill are effective for amounts paid more than 60 days after the date of enactment.

B. INCREASE STARTING POINT FOR PHASE-OUT OF ITEMIZED DEDUCTIONS (SEC. 102 OF THE SENATE AMENDMENT AND SEC. 68 OF THE CODE)

PRESENT LAW

Itemized deductions

Taxpayers may choose to claim either the basic standard deduction (and additional standard deductions, if applicable) or itemized deductions (subject to certain limitations) for certain expenses incurred during the taxable year. Among these deductible expenses are unreimbursed medical expenses, investment interest, casualty and theft losses, wagering losses, charitable contributions, qualified residence interest, State and local income and property taxes, unreimbursed employee business expenses, and certain other miscellaneous expenses.

Overall limitation on itemized deductions (''Pease'' limitation)

Under present law, the total amount of otherwise allowable itemized deductions (other than medical expenses, investment interest, and casualty, theft, or wagering losses) is reduced by three percent of the amount of the taxpayer's adjusted gross income in excess of $132,950 in 2001 ($66,475 for married couples filing separate returns). These amounts are adjusted annually for inflation. In computing this reduction of total itemized deductions, all present-law limitations applicable to such deductions (such as the separate floors) are first applied and, then, the otherwise allowable total amount of itemized deductions is reduced in accordance with this provision. Under this provision, the otherwise allowable itemized deductions may not be reduced by more than 80 percent.

HOUSE BILL

No provision.

SENATE AMENDMENT

The Senate amendment increases the starting point of the overall limitation on itemized deductions for all taxpayers (other than married couples filing separate returns) to the starting point of the personal exemption phase-out for married couples filing a joint return. This amount is projected under present law to be $245,500 in 2009. The starting point of the overall limitation on itemized deductions for married couples filing separate returns would continue to be one-half of the amount for other taxpayers.

Effective date.—The provision is effective for taxable years beginning after December 31, 2008.

CONFERENCE AGREEMENT

The conference agreement repeals the overall limitation on itemized deductions for all taxpayers. The repeal is phased-in over five years, as follows. The otherwise applicable overall limitation on itemized deductions is reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation is repealed for taxable years beginning after December 31, 2009.

Effective date.—The conference agreement is effective for taxable years beginning after December 31, 2005.

C. PHASE-OUT OF SPECIAL RULES FOR PERSONAL EXEMPTIONS (SEC. 103 OF THE SENATE AMENDMENT AND SEC. 151(D)(3) OF THE CODE)

PRESENT LAW

In order to determine taxable income, an individual reduces adjusted gross income by any personal exemptions, deductions, and either the applicable standard deduction or itemized deductions. Personal exemptions generally are allowed for the taxpayer, his or her spouse, and any dependents. For 2001, the amount deductible for each personal exemption is $2,900. This amount is adjusted annually for inflation.

Under present law, the deduction for personal exemptions is phased-out ratably for taxpayers with adjusted gross income over certain thresholds. The applicable thresholds for 2001 are $132,950 for single individuals, $199,450 for married individuals filing a joint return, $166,200 for heads of households, and $99,725 for married individuals filing separate returns. These thresholds are adjusted annually for inflation.

The total amount of exemptions that may be claimed by a taxpayer is reduced by two percent for each $2,500 (or portion thereof) by which the taxpayer's adjusted gross income exceeds the applicable threshold. The phase-out rate is two percent for each $1,250 for married taxpayers filing separate returns. Thus, the personal exemptions claimed are phased-out over a $122,500 range ($61,250 for married taxpayers filing separate returns), beginning at the applicable threshold. The size of these phase-out ranges ($122,500/$61,250) is not adjusted for inflation. For 2001, the point at which a taxpayer's personal exemptions are completely phased-out is $255,450 for single individuals, $321,950 for married individuals filing a joint return, $288,700 for heads of households, and $160,975 for married individuals filing separate returns.

HOUSE BILL

No provision.

SENATE AMENDMENT

The Senate amendment repeals the personal exemption phase-out.

Effective date.—The provision is effective for taxable years beginning after December 31, 2008.

CONFERENCE AGREEMENT

The conference agreement follows the Senate amendment, with a modification. The modification provides for a five-year phase-in of the repeal of the personal exemption phase-out. Under the five-year phase-in, the otherwise applicable personal exemption phase-out is reduced by one-third in taxable years beginning in 2006 and 2007, and is reduced by two-thirds in taxable years beginning in 2008 and 2009. The repeal is fully effective for taxable years beginning after December 31, 2009.

[8] The end point of the 15-percent rate bracket for married individuals filing joint returns also reflects the phase-in of the increase in the size of the 15-percent bracket in section 302 of the bill, below.