

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
OFFERED BY MR. RANGEL**

Strike all after the enacting clause and insert the following:

1 **SECTION 1. SHORT TITLE.**

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Tax Reduction Act of 2001”.

4 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
5 wise expressly provided, whenever in this Act an amend-
6 ment or repeal is expressed in terms of an amendment
7 to, or repeal of, a section or other provision, the reference
8 shall be considered to be made to a section or other provi-
9 sion of the Internal Revenue Code of 1986.

10 (c) **SECTION 15 NOT TO APPLY.**—No amendment
11 made by this Act shall be treated as a change in a rate
12 of tax for purposes of section 15 of the Internal Revenue
13 Code of 1986.

14 **TITLE I—INDIVIDUAL INCOME**
15 **TAX RATE REDUCTIONS; EX-**
16 **PANSION OF EARNED INCOME**
17 **CREDIT ASSISTANCE**

18 **SEC. 101. INDIVIDUAL INCOME TAX RATE REDUCTIONS.**

19 (a) **IN GENERAL.**—Section 1 is amended by adding
20 at the end the following new subsection:

21 “(i) **12 PERCENT RATE BRACKET.**—

1 “(1) IN GENERAL.—In the case of taxable years
2 beginning after December 31, 2000—

3 “(A) the rate of tax under subsections (a),
4 (b), (c), and (d) on taxable income not over the
5 initial bracket amount shall be 12 percent, and

6 “(B) the 15 percent rate of tax shall apply
7 only to taxable income over the initial bracket
8 amount.

9 “(2) INITIAL BRACKET AMOUNT.—For purposes
10 of this subsection—

11 “(A) IN GENERAL.—Except as provided in
12 subparagraph (B), the initial bracket amount
13 is—

14 “(i) \$20,000 in the case of subsection
15 (a),

16 “(ii) 80 percent of the dollar amount
17 in clause (i) in the case of subsection (b),
18 and

19 “(iii) 50 percent of the dollar amount
20 in clause (i) in the case of subsections (c)
21 and (d).

22 “(B) PHASEIN.—The initial bracket
23 amount is—

1 “(i) $\frac{1}{4}$ the amount otherwise applica-
2 ble under subparagraph (A) in the case of
3 taxable years beginning during 2001, and

4 “(ii) $\frac{1}{2}$ such amount otherwise appli-
5 cable under subparagraph (A) in the case
6 of taxable years beginning during 2002.

7 “(3) INFLATION ADJUSTMENT.—

8 “(A) IN GENERAL.—In the case of any
9 taxable year beginning in a calendar year after
10 2003, the \$20,000 amount under paragraph
11 (2)(A)(i) shall be increased by an amount equal
12 to—

13 “(i) such dollar amount, multiplied by

14 “(ii) the cost-of-living adjustment de-
15 termined under subsection (f)(3) for the
16 calendar year in which the taxable year be-
17 gins, determined by substituting ‘calendar
18 year 2002’ for ‘calendar year 1992’ in sub-
19 paragraph (B) thereof.

20 “(B) ROUNDING RULES.—If any amount
21 after adjustment under subparagraph (A) is not
22 a multiple of \$50, such amount shall be round-
23 ed to the next lowest multiple of \$50.

1 “(4) ADJUSTMENT OF TABLES.—The Secretary
2 shall adjust the tables prescribed under subsection
3 (f) to carry out this subsection.”

4 (b) ADJUSTMENT IN COMPUTATION OF ALTER-
5 NATIVE MINIMUM TAX.—Paragraph (2) of section 55(a)
6 is amended to read as follows:

7 “(2) the sum of—

8 “(A) the regular tax for the taxable year,
9 plus

10 “(B) in the case of an individual, 3 percent
11 of so much of the individual’s taxable income
12 for the taxable year as is taxed at 12 percent.”

13 (c) REPEAL OF REDUCTION OF REFUNDABLE TAX
14 CREDITS.—

15 (1) Subsection (d) of section 24 is amended by
16 striking paragraph (2) and redesignating paragraph
17 (3) as paragraph (2).

18 (2) Section 32 is amended by striking sub-
19 section (h).

20 (d) CONFORMING AMENDMENT.—Subclause (II) of
21 section 1(g)(7)(B)(ii) is amended by striking “15 percent”
22 and inserting “12 percent”.

23 (e) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2000.

1 (f) PROTECTION OF SOCIAL SECURITY AND MEDI-
 2 CARE.—The amounts transferred to any trust fund under
 3 the Social Security Act shall be determined as if this Act
 4 had not been enacted.

5 **SEC. 102. MODIFICATIONS TO EARNED INCOME TAX CRED-**
 6 **IT.**

7 (a) INCREASES IN PERCENTAGES AND AMOUNTS
 8 USED TO DETERMINE CREDIT; MARRIAGE PENALTY RE-
 9 LIEF.—

10 (1) IN GENERAL.—Subsection (b) of section 32
 11 is amended to read as follows:

12 “(b) PERCENTAGES AND AMOUNTS.—

13 “(1) PERCENTAGES.—The credit percentage,
 14 the initial phaseout percentage, and the final phase-
 15 out percentage shall be determined as follows:

“In the case of an eligible individual with:	The credit per- centage is:	The initial phase- out percentage is:	The final phase- out percentage is:
1 qualifying child	34	15.98	18.98
2 or more qualifying children	40	21.06	24.06
No qualifying children	7.65	7.65	7.65

16 “(2) AMOUNTS.—

17 “(A) IN GENERAL.—The earned income
 18 amount and the initial phaseout amount shall
 19 be determined as follows:

“In the case of an eligible individual with:	The earned in- come amount is:	The initial phase- out amount is:
1 qualifying child	\$8,140	\$13,470

“In the case of an eligible individual with:	The earned in- come amount is:	The initial phase- out amount is:
2 or more qualifying children	\$10,820	\$13,470
No qualifying children	\$4,900	\$6,130.

1 In the case of a joint return where there is at
 2 least 1 qualifying child, the initial phaseout
 3 amount shall be \$2,500 greater than the
 4 amount otherwise applicable under the pre-
 5 ceding sentence.

6 “(B) FINAL PHASEOUT AMOUNT.—The
 7 final phaseout amount is \$26,000 (\$28,500 in
 8 the case of a joint return).”

9 (2) MODIFICATION OF COMPUTATION OF
 10 PHASEOUT.—Paragraph (2) of section 32(a) is
 11 amended to read as follows:

12 “(2) PHASEOUT OF CREDIT.—The amount of
 13 the credit allowable to a taxpayer under paragraph
 14 (1) for any taxable year shall be reduced (but not
 15 below zero) by the sum of—

16 “(A) the initial phaseout percentage of so
 17 much of the total income (or, if greater, the
 18 earned income) of the taxpayer for the taxable
 19 year as exceeds the initial phaseout amount but
 20 does not exceed the final phaseout amount, plus

21 “(B) the final phaseout percentage of so
 22 much of the total income (or, if greater, the

1 earned income) of the taxpayer for the taxable
2 year as exceeds the final phaseout amount.”

3 (3) TOTAL INCOME.—Paragraph (5) of section
4 32(c) is amended to read as follows:

5 “(5) TOTAL INCOME.—The term ‘total income’
6 means adjusted gross income determined without re-
7 gard to—

8 “(A) the deductions referred to in para-
9 graphs (6), (7), (9), (10), (15), (16), and (17)
10 of section 62(a),

11 “(B) the deduction allowed by section
12 162(l), and

13 “(C) the deduction allowed by section
14 164(f).”

15 (4) CONFORMING AMENDMENTS.—

16 (A) Subsection (j) of section 32 is amend-
17 ed to read as follows:

18 “(j) INFLATION ADJUSTMENT.—

19 “(1) IN GENERAL.—In the case of any taxable
20 year beginning after 2002, each of the dollar
21 amounts in subsection (b)(2) shall be increased by
22 an amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment deter-
25 mined under section 1(f)(3), for the calendar

1 year in which the taxable year begins, deter-
2 mined by substituting ‘calendar year 2001’ for
3 ‘calendar year 1992’ in subparagraph (B)
4 thereof.

5 “(2) ROUNDING.—If any dollar amount, after
6 being increased under paragraph (1), is not a mul-
7 tiple of \$10, such dollar amount shall be rounded to
8 the nearest multiple of \$10.”

9 (B) Subparagraph (C) of section 32(c)(1)
10 is amended by striking “modified adjusted
11 gross income” and inserting “total income”.

12 (C) Paragraph (2) of section 32(f) is
13 amended to read as follows:

14 “(2) REQUIREMENTS FOR TABLES.—

15 “(A) IN GENERAL.—The provisions of sub-
16 section (a)(1) and the provisions of subsection
17 (a)(2) shall be reflected in separate tables pre-
18 scribed under paragraph (1).

19 “(B) SUBSECTION (A)(1) TABLE.—The ta-
20 bles prescribed under paragraph (1) to reflect
21 the provisions of subsection (a)(1) shall have in-
22 come brackets of not greater than \$50 each for
23 earned income between \$0 and the earned in-
24 come amount.

1 “(C) SUBSECTION (A)(2) TABLE.—The ta-
2 bles prescribed under paragraph (1) to reflect
3 the provisions of subsection (a)(2) shall have in-
4 come brackets of not greater than \$50 each for
5 total income (or, if greater, the earned income)
6 above the initial phaseout threshold.”

7 (b) REPEAL OF DENIAL OF CREDIT WHERE INVEST-
8 MENT INCOME.—Section 32 is amended by striking sub-
9 section (i).

10 (c) EARNED INCOME TO INCLUDE ONLY AMOUNTS
11 INCLUDIBLE IN GROSS INCOME.—

12 (1) IN GENERAL.—Section 32(c)(2)(A)(i) (de-
13 fining earned income) is amended by inserting “, but
14 only if such amounts are includible in gross income
15 for the taxable year” after “other employee com-
16 pensation”.

17 (2) CONFORMING AMENDMENT.—Section
18 32(c)(2)(B) is amended by striking “and” at the end
19 of clause (iv), by striking the period at the end of
20 clause (v) and inserting “, and”, and by adding at
21 the end the following new clause:

22 “(vi) the requirement under subparagraph
23 (A)(i) that an amount be includible in
24 gross income shall not apply if such
25 amount is exempt from tax under section

1 7873 or is derived directly from restricted
2 and allotted land under the Act of Feb-
3 ruary 8, 1887 (commonly known as the In-
4 dian General Allotment Act) (25 U.S.C.
5 331 et seq.) or from land held under Acts
6 or treaties containing an exception provi-
7 sion similar to the Indian General Allot-
8 ment Act.”

9 (d) MODIFICATION OF JOINT RETURN REQUIRE-
10 MENT.—Subsection (d) of section 32 is amended to read
11 as follows:

12 “(d) MARRIED INDIVIDUALS.—

13 “(1) IN GENERAL.—If the taxpayer is married
14 at the close of the taxable year, the credit shall be
15 allowed under subsection (a) only if the taxpayer
16 and his spouse file a joint return for the taxable
17 year.

18 “(2) MARITAL STATUS.—For purposes of para-
19 graph (1), an individual legally separated from his
20 spouse under a decree of divorce or of separate
21 maintenance shall not be considered as married.

22 “(3) CERTAIN MARRIED INDIVIDUALS LIVING
23 APART.—For purposes of paragraph (1), if—

24 “(A) an individual —

1 “(i) is married and files a separate re-
2 turn, and

3 “(ii) has a qualifying child who is a
4 son, daughter, stepson, or stepdaughter of
5 such individual, and

6 “(B) during the last 6 months of such tax-
7 able year, such individual and such individual’s
8 spouse do not have the same principal place of
9 abode,

10 such individual shall not be considered as married.”

11 (e) EXPANSION OF MATHEMATICAL ERROR AUTHOR-
12 ITY.—Paragraph (2) of section 6213(g) is amended by
13 striking “and” at the end of subparagraph (K), by striking
14 the period at the end of subparagraph (L) and inserting
15 “, and”, and by inserting after subparagraph (L) the fol-
16 lowing new subparagraph:

17 “(M) the entry on the return claiming the
18 credit under section 32 with respect to a child
19 if, according to the Federal Case Registry of
20 Child Support Orders established under section
21 453(h) of the Social Security Act, the taxpayer
22 is a noncustodial parent of such child.”

23 (f) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2001.

1 **TITLE II—MARRIAGE PENALTY**
2 **RELIEF**

3 **SEC. 201. MARRIAGE PENALTY RELIEF.**

4 (a) STANDARD DEDUCTION.—

5 (1) IN GENERAL.—Paragraph (2) of section
6 63(c) (relating to standard deduction) is amended—

7 (A) by striking “\$5,000” in subparagraph
8 (A) and inserting “twice the dollar amount in
9 effect under subparagraph (C) for the taxable
10 year”,

11 (B) by adding “or” at the end of subpara-
12 graph (B),

13 (C) by striking “in the case of” and all
14 that follows in subparagraph (C) and inserting
15 “in any other case.”, and

16 (D) by striking subparagraph (D).

17 (2) INCREASE ALLOWED AS DEDUCTION IN DE-
18 TERMINING MINIMUM TAX.—Subparagraph (E) of
19 section 56(b)(1) is amended by adding at the end
20 the following new sentence: “The preceding sentence
21 shall not apply to so much of the standard deduction
22 under subparagraph (A) of section 63(c)(2) as ex-
23 ceeds the amount which would be such deduction but
24 for the amendment made by section 201(a)(1) of the
25 Tax Reduction Act of 2001.

13

1 (3) TECHNICAL AMENDMENTS.—

2 (A) Subparagraph (B) of section 1(f)(6) is
3 amended by striking “(other than with” and all
4 that follows through “shall be applied” and in-
5 serting “(other than with respect to sections
6 63(c)(4) and 151(d)(4)(A)) shall be applied”.

7 (B) Paragraph (4) of section 63(c) is
8 amended by adding at the end the following
9 flush sentence:

10 “The preceding sentence shall not apply to the
11 amount referred to in paragraph (2)(A).”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 2000.