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Senate & House Tax Reconciliation Bills Differ Markedly

Passed by the Senate and pending in the House are two "tax reconciliation" bills, which, if enacted, will represent the fifth straight year of tax reductions under President Bush. The Senate plan passed the Senate by a 64–33 vote.[1] The pending House plan is backed by President Bush and the House Republican leadership. The two bills differ markedly.

The most significant differences are in four categories:

1. AMT relief (Senate only): The Senate plan would extend into 2006 the increased Alternative Minimum Tax exemption that will otherwise expire after 2005, at a cost of $33.4 billion. The Bush/House plan does not include this AMT relief. Under the Bush/House plan, more than 20 million taxpayers will pay the AMT in 2006 (compared to only 4.6 million under the Senate bill). Two-thirds of the families that the Bush/ House plan would bring into the AMT earn between $80,000 and $160,000 a year.

Increase in the number of taxpayers paying the AMT in 2006 without the Senate AMT exemption increase

	# paying AMT (millions)			Percent paying AMT		
	Senate	House	Increase	Senate	House	Increase
Lowest 20%	—	—	—	—	—	—
Second 20%	—	—	—	—	—	—
Middle 20%	0.0	0.3	+0.3	0.1%	1.1%	+1.0%
Fourth 20%	0.2	2.6	+2.4	0.6%	9.7%	+9.0%
Next 15%	0.9	11.7	+10.7	4.6%	57.6%	+53.0%
Next 4%	2.7	4.9	+2.2	49.4%	89.8%	+40.4%
Top 1%	0.8	0.8	+0.0	56.1%	58.1%	+2.0%
ALL	**4.6**	**20.2**	**+15.7**	**3.3%**	**14.8%**	**+11.4%**

Source: Institute on Taxation and Economic Policy Tax Model, Dec. 2005.

2. Dividends and capital gains tax cut (House only): The House plan would extend through 2010 the special 15 percent tax rate on dividends and capital gains, which is currently scheduled to expire after 2008, at a cost of $50.8 billion. This tax cut, which mostly benefits the top one percent of taxpayers, in not in the Senate bill.

3. Hurricane tax breaks: The Senate bill include $7.6 billion in hurricane-related tax cuts. The House plan does not include these provisions, which the House leadership says it prefers to consider separately. Thus, the cost of hurricane tax breaks is not reflected in the official revenue estimates for the House plan.

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[1]Senate Republicans supported the Senate bill by a 49-4 margin (with 2 not voting). Democrats (including Independent Jim Jeffords) voted 15 to 29 against the bill (with 1 not voting).

4. Revenue offsets (Senate only): The cost of the Senate tax cuts is partially offset by revenue-raising measures that would raise $35.2 billion over 10 years (mainly by cracking down on tax shelters and closing oil-company loopholes). The House plan has no revenue offsets.

Distributional comparison of the Senate's AMT relief provision to the House's dividends and capital gains tax cut: House Ways and Means Chairman Bill Thomas (R-CA), the author of the House plan, claims that the Senate's AMT relief is far more focused at the "rich end of the spectrum" than the House's extension of the capital gains and dividend tax cut. This is incorrect. It is true that both measures would give about 90 percent of their benefits to the top income quintile. But at the very high end, the difference is striking:

- More than half (54.3 percent) of the House's capital gains and dividends tax cut would go to the best-off one percent of taxpayers, who would get an average tax reduction of $26,530 each.
- In contrast, only 2.5 percent of the Senate's AMT relief would go to the best off one percent, who would save an average of $609 each.

The House Dividends & Capital Gains Tax Cut vs. the Senate AMT Exemption Increase

	Average Income in 2006	House dividends & capital gains tax cut, 2009 & 2010 total		Senate AMT exemption increase, tax cut in 2006	
		Average	% of total	Average	% of total
Lowest 20%	**$ 11,300**	$ –6	0.2%	$ —	—
Second 20%	**23,200**	–24	1.0%	—	—
Middle 20%	**38,000**	–80	3.3%	–6	0.5%
Fourth 20%	**62,500**	–225	9.2%	–68	5.7%
Next 15%	**108,000**	–489	15.0%	–791	49.1%
Next 4%	**229,000**	–2,076	17.0%	–2,551	42.2%
Top 1%	**1,210,000**	–26,530	54.3%	–609	2.5%
ALL	**$ 63,500**	**$ –482**	**100.0%**	**$ –238**	**100.0%**

Source: Institute on Taxation and Economic Policy Tax Model, Dec. 2005.

Five-year and ten-year revenue estimates: The press has largely focused on the five-year (fiscal 2006–10) cost of the two tax-cutting measures, which look very similar: $57.8 billion for the Senate bill versus $56.1 billion for the House plan (excluding $7.6 billion in hurricane-related tax breaks). But over the next five years the bills' costs diverge sharply:

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- Over the fiscal 2011–15 period, the House plan is estimated to entail a net cost of $24.5 billion. This is more than entirely due to the $30.2 billion cost of the House's capital gains and dividend tax cut in fiscal years after 2010.
- In contrast, in its second five years, the Senate bill is expect to *raise* $20.3 billion, mainly due to the continued effects of its revenue-raising offsets.

As a result, over 10 years, the House plan is expected to cost a total of $80.5 billion (not including hurricane-related tax breaks). That's more that double the $37.4 billion net cost of the Senate bill over 10 years.

The Senate & House 2005 Tax Reconciliation Bills
Comparison of the 5 & 10 Fiscal Year Costs

	1st 5 years	Next 5 yrs	10 years
Senate			
AMT relief	$ –33.4	$ —	$ –33.4
Hurricane provisions	–7.0	–0.6	–7.6
Other tax reductions	–36.6	+5.0	–31.6
Revenue-raising offsets	+19.2	+16.0	+35.2
Total	**$ –57.8**	**$ +20.3**	**$ –37.4**
House			
Capital gains & dividends	$ –20.6	$ –30.2	$ –50.8
Hurricane provisions	*To be considered separately*		
Other tax reductions	–35.5	+5.8	–29.8
Total (w/o hurricane)	**$ –56.1**	**$ –24.5**	**$ –80.5**
House vs. Senate	**$ +1.7**	**$ –44.8**	**$ –43.1**

Source: Joint Committee on Taxation, 11/18/05 (House) & 11/29/05 (Senate).

"Given our huge budget deficits, growing need for public services and threatened reductions in important programs, any tax cut is reckless," said Robert S. McIntyre, director of Citizens for Tax Justice. "But if one must choose between the Senate bill and the twice-as-costly, much more tilted-to-the-rich House plan that the President irresponsibly backs, then the Senate plan is clearly the less bad route to take."

A table showing more details of the cost of the Senate and House tax bills follows.

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Senate & House 2005 Tax Reconciliation Bills, Revenue Effects, FY2006-2015, $-billions

	Senate	House	House vs Sen
Individual tax breaks			
Capital gains & dividend tax breaks thru 2010	$ —	$ –50.8	$ –50.8
AMT relief thru 2006 (total)	–33.4	–2.8	+30.6
Tuition deduction (Coverdell) S thru 2009, H thru 2006	–7.4	–1.7	+5.7
Savers Credit, S thru 2009, H thru 2008	–4.1	–2.9	+1.3
Sales tax deduction thru 2006	–2.6	–2.1	+0.5
Teacher classroom expense adjustment thru 2006	–0.2	–0.2	—
Other individual tax breaks (net)	–0.5	–0.1	+0.4
Total individual	**–48.3**	**–60.6**	**–12.3**
Corporate tax breaks			
R&E credit thru 2006	–10.1	–10.1	+0.1
Multinational corporation tax breaks	—	–5.6	–5.6
Restaurant & leasehold depreciation thru 2006	–2.1	–2.1	+0.0
New Market Tax Credit thru 2008	–1.3	—	+1.3
New York Liberty Zone tax breaks	–0.4	—	+0.4
WOC & W2W credits thru 2006	–0.7	–0.6	+0.1
Other corporate tax breaks	–2.1	–1.7	+0.4
Total corporate	**–16.7**	**–19.9**	**–3.2**
Extension of Katrina tax provisions to Rita & Wilma, and expansion thereof	**–7.6**	*	**???**
Subtotal, revenue losing provisions	**–72.6**	**–80.5****	**–7.9****
Revenue raising offsets	**+35.2**	**—**	**–35.2**
TOTAL ALL PROVISIONS, NET	**$ –37.4**	**$ –80.5****	**$ –43.1****

ADDENDUM: Percentage of total net tax cut	**Senate**	**House**
Capital gains & dividend tax cut	—	63%
AMT relief thru 2006	89%	4%

Addendum 2: Senate revenue offsets		**% of total**
Clarify economic substance doctrine (anti-tax sheltering)	$ +15.9	45%
Major oil companies' inventory rules & foreign tax credits	+5.1	15%
Modify 2004 corporate tax bill regarding leasing	+4.5	13%
Taxation of expatriated corporations & individuals	+3.2	9%
Other offsets	+6.5	18%
Total offsets	**$ +35.2**	**100%**

* "House tax writers have preferred to keep [hurricane tax breaks] separate from reconciliation." *BNA Daily Tax Report*, 12/1/2005.

** Without House-planned hurricane tax breaks.

Source: Joint Committee on Taxation, Nov. 18, 2005 (House) & Nov. 29, 2005 (Senate).

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