



# A LEGISLATIVE HISTORY OF THE BUSH TAX CUT: THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001

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The Economic Growth and Tax Relief Reconciliation Act of 2001 - or the \$1.35 billion Bush tax cut - represents the largest tax reduction in 20 years. This complex legislation includes 85 major changes, some that took effect immediately, some that went into effect in 2005, and others that are set for 2010.

Its provisions have been controversial, with the legislation criticized as being too costly, too skewed towards the wealthy, and overly complex. It has also claimed that it is premised on unrealistic estimates of future budget surpluses. In fact, similar Republican-sponsored tax relief bills, containing many similar provisions, were vetoed on such grounds by former President Clinton in 1999 and 2000.

As a result, this Act represented a victory for advocates of significant tax relief, containing as it does the major elements of President Bush's tax agenda, including lower income tax rates, marriage penalty relief, repeal of the estate tax, and an increase in the child tax credit.

Title I of the Act includes the key element of immediate tax rate reduction for individuals. Rates in all tax brackets except \$15,000 have been reduced 0.5%, with annual indexing for inflation. Reductions were scheduled to have full implementation by 2006. Also effective at the time of adoption and retroactive for the year 2000, was the new 10% bracket for first \$6,000 of income for singles, \$10,000 for head of households and \$12,000 for joint filers. Title I also eliminates the phase-out of personal exemptions and itemized deductions for high-income taxpayers starting in 2006.

Title III provides marriage-penalty relief. Starting in 2005, an increase in the standard deduction for married couples filing jointly was to take place, with an expansion of their 15% tax bracket. The estate tax phase-out is included in Title V. It provides for the gradual elimination of the estate tax over 10 years. However, the tax will be reinstated in 2011, unless Congress passes legislation to make its elimination permanent.

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Title V also increases the estate tax exemption amount to \$1 million and drops the top tax rate from 55% to 50%. It also extends the time to pay the estate tax, and expands estate tax rules for conservation easements. Although the estate tax is scheduled for a phase-out, the gift tax has been retained with a \$1 million dollar lifetime exemption. Although this involves ending the longstanding unified estate-gift tax system, the gift tax was retained to prevent persons from avoiding income tax by shifting income to lower tax bracket individuals.

Title II doubles the child tax credit over 10 years, and allows the alternative minimum tax to be permanently offset by the child tax credit. It also increases the dependent care credit percentage, and increases the adoption credit.

Title IV contains several key affordable education provisions. It replaces education IRAs with education savings accounts, and increases contribution and adjusted gross income limits. It also allows these funds to be used for public and private elementary school tuition, not just for higher education.

Income limitations on student loan interest deductions have been increased, and the 60-month limit has been eliminated. Taxpayers can also now exclude qualified state tuition plans from income. There is also an exclusion of up to \$5250 for employer-provided educational assistance for graduate and undergraduate courses. Finally, the legislation liberalizes tax-exempt financing rules for public school construction.

The Act also includes assistance in the area of retirement savings. Title VI increases the amount that can be contributed to retirement plans. It increases contribution limits for both traditional and Roth IRAs, and allows for catch-up contributions for those over age 50. It also gradually increases 401(k) annuities and salary reduction steps, and increases the SIMPLE and defined contribution plan contribution limits.

Additional provisions, included in Title VII, increase alternative minimum tax exemption amounts, extend the time to pay corporate estimated taxes, and provide a tax exemption for Holocaust restitution payments.

This compilation contains materials connected with the Act as well as documents related to tax cutting legislation proposed since the enactment of the Taxpayer Relief Act of 1997 (also available from Hein). These include bill versions, related bills, hearings, reports, committee prints, Congressional Record excerpts and presidential materials.

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