

From Ms Udall,
f.y.i.

f.y.i.—for your information—is a periodic summary of legislative activity of the Congress of the United States and of proposals and general information of interest to the residents of the 2nd Congressional District of Arizona.

REVENUE ACT OF 1978

Just prior to adjournment, the 95th Congress passed an \$18.7 billion tax reduction bill containing a compromise of House and Senate provisions. In 1979, the bill would cut individual taxes by about \$12.7 billion, business taxes by \$3.7 billion, and capital gains taxes by \$2.2 billion.

Major provisions of the bill are:

1. Individual Income Tax Cuts - effective January 1, 1979
 - * Approximately seven percent cut for average taxpayer;
 - * Brackets widened and the number reduced from 25 to 15;
 - * Zero bracket amount increased from \$2200 to \$2300 for single people, from \$3200 to \$3400 for married couples, (this has same effect as a \$100 increase in former standard deduction);
 - * Personal exemption raised from \$750 to \$1000 for each taxpayer and dependent;
 - * Earned income credit increased to maximum of \$500 (10% of first \$5000 in earnings), with income range increased to between \$6000 and \$10,000, to be reflected in withholdings from pay. Computation simplified;
 - * Kemp-Roth plan to cut taxes by 33% over next three years modified to have cuts tied to federal spending/deficits; included as policy statement only;
 - * Repeals deductions for non-business state and local gasoline taxes;

2. Capital Gains Tax Revisions - effective November 1, 1978
 - * For individual investors, exclusion increased to 60%,

repeals 25% alternative rate on first \$50,000 of long-term gains. Alternative tax for corporations reduced to 28%, effective January 1, 1979;

- * For homeowners, a one-time \$100,000 exclusion for taxpayers aged 55 or over, effective July 26, 1978. Rollover provisions of current law continue on sale of principal residence;
- * For capital gains and excess itemized deductions, a new alternative minimum tax replaces existing add-on tax and would be applied to taxable income plus excluded part of gains, plus excess itemized deductions, minus a \$20,000 exemption. Rates of 10-25% on first \$40,000 to over \$80,000;

3. Deferred Compensation and Pension Plans

- * Permits deferral of the lesser of \$7500 or 33 1/3% for employees and independent contractors performing services for state or local government or tax-exempt rural electric cooperatives. Extends rules of deductibility to deferred payments for services of independent contractors;
- * Expands non-taxable aspects of "cafeteria" and deferred profit-sharing plans;
- * Raises deduction amount to \$7500 or 15% for employer contributions to IRA's;
- * Special breaks for participants in defined benefit plans, and employees of tax-exempt charitable organizations and educational institutions.

4. Corporate Tax Cuts - effective January 1, 1979

- * Reduces top rate from 48 to 46%;
- * Provides graduated rates for corporations with income under \$100,000, to especially benefit small businesses;
- * 10% investment tax credit made permanent, permitted to offset 90% (up from 50% of liability and extended to rehabilitation of existing buildings);
- * Targeted jobs credit to encourage hiring of Vietnam veterans, youth, handicapped, and welfare recipients to replace expiring general jobs credit.

5. Misc. Provisions

- * Estate tax carryover basis provisions of 1976 Tax Reform Act delayed for three years;
- * Delays for one year through 1979 any tax liability, and prohibits IRS regulations, regarding the status of independent contractors as employees for withholding purposes;
- * Excludes from taxable income educational assistance provided by employer;

* Delays until 1980 any IRS regulations dealing with taxation of fringe benefits.

As passed, the bill is approximately \$1 billion lower than the amount provide from in the Second Budget Resolution passed by Congress in September (that resolution set federal budget levels for fiscal year 1979). Thus, the projected deficit is lowered to \$37.8 billion, about \$22 billion less than the deficit suggested by the President in his budget proposals of last January.