Background Information from Congressman Joe Pitts

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House progress on small business agenda

JOBS AND GROWTH PLAN

By accelerating tax reductions that were enacted in the 2001 tax act, the Jobs and Growth Tax Relief Reconciliation Act would provide small business owners with much needed assistance. 23,000,000 small business owners would receive tax cuts averaging $2,209.

Accelerating the reduction in the top marginal rate scheduled to take effect in 2006 (to 35%) to 2003 would help small businesses.

Owners of flow-through entities, including small business owners and entrepreneurs, comprise two-thirds (about 400,000) of the 600,000 tax returns that would benefit from accelerating the reduction in the top tax bracket scheduled for 2006 to 2003. These small business owners would receive 79% (about $9.7 billion) of the $12.4 billion in tax relief from accelerating the reduction in the top tax bracket to 35% from 2006 to 2003.

The increase in the expensing for new investment would encourage small business owners to purchase the technology, machinery, and other equipment they need to expand. The amount of investment that may be immediately deducted by small businesses would quadruple from $25,000 to $100,000 beginning in 2003. The amount of investment qualifying for this immediate deduction will begin to phase out for small businesses with investment in excess of $400,000 (doubled from $200,000). Both parameters are indexed for inflation beginning in 2004. Computer software would be eligible for expensing. The provision sunsets after December 31, 2005.

The increase in expensing provides incentives for small businesses to grow. Small business owners who purchase equipment to grow and expand will get assistance through this provision. The increase in expensing encourages capital investment by small businesses. Tax compliance and record-keeping burdens would be simplified by allowing many small businesses to avoid the inherent complexity of depreciation provisions.

SOURCE: Office of Tax Policy, Department of the Treasury, May 22, 2003

ASSOCIATION HEALTH PLANS

The Small Business Health Fairness Act (H.R. 660) creates AHPs, which allow small businesses to band together through associations and purchase quality health care for workers and their families at a lower cost. The bill, which has received significant bipartisan support in the House and boasts more than 150 cosponsors, was approved in the House by a vote of 262 to 162.

Requirements for AHPs:

- Must be sponsored by a permanent, bona fide organization established for substantial purposes other than to provide medical care and that does not make decisions with regard to membership, payments, or coverage based on health status.
- Must be certified under a procedure established by the Secretary of Labor. Criteria are established for plans offering a self-insured health benefit, including that sponsors may not restrict membership in the plan to one or more businesses or industries. Fully insured plans would be subject to class certification by the Secretary.
- Plans wishing to be certified would submit an application to the Secretary (along with a $5000 filing fee for administration) with information on the states in which the plan intends to operate and with plan documents, including those describing benefits. Plans must file their certification in each state in which at least 25% of the plan's participants are located. Self-insured plans must have at least 1,000 participants in order to be certified.
- Self-insured AHPs must maintain surplus reserves of at least $500,000 (or a greater amount set by the Secretary, but not more than $2 million) and must obtain stop loss and indemnification insurance.
- Must pay $5000 annually into an "Association Health Plan Fund" through which the Secretary would make payments to insurers to maintain stop loss insurance or indemnification insurance coverage if without such payments coverage under the plan would be terminated.

Requirements for AHP Sponsors:

- Must have been in existence for a continuous period of not less than three years.
- Must be operated under a three-year plan by a board of trustees. The board must consist of owners, officers, directors or employees of the employers who participate in the plan and have full fiscal control and responsibility for the plans operations.
- May voluntarily terminate plan only if the board of trustees provides 60-day advance written notice to participants and provides for timely payment of all benefit obligations.

Participation and Coverage Requirements:

- All employers who are AHP members must be eligible for participation under the terms of the plan.
- Eligible employers must be informed of all benefit options available under the plan.
- Eligible employees may not be excluded from the plan because of health status.
- Employers may not exclude employees from the plan by purchasing an individual health insurance policy for the employee based on his or her health status.

Other Provisions:

- The Secretary may become the trustee of an insolvent AHP if the Secretary determines that the plan will not be able to provide benefits or is otherwise in "financially hazardous condition" (as defined by the Secretary in regulation).

- States may collect a contribution tax from a newly established AHP to the same extent that such a tax is collected from other insurance plans.
- For certified AHPs, state law is preempted to the extent it would prevent the AHP from operating in the state. This includes exempting the AHP from state benefit mandates, except the plan must comply with any state laws requiring coverage of specific diseases.
- Penalties are established for uncertified AHPs and entities misrepresenting themselves as an AHP.

SOURCES: Republican Study Committee, House Committee on Education and the Workforce

PERMANENT REPEAL OF DEATH TAX

The House passed H.R. 8 the Death Tax Repeal Permanency Act on June 18, 2003 by a vote of 264-163.

Under current law, the death tax is repealed until 2010 when it will be re-imposed with a maximum rate of 55 percent and a unified credit exemption of $1 million. The Death Tax Repeal Permanency Act repeals this sunset provision and rids Americans of the estate tax permanently.

In 2002, the House voted twice to make death tax relief permanent, but the Senate failed to pass the plan.

According to the National Federation of Independent Business, more than 70 percent of family businesses do not survive the second generation and 87 percent of family businesses do not make it to the third generation. 60 percent of small business owners report that they would create new jobs over the coming year if death taxes were eliminated.

A study released on June 18, 2003 by the Joint Economic Committee said, “the estate tax is a leading cause of dissolution for thousands of family-run businesses, diverting resources available for investment and employment.”

SOURCE: House Committee on Ways and Means.

IRS REFORM

The Taxpayer Protection and IRS Accountability Act of 2003 contains provisions that would assist taxpayers by reforming the penalty and interest sections of the Internal Revenue Code and provides new safeguards against unfair IRS collection procedures. The bill improves the efficiency of tax administration and increases confidentiality of taxpayer information.

Key Provisions

Reform Penalty and Interest Provisions

- Grant a first-time penalty waiver to individual taxpayers in cases where minor negligence results in a liability that is disproportionate and unreasonable.
- Raise the safe harbor for failure to pay estimated tax from $1,000 to $1,600.

Improve the Fairness of IRS Collection Procedures

- Allow taxpayers to enter into installment agreements for less than the full amount of their tax liability.

Improve the Efficiency of Tax Administration

- Allow electronic filers until April 30th to file their individual income tax returns.
- Make unauthorized browsing of taxpayer records one of the "ten deadly sins" and grant the IRS Commissioner authority to specify penalties up to and including termination for improper activities by IRS employees.
- Simplify tax filing for family businesses.

Temporarily Adjusts The Trade Adjustment Act Health Insurance Tax Credit

- Needed to ensure all persons eligible for the credit are able to obtain health insurance.

Enhance Taxpayer Information Confidentiality

- Limit IRS inspection of return preparers when they conduct taxpayer examinations.

Authorization for Low Income Taxpayer Clinics

- Increase authorization from $6 million to $9 million for 2004, $12 million for 2005 and $15 million for subsequent years.

SOURCE: House Committee on Ways and Means, 6/19/2003.