

ENCOURAGING WORK AND SUPPORTING MARRIAGE ACT
 OF 2002

MAY 14, 2002.—Committed to the Committee of the Whole House on the State of
 the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means,
 submitted the following

R E P O R T

[To accompany H.R. 4626]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 4626) to amend the Internal Revenue Code of 1986 to accelerate the marriage penalty relief in the standard deduction, and to modify the work opportunity tax credit and the welfare-to-work tax credit, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Encouraging Work and Supporting Marriage Act of 2002”.

**TITLE I—ACCELERATION OF MARRIAGE
PENALTY RELIEF**

SEC. 101. ACCELERATION OF INCREASE IN STANDARD DEDUCTION FOR JOINT RETURNS.

(a) **IN GENERAL.**—Paragraph (7) of section 63(c) of the Internal Revenue Code of 1986, as amended by section 301 of the Economic Growth and Tax Relief Reconciliation Act of 2001, is amended to read as follows:

“(7) **APPLICABLE PERCENTAGE.**—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2003 or 2004	170
2005	174
2006	184
2007	187
2008	190
2009 and thereafter	200.”

(b) **CONFORMING AMENDMENT.**—Subsection (d) of section 301 of the Economic Growth and Tax Relief Reconciliation Act of 2001 is amended by striking “December 31, 2004” and inserting “December 31, 2002”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

**TITLE II—MODIFICATIONS TO WORK OPPOR-
TUNITY CREDIT AND WELFARE-TO-WORK
CREDIT**

SEC. 201. MODIFICATIONS TO WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.

(a) **ELIGIBILITY OF EX-FELONS DETERMINED WITHOUT REGARD TO FAMILY INCOME.**—Paragraph (4) of section 51(d) of the Internal Revenue Code of 1986 is amended by adding “and” at the end of subparagraph (A), by striking “, and” at the end of subparagraph (B) and inserting a period, and by striking all that follows subparagraph (B).

(b) **INCREASE IN MAXIMUM AGE FOR ELIGIBILITY OF FOOD STAMP RECIPIENTS.**—Clause (i) of section 51(d)(8)(A) of such Code is amended by striking “25” and inserting “30”.

(c) **CLARIFICATION OF TREATMENT OF INDIVIDUALS UNDER INDIVIDUAL WORK PLANS.**—Subparagraph (B) of section 51(d)(6) of such Code (relating to vocational rehabilitation referral) is amended by striking “or” at the end of clause (i), by striking the period at the end of clause (ii) and inserting “, or”, and by adding at the end the following new clause:

“(iii) an individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act with respect to which the requirements of such subsection are met.”

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to individuals who begin work for the employer after December 31, 2002.

SEC. 202. CONSOLIDATION OF WORK OPPORTUNITY CREDIT WITH WELFARE-TO-WORK CREDIT.

(a) **IN GENERAL.**—Paragraph (1) of section 51(d) of the Internal Revenue Code of 1986 is amended by striking “or” at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting “, or”, and by adding at the end the following new subparagraph:

“(I) a long-term family assistance recipient.”

(b) **LONG-TERM FAMILY ASSISTANCE RECIPIENT.**—Subsection (d) of section 51 of such Code is amended by redesignating paragraphs (10) through (12) as paragraphs (11) through (13), respectively, and by inserting after paragraph (9) the following new paragraph:

“(10) LONG-TERM FAMILY ASSISTANCE RECIPIENT.—The term ‘long-term family assistance recipient’ means any individual who is certified by the designated local agency—

“(A) as being a member of a family receiving assistance under a IV-A program (as defined in paragraph (2)(B)) for at least the 18-month period ending on the hiring date,

“(B)(i) as being a member of a family receiving such assistance for 18 months beginning after August 5, 1997, and

“(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

“(C)(i) as being a member of a family which ceased to be eligible for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

“(ii) as having a hiring date which is not more than 2 years after the date of such cessation.”

(c) INCREASED CREDIT FOR EMPLOYMENT OF LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—Section 51 of such Code is amended by inserting after subsection (d) the following new subsection:

“(e) CREDIT FOR SECOND-YEAR WAGES FOR EMPLOYMENT OF LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—

“(1) IN GENERAL.—With respect to the employment of a long-term family assistance recipient—

“(A) the amount of the work opportunity credit determined under this section for the taxable year shall include 40 percent of the qualified second-year wages for such year, and

“(B) in lieu of applying subsection (b)(3), the amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to such a recipient shall not exceed \$10,000 per year.

“(2) QUALIFIED SECOND-YEAR WAGES.—For purposes of this subsection, the term ‘qualified second-year wages’ means qualified wages—

“(A) which are paid to a long-term family assistance recipient, and

“(B) which are attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such recipient determined under subsection (b)(2).

“(3) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to whom subparagraph (A) or (B) of subsection (h)(1) applies, rules similar to the rules of such subparagraphs shall apply except that—

“(A) such subparagraph (A) shall be applied by substituting ‘\$10,000’ for ‘\$6,000’, and

“(B) such subparagraph (B) shall be applied by substituting ‘\$833.33’ for ‘\$500.’”

(d) REPEAL OF SEPARATE WELFARE-TO-WORK CREDIT.—

(1) IN GENERAL.—Section 51A of such Code is hereby repealed.

(2) CLERICAL AMENDMENT.—The table of sections for subpart F of part IV of subchapter A of chapter 1 of such Code is amended by striking the item relating to section 51A.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after December 31, 2002.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The bill, H.R. 4626, as amended (the “Encouraging Work and Supporting Marriage Act of 2002”), provides income tax relief to American families and encourages employment of individuals whose lack of work history or other factors otherwise serves as a disincentive to employment.

The bill provides net tax reductions of over \$900 million over fiscal years 2003–2007. This will provide needed marriage penalty tax relief for over 21 million American taxpayers and encourage employers to hire certain individuals who otherwise may have significant barriers to employment.

The bill accelerates an increase of the basic standard deduction for married couples filing joint returns. Specifically, the bill in-

creases the basic standard deduction for married couples filing joint returns to 170 percent of the standard deduction for single individuals for 2003 and 2004. Finally, the bill combines and expands the work opportunity tax credit and the welfare to work tax credit.

B. BACKGROUND AND NEED FOR LEGISLATION

The provisions approved by the Committee reflect the need for additional marriage penalty relief for American families. The provisions also should serve to encourage employment of certain targeted groups. Finally, the combination of the work opportunity tax credit and welfare to work tax credit will simplify the operation of the credits for employers.

C. LEGISLATIVE HISTORY

COMMITTEE ACTION

The Committee on Ways and Means marked up the provisions of the bill on May 2, 2001, and approved the provisions, as amended, on May 2, 2001, by a voice vote, with a quorum present.

II. EXPLANATION OF THE BILL

A. ACCELERATION OF THE BASIC STANDARD DEDUCTION MARRIAGE PENALTY RELIEF

(Sec. 101 of the bill and sec. 63 of the Code)

PRESENT LAW

Marriage penalty

A married couple generally is treated as one tax unit that must pay tax on the couple's total taxable income. Although married couples may elect to file separate returns, the rate schedules and other provisions are structured so that filing separate returns usually results in a higher tax than filing a joint return.

A "marriage penalty" exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A "marriage bonus" exists when the combined tax liability of a married couple filing a joint return is less than the sum of the tax liabilities of each individual computed as if they were not married.

Basic standard deduction

Taxpayers who do not itemize deductions may choose the basic standard deduction (and additional standard deductions, if applicable),¹ which is subtracted from adjusted gross income ("AGI") in arriving at taxable income. The size of the basic standard deduction varies according to filing status and is adjusted annually for inflation. For 2002, the basic standard deduction amount for single filers is 60 percent of the basic standard deduction amount for married couples filing joint returns. Thus, two unmarried individuals

¹Additional standard deductions are allowed with respect to any individual who is elderly (age 65 or over) or blind.

have standard deductions the sum of which exceeds the standard deduction for a married couple filing a joint return.

Present law provides that the basic standard deduction for a married couple filing a joint return will be increased to twice the basic standard deduction for an unmarried individual filing a single return. This increase in the basic standard deduction is phased in over five years beginning in 2005, and will be fully phased in by 2009. Table 1, below, shows the standard deduction for married couples filing a joint return as a percentage of the standard deduction for single individuals.

TABLE 1.—PHASE-IN OF THE INCREASE OF THE BASIC STANDARD DEDUCTION FOR MARRIED COUPLES FILING JOINT RETURNS

Calendar year	Standard deduction for joint returns as percentage of standard deduction for single returns
2002—2004	167
2005	174
2006	184
2007	187
2008	190
2009 and later	200

REASONS FOR CHANGE

The Committee continues to be concerned about the inequity that arises when two single individuals marry and experience a tax increase solely by reason of their marriage. The increase in the standard deduction under the bill will mitigate this marriage penalty and will benefit 21 million married couples. It also allows 300,000 couples who currently itemize their deductions to realize the simplification benefits of using the larger basic standard deduction in 2003 and 2004.

EXPLANATION OF PROVISION

The bill accelerates the increase of the basic standard deduction for married couples filing joint returns. Table 2, below, shows the standard deduction for married couples filing a joint return as a percentage of the standard deduction for single individuals during the phase-in period as modified under the bill.

TABLE 2.—PHASE-IN OF THE INCREASE OF THE BASIC STANDARD DEDUCTION FOR MARRIED COUPLES FILING JOINT RETURNS

Calendar year	Standard deduction for joint returns as percentage of standard deduction for single returns
2002	167
2003—2004	170
2005	174
2006	184
2007	187
2008	190
2009 and later	200

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2002.

B. MODIFICATION OF THE WORK OPPORTUNITY TAX CREDIT AND
WELFARE-TO-WORK TAX CREDIT

(Sec. 201 of the bill and secs. 51 and 51A of the Code)

PRESENT LAW

*Work opportunity tax credit**Targeted groups eligible for the credit*

The work opportunity tax credit is available on an elective basis for employers hiring individuals from one or more of eight targeted groups. The eight targeted groups are: (1) certain families eligible to receive benefits under the Temporary Assistance for Needy Families ("TANF") Program; (2) high-risk youth; (3) qualified ex-felons; (4) vocational rehabilitation referrals; (5) qualified summer youth employees; (6) qualified veterans; (7) qualified food stamp recipients; and (8) persons receiving certain Supplemental Security Income (SSI) benefits.

A qualified ex-felon is an individual certified as: (1) having been convicted of a felony under State or Federal law; (2) being a member of an economically disadvantaged family; and (3) having a hiring date within one year of the later of release from prison or conviction.

Vocational rehabilitation referrals are those individuals who have a physical or mental disability that constitutes a substantial handicap to employment, and who are referred to the employer while receiving, or after completing, vocational rehabilitation services under an individualized, written rehabilitation plan under a State plan approved under the Rehabilitation Act of 1973 or under a rehabilitation plan for veterans carried out under Chapter 31 of Title 38, U.S. Code. Certification is provided by the designated local employment agency upon assurances from the vocation rehabilitation agency that the employee has met the above conditions.

Qualified food stamp recipients are individuals who have attained age 18 but have not attained age 25 that are certified as being a member of a family either currently or recently receiving assistance under an eligible food stamp program.

Qualified wages

Generally, qualified wages are defined as cash wages paid by the employer to a member of a targeted group. The employer's deduction for wages is reduced by the amount of the credit.

Calculation of the credit

The credit equals 40 percent (25 percent for employment of less than 400 hours) of qualified first-year wages. Generally, qualified first-year wages are qualified wages (not in excess of \$6,000) attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual began work for the employer. Therefore, the maximum credit per employee is \$2,400 (40 percent of the first \$6,000 of qualified first-

year wages). With respect to qualified summer youth employees, the maximum credit is \$1,200 (40 percent of the first \$3,000 of qualified first-year wages).

Minimum employment period

No credit is allowed for qualified wages paid to employees who work less than 120 hours in the first year of employment.

Coordination of the work opportunity tax credit and the welfare-to-work tax credit

An employer cannot claim the work opportunity tax credit with respect to wages of any employee on which the employer claims the welfare-to-work tax credit.

Other rules

The work opportunity tax credit is not allowed for wages paid to a relative or dependent of the taxpayer. Similarly, wages paid to replacement workers during a strike or lockout are not eligible for the work opportunity tax credit. Wages paid to any employee during any period for which the employer received on-the-job training program payments with respect to that employee are not eligible for the work opportunity tax credit. The work opportunity tax credit generally is not allowed for wages paid to individuals who had previously been employed by the employer. In addition, many other technical rules apply.

Welfare-to-work tax credit

Targeted group eligible for the credit

The welfare-to-work tax credit is available on an elective basis to employers of qualified long-term family assistance recipients. Qualified long-term family assistance recipients are: (1) members of a family that has received TANF benefits for at least 18 consecutive months ending on the hiring date; (2) members of a family that has received such TANF benefits for a total of at least 18 months (whether or not consecutive) after August 5, 1997 (the date of enactment of the welfare-to-work tax credit) if the individual is hired within 2 years after the date that the 18-month total is reached; and (3) members of a family who is no longer eligible for TANF benefits because of either Federal or State time limits, if the individual is hired within 2 years after the Federal or State time limits made the family ineligible for TANF benefits.

Qualified wages

Qualified wages for purposes of the welfare-to-work tax credit are defined more broadly than under the work opportunity tax credit. In contrast to the definition of wages for the work opportunity tax credit which includes only cash wages, the definition of wages for the welfare-to-work tax credit includes cash wages paid to an employee plus amounts paid by the employer for: (1) educational assistance excludable under a section 127 program; (2) certain health plan coverage for the employee that is excludable from income under sections 105 and 106 for income tax purposes, but not more than the applicable premium defined under section 4980B(f)(4); and (3) dependent care assistance excludable under section 129. The

employer's deduction for wages is reduced by the amount of the credit.

Calculation of the credit

The welfare-to-work tax credit is available on an elective basis to employers of qualified long-term family assistance recipients during the first two years of employment. The maximum credit is 35 percent of the first \$10,000 of qualified first-year wages and 50 percent of the first \$10,000 of qualified second-year wages. Qualified first-year wages are defined as qualified wages (not in excess of \$10,000) attributable to service rendered by a member of the targeted group during the one-year period beginning with the day the individual began work for the employer. Qualified second-year wages are defined as qualified wages (not in excess of \$10,000) attributable to service rendered by a member of the targeted group during the one-year period beginning immediately after the first year of that individual's employment for the employer. The maximum credit is \$8,500 per qualified employee.

Minimum employment period

No credit is allowed for qualified wages paid to a member of the targeted group unless the member works at least 400 hours or 180 days in the first year of employment.

Coordination of the work opportunity tax credit and the welfare-to-work tax credit

An employer cannot claim the work opportunity tax credit with respect to wages of any employee on which the employer claims the welfare-to-work tax credit.

Other rules

The welfare-to-work tax credit incorporates directly or by reference many of the other rules contained in the work opportunity tax credit.

REASONS FOR CHANGE

The Committee wishes to increase the employment opportunities of certain individuals and promote simplification of the Federal tax laws. Simplifying the work opportunity and welfare-to-work tax credits achieving both objectives. Simplification reduces burdens on employers that already claim the credits. In addition, simplification may benefit individuals in the targeted groups by reducing one possible disincentive for employers to claim the credit. The Committee bill also increases employment opportunities for individuals directly by expanding the definition of three of the targeted groups.

The work opportunity and welfare-to-work tax credits have sources of complexity under present law. Employers of members of the targeted groups must comply with two different though very similar sets of rules to determine the amount of their work opportunity tax credit and welfare-to-work tax credit. Some large employers may be eligible for one or both credits with respect to a fraction of their employees, yet fail to claim the credits due to their complexity. Most small employers do not claim either credit. While the certification process may account for much of the perceived complexity of the two credits, the other differences in the credit re-

quirements (e.g., definition of qualified wages and minimum employment rules) may also act as a disincentive to employer participation. The fact that so many members of one or more targeted groups under the work opportunity tax credit also qualify as qualified long-term family assistance recipients is an additional source of complexity. In that instance, an employer must calculate both the work opportunity tax credit and welfare-to-work tax credit with respect to that employee to determine which credit is most advantageous to claim on the first year of employment for that individual.

Combining the credits and harmonizing the rules will eliminate burdensome calculations and often-duplicative compliance responsibilities. Employers will be able to look to a uniform set of rules with regard to the employment of members of any of the targeted groups.

EXPLANATION OF PROVISION

Combined credit

Targeted groups eligible for the combined credit

The bill combines the work opportunity and welfare to work tax credits. The combined credit is available on an elective basis for employers hiring individuals from one or more of all nine present-law targeted groups.²

The bill repeals the requirement that a qualified ex-felon be a member of an economically disadvantaged family for purposes of eligibility for the tax credit. Under the bill, a qualified ex-felon is an individual certified as: (1) having been convicted of a felony under State or Federal law; and (2) having a hiring date within one year of the later of release from prison or conviction.

The bill adds an additional type of individual eligible for the credit under the category of vocational rehabilitation referrals. Under the bill, certain individuals who have a physical or mental disability that constitutes a substantial handicap to employment and who are receiving vocational services or have completed an individual work plan developed by a private employment network as defined under section 1148(f) of the Social Security Act qualify as members of the vocational rehabilitation referral targeted group.

The bill increases the age limit for qualified food stamp recipients by five years. Under the bill a food stamp recipient is an individual who has attained age 18 but has not attained age 30 who is certified as being a member of a family either currently or recently receiving assistance under an eligible food stamp program.

Qualified wages

Generally, qualified wages are defined as cash wages paid by the employer to a member of a targeted group. Qualified first-year wages for the eight work opportunity tax credit categories, as modified by this proposal, remain capped at \$6,000. No credit is allowed for second-year wages. In the case of long-term family assistance recipients, the cap of \$6,000 is increased to \$10,000 for both quali-

²The Committee recognizes that a transition to the combined credit will require additional taxpayer education. It is anticipated that the Treasury Department take all appropriate action (e.g., timely taxpayer guidance and distribution of new forms) to help employers efficiently claim the combined credit.

fied first-year wages and qualified second-year wages. The employer's deduction for wages is reduced by the amount of the credit.

Calculation of the credit

First-year wages.—The present-law work opportunity tax credit rules are retained for the eight categories currently eligible for the work opportunity tax credit. Specifically, the credit equals 40 percent (25 percent for employment of less than 400 hours) of qualified first-year wages. Generally, qualified first-year wages are qualified wages (not in excess of \$6,000) attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual begins work for the employer. Therefore, the maximum credit per employee for members of the eight work opportunity tax credit targeted groups remains \$2,400 (40 percent of the first \$6,000 of qualified first-year wages). With respect to qualified summer youth employees, the maximum credit remains \$1,200 (40 percent of the first \$3,000 of qualified first-year wages).

In the case of long-term family assistance recipients, the credit equals 40 percent (25 percent for employment of less than 400 hours) of qualified first-year wages. The maximum credit is \$4,000 (40 percent of the first \$10,000 of qualified first-year wages) with respect to long-term family assistance recipients.

Second year wages.—In the case of long-term family assistance recipients the maximum credit is 40 percent of the first \$10,000 of qualified second-year wages.

Minimum employment period

No credit is allowed for qualified wages paid to employees who work less than 120 hours in the first year of employment.

Coordination of the work opportunity tax credit and the welfare-to-work tax credit

Coordination is no longer necessary because the two credits are combined under the bill.

EFFECTIVE DATE

The provision is effective for wages paid or incurred with respect to qualified individuals who begin work for an employer after December 31, 2002.

III. VOTES OF THE COMMITTEE

The bill was ordered reported by a voice vote, with a quorum present.

IV. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 4626 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2003–2007:

ESTIMATED REVENUE EFFECTS OF THE CHAIRMAN'S AMENDMENT TO H.R. 4626, THE "ENCOURAGING WORK AND SUPPORTING MARRIAGE ACT OF 2002," SCHEDULED FOR MARKUP BY THE COMMITTEE ON WAYS AND MEANS ON MAY 2, 2002

[Fiscal Years 2003–2012, in millions of dollars]

Provision	Effective	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003–07	2003–12
Accelerate the Increase in the Standard Deduction for Married Couples Filing Jointly (the standard deduction would increase to: 170% of the amount of the deduction for single filers in 2003 and 2004).	tyba 12/31/02	- 241	- 465	- 155	.....	.....	.....	.....	.....	.....	.....	- 861	- 861
Modification of the Work Opportunity Tax Credit ("WOTC") and the Welfare-to-Work Tax Credit ("WWTC"):													
1. Combine the WOTC and the WWTC; target groups are the 8 groups currently covered under the WOTC and long-term TANF recipients currently covered under the WWTC; present-law WOTC definition of wages; 40% credit with respect to employment of 400 or more hours and 25% credit for between 120–400 hours, no credit for less than 120 hours; first year credit applies to first \$6,000 of wages for WOTC groups and first \$10,000 of wages for WWTC group; WWTC group would be eligible for a 40% credit on first \$10,000 for 2nd year of employment ¹ .	wpoifibwa 12/31/02	- 6	- 7	- 1	(2)	(3)	(3)	(2)	(2)	.....	.....	- 13	- 13
2. Eliminate the family income test that applies to ex-felons under the WOTC ¹ .	wpoifibwa 12/31/02	- 1	- 1	(3)	(3)	(3)	.....	.....	.....	.....	.....	- 2	- 2
3. Increase the WOTC eligibility age for food stamp recipients from 25 to 30 ¹ .	wpoifibwa 12/31/02	- 8	- 12	- 5	- 2	- 2	- 1	(3)	.....	.....	.....	- 29	- 30
4. Modify definition of a vocational rehabilitation referral ¹	wpoifibwa 12/31/02	- 1	- 1	(3)	(3)	(3)	.....	.....	.....	.....	.....	- 2	- 2
Total of Modification of the WOTC and WWTC		- 16	- 21	- 6	- 2	- 2	- 1	(3)	(2)	.....	.....	- 46	- 47
Net Total		- 257	- 486	- 161	- 2	- 2	- 1	(3)	(2)	.....	.....	- 907	- 908

¹ Proposal expires, like present-law WOTC and WWTC, on December 31, 2003.

² Gain of less than \$500,000.

³ Loss of less than \$500,000.

Legend for "Effective" column: tyba = taxable years beginning after; wpoifibwa = wages paid or incurred for individuals beginning work after.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX
EXPENDITURES BUDGET AUTHORITY

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority (as detailed in the statement by the Congressional Budget Office (“CBO”); see Part IV.C., below). The Committee further states that the revenue reducing income tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET
OFFICE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 9, 2002.

Hon. WILLIAM “BILL” M. THOMAS,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4626, the Encouraging Work and Supporting Marriage Act of 2002.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Erin Whitaker.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

*H.R. 4626—Encouraging Work and Supporting Marriage Act of
2002*

Summary: The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that enacting H.R. 4626 would reduce revenues by \$257 million in fiscal year 2003, by \$907 million over the 2003–2007 period, and by \$908 million over the 2003–2012 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

H.R. 4626 would provide increases in the standard deduction for married taxpayers filing jointly that would take effect before the increases enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). As a result, the standard deduction would increase in the years 2003 and 2004 above the amounts applicable under current law. The bill also would combine the work opportunity tax credit with the welfare-to-work tax credit for employers who hire employees from one of nine targeted groups. The combined credit would expire at the end of 2003, like the separate credits under current law. The credit would be calculated in the same manner as under current law for employees in those groups targeted under the work opportunity tax credit. For employees in those groups targeted under the welfare-to-work tax credit, the credit would equal 40 percent of qualified first year wages, or 25

percent of such wages if the employee were to work less than 400 hours.

In addition, the bill would eliminate the requirement that ex-felons be members of lower-income earning families in order for their employers to receive the credit, increase the age limit from 25 to 30 for food stamp recipients so that their employers are still eligible for the credit, and make eligible certain individuals with substantial handicaps to employment who are receiving vocational services as members of the vocational rehabilitation targeted group.

H.R. 4626 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. 4626 is shown in the following table. All estimates of the revenue effects of the bill were provided by JCT. The provision of the bill that would have the greatest impact on revenues would increase the standard deduction for married taxpayers filing jointly in 2003 and 2004. This provision would, if enacted, reduce revenues by \$241 million in 2003, by \$861 million over the 2003–2007 period, and by the same amount over the 2003–2012 period.

	By fiscal year, in millions of dollars—					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Estimated Revenues	0	-257	-486	-161	-2	-2

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in 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 through 2006 are counted.

	By fiscal year, in millions of dollars—										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	Not applicable										
Changes in receipts	0	-257	-486	-161	-2	-2	-1	0	0	0	0

Intergovernmental and private-sector impact: H.R. 4626 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Erin Whitaker.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Com-

mittee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers and the level of complexity in the tax system that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. STATEMENT OF GENERAL PERFORMANCE GOALS AND OBJECTIVES

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. CONSTITUTIONAL AUTHORITY STATEMENT

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises * * *"), and from the 16th Amendment to the Constitution.

D. INFORMATION RELATING TO UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104-4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, and tribal governments.

E. APPLICABILITY OF HOUSE RULE XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. TAX COMPLEXITY ANALYSIS

The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service ("IRS") and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individ-

uals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and the Treasury Department regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

1. Standard deduction tax relief

Summary description of provision

Present law provides for an increase in the basic standard deduction for married taxpayers filing a joint return to twice the basic standard deduction for an unmarried individual. The increase is phased-in over five years beginning in 2005 and will be fully phased-in for 2009 and thereafter. The bill will accelerate this increase of the basic standard deduction for married couples filing joint returns. Specifically, the bill increases the standard deduction for married couples filing joint returns to 170 percent of the standard deduction for single individuals for 2003 and 2004. The bill does not change the phase-in for 2005 and thereafter.

Number of affected taxpayers

It is estimated that the provision will affect approximately 21 million individual returns.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. The higher basic standard deduction should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision. In addition, the provision should not increase individuals' tax preparation costs.

Some taxpayers who currently itemize deductions may respond to the provision by claiming the increased standard deduction in lieu of itemizing. According to estimates by the staff of the Joint Committee on Taxation, approximately three hundred thousand individual tax returns will realize greater tax savings from the increased standard deduction than from itemizing their deductions. In addition to the tax savings, such taxpayers will no longer have to file Schedule A to Form 1040 and a significant number of which will no longer need to engage in the record keeping inherent in itemizing below-the-line deductions. Moreover, by claiming the standard deduction, such taxpayers may qualify to use simpler versions of the Form 1040 (i.e., Form 1040EZ or Form 1040A) that are not available to individuals who itemize their deductions. These forms simplify the return preparation process by eliminating from the Form 1040 those items that do not apply to particular taxpayers.

This reduction in complexity and record keeping also may result in a decline in the number of individuals using a tax preparation service or a decline in the cost of using such a service. Further-

more, if the provision results in a taxpayer qualifying to use one of the simpler versions of the Form 1040, the taxpayer may be eligible to file a paperless Federal tax return by telephone. The provision also should reduce the number of disputes between taxpayers and the IRS regarding substantiation of itemized deductions.

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, May 6, 2002.

Ms. LINDY L. PAULL,
*Chief of Staff, Joint Committee on Taxation,
Washington, DC.*

DEAR MS. PAULL: Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the provision from the House Committee on Ways and Means markup of H.R. 4626, the "Encouraging Work and Supporting Marriage Act of 2002," that you identified for complexity analysis in your letter of May 2, 2002. Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provision.

Sincerely,

CHARLES O. ROSSOTTI.

Enclosure.

COMPLEXITY ANALYSIS OF H.R. 4626, ENCOURAGING WORK AND
SUPPORTING MARRIAGE ACT OF 2002

ACCELERATE INCREASE IN STANDARD DEDUCTION FOR JOINT FILERS

Provision

Present law provides for an increase in the basic standard deduction for married taxpayers filing a joint return to twice the basic standard deduction for an unmarried individual. The increase is phased in over five years beginning in 2005.

The provision would increase the standard deduction for married couples filing joint returns to 170 percent of the standard deduction for single individuals for 2003 and 2004. The provision would not change the phase-in for 2005 and thereafter.

IRS and Treasury comments

- The increase in the basic standard deduction for married taxpayers would be incorporated in the instructions for Forms 1040, 1040A, 1040EZ, and on Forms 1040, 1040A, 1040EZ, and 1040-ES for 2003. No new forms would be required.
- Programming changes would be required to reflect the increased standard deduction for married taxpayers. Currently, IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitate by this provision would be included during that process.
- The larger standard deduction would reduce the number of taxpayers who itemize deductions by nearly 300,000 in 2003 and by nearly 400,000 in 2004.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

* * * * *

Subtitle A—Income Taxes

* * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * *

Subchapter A—Determination of Tax Liability

* * * * *

PART IV—CREDIT AGAINST TAX

* * * * *

Subpart F—Rules for Computing Work Opportunity Credit

Sec. 51. Amount of credit.
 [Sec. 51A. Temporary incentives for employing long-term family assistance recipients.]

* * * * *

SEC. 51. AMOUNT OF CREDIT.

(a) * * *

* * * * *

(d) **MEMBERS OF TARGETED GROUPS.**—For purposes of this subpart—

(1) **IN GENERAL.**—An individual is a member of a targeted group if such individual is—

(A) * * *

* * * * *

(G) a qualified food stamp recipient, [or]

(H) a qualified SSI recipient[.], or

(I) a long-term family assistance recipient.

* * * * *

(4) **QUALIFIED EX-FELON.**—The term “qualified ex-felon” means any individual who is certified by the designated local agency—

(A) as having been convicted of a felony under any statute of the United States or any State, and

(B) as having a hiring date which is not more than 1 year after the last date on which such individual was so convicted or was released from prison~~], and~~].

[(C) as being a member of a family which had an income during the 6 months immediately preceding the earlier of the month in which such income determination occurs or the month in which the hiring date occurs, which, on an annual basis, would be 70 percent or less of the Bureau of Labor Statistics lower living standard.

Any determination under subparagraph (C) shall be valid for the 45-day period beginning on the date such determination is made.]

* * * * *

(6) VOCATIONAL REHABILITATION REFERRAL.—The term “vocational rehabilitation referral” means any individual who is certified by the designated local agency as—

(A) * * *

(B) having been referred to the employer upon completion of (or while receiving) rehabilitative services pursuant to—

(i) an individualized written plan for employment under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973, ~~or~~ **[or]**

(ii) a program of vocational rehabilitation carried out under chapter 31 of title 38, United States Code~~], or~~

(iii) an individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act with respect to which the requirements of such subsection are met.

* * * * *

(8) QUALIFIED FOOD STAMP RECIPIENT.—

(A) IN GENERAL.—The term “qualified food stamp recipient” means any individual who is certified by the designated local agency—

(i) as having attained age 18 but not age ~~[25]~~ 30 on the hiring date, and

* * * * *

(10) LONG-TERM FAMILY ASSISTANCE RECIPIENT.—*The term “long-term family assistance recipient” means any individual who is certified by the designated local agency—*

(A) as being a member of a family receiving assistance under a IV-A program (as defined in paragraph (2)(B)) for at least the 18-month period ending on the hiring date,

(B)(i) as being a member of a family receiving such assistance for 18 months beginning after August 5, 1997, and

(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

(C)(i) as being a member of a family which ceased to be eligible for such assistance by reason of any limitation im-

posed by Federal or State law on the maximum period such assistance is payable to a family, and
(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

[(10)] (11) HIRING DATE.—The term “hiring date” means the day the individual is hired by the employer.

[(11)] (12) DESIGNATED LOCAL AGENCY.—The term “designated local agency” means a State employment security agency established in accordance with the Act of June 6, 1933, as amended (29 U.S.C. 49-49n).

[(12)] (13) SPECIAL RULES FOR CERTIFICATIONS.—

(A) **IN GENERAL.**—An individual shall not be treated as a member of a targeted group unless—

(i) * * *

* * * * *

(e) CREDIT FOR SECOND-YEAR WAGES FOR EMPLOYMENT OF LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—

(1) IN GENERAL.—With respect to the employment of a long-term family assistance recipient—

(A) *the amount of the work opportunity credit determined under this section for the taxable year shall include 40 percent of the qualified second-year wages for such year, and*

(B) *in lieu of applying subsection (b)(3), the amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to such a recipient shall not exceed \$10,000 per year.*

(2) QUALIFIED SECOND-YEAR WAGES.—For purposes of this subsection, the term “qualified second-year wages” means qualified wages—

(A) *which are paid to a long-term family assistance recipient, and*

(B) *which are attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such recipient determined under subsection (b)(2).*

(3) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to whom subparagraph (A) or (B) of subsection (h)(1) applies, rules similar to the rules of such subparagraphs shall apply except that—

(A) *such subparagraph (A) shall be applied by substituting “\$10,000” for “\$6,000”, and*

(B) *such subparagraph (B) shall be applied by substituting “\$833.33” for “\$500”.*

* * * * *

[SEC. 51A. TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.

[(a) DETERMINATION OF AMOUNT.—For purposes of section 38, the amount of the welfare-to-work credit determined under this section for the taxable year shall be equal to—

[(1)] 35 percent of the qualified first-year wages for such year, and

[(2)] 50 percent of the qualified second-year wages for such year.

[(b) QUALIFIED WAGES DEFINED.—For purposes of this section—

[(1) IN GENERAL.—The term “qualified wages” means the wages paid or incurred by the employer during the taxable year to individuals who are long-term family assistance recipients.

[(2) QUALIFIED FIRST-YEAR WAGES.—The term “qualified first-year wages” means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

[(3) QUALIFIED SECOND-YEAR WAGES.—The term “qualified second-year wages” means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under paragraph (2).

[(4) ONLY FIRST \$10,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to any individual shall not exceed \$10,000 per year.

[(5) WAGES.—

[(A) IN GENERAL.—The term “wages” has the meaning given such term by section 51(c), without regard to paragraph (4) thereof.

[(B) CERTAIN AMOUNTS TREATED AS WAGES.—The term “wages” includes amounts paid or incurred by the employer which are excludable from such recipient’s gross income under—

[(i) section 105 (relating to amounts received under accident and health plans),

[(ii) section 106 (relating to contributions by employer to accident and health plans),

[(iii) section 127 (relating to educational assistance programs), but only to the extent paid or incurred to a person not related to the employer, or

[(iv) section 129 (relating to dependent care assistance programs).

The amount treated as wages by clause (i) or (ii) for any period shall be based on the reasonable cost of coverage for the period, but shall not exceed the applicable premium for the period under section 4980B(f)(4).

[(C) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to whom subparagraph (A) or (B) of section 51(h)(1) applies, rules similar to the rules of such subparagraphs shall apply except that—

[(i) such subparagraph (A) shall be applied by substituting “\$10,000” for “\$6,000”, and

[(ii) such subparagraph (B) shall be applied by substituting “\$833.33” for “\$500”.

[(c) LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—For purposes of this section—

[(1) IN GENERAL.—The term “long-term family assistance recipient” means any individual who is certified by the designated local agency (as defined in section 51(d)(11)—

[(A) as being a member of a family receiving assistance under a IV-A program (as defined in section 51(d)(2)(B) for at least the 18-month period ending on the hiring date,

[(B)(i) as being a member of a family receiving such assistance for 18 months beginning after the date of the enactment of this section, and

[(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

[(C)(i) as being a member of a family which ceased to be eligible after the date of the enactment of this section for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

[(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

[(2) HIRING DATE.—The term “hiring date” has the meaning given such term by section 51(d).

[(d) CERTAIN RULES TO APPLY.—

[(1) IN GENERAL.—Rules similar to the rules of section 52, and subsections (d)(11), (f), (g), (i) (as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997), (j), and (k) of section 51, shall apply for purposes of this section.

[(2) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT, ETC.—References to section 51 in section 38(b), 280C(a), and 1396(c)(3) shall be treated as including references to this section.

[(e) COORDINATION WITH WORK OPPORTUNITY CREDIT.—If a credit is allowed under this section to an employer with respect to an individual for any taxable year, then for purposes of applying section 51 to such employer, such individual shall not be treated as a member of a targeted group for such taxable year.

[(f) TERMINATION.—This section shall not apply to individuals who begin work for the employer after December 31, 2003.]

* * * * *

Subchapter B—Computation of Taxable Income

* * * * *

PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

* * * * *

SEC. 63. TAXABLE INCOME DEFINED.

(a) * * *

* * * * *

(c) STANDARD DEDUCTION.—For purposes of this subtitle—

(1) * * *

* * * * *

[(7) APPLICABLE PERCENTAGE.—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

[For taxable years beginning in calendar year—	The applicable percentage is—
2005	174
2006	184
2007	187
2008	190
2009 and thereafter	200.]

(7) *APPLICABLE PERCENTAGE.*—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in calendar year—	The applicable percentage is—
2003 or 2004	170
2005	174
2006	184
2007	187
2008	190
2009 and thereafter	200.
* * * * *	

**SECTION 301 OF THE ECONOMIC GROWTH AND TAX
RELIEF RECONCILIATION ACT OF 2001**

**SEC. 301. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DE-
DUCTION.**

(a) * * *

* * * * *

(d) *EFFECTIVE DATE.*—The amendments made by this section shall apply to taxable years beginning after December 31, **[2004]** 2002.