**EXECUTIVE OFFICE OF THE PRESIDENT**
**OFFICE OF MANAGEMENT AND BUDGET**
**WASHINGTON, D.C. 20503**

November 17, 2005
(Senate)

# STATEMENT OF ADMINISTRATION POLICY

**S. 2020 - Tax Relief Act of 2005**
(Sen. Grassley (R) Iowa)

The Administration supports Senate passage of S. 2020, which includes a number of important provisions, including measures that would provide critical assistance for economic recovery in the areas affected by the recent hurricanes. In particular, the provisions for bonus depreciation and increased expensing are similar to the Administration's GO Zone proposals and will help local economies rebuild. The Administration will work with Congress to ensure that the relief provisions are appropriately targeted and fiscally responsible. The Administration believes strongly that these provisions should be enacted this year. In addition, the bill contains incentives that are consistent with the President's objective to promote charitable giving. The Administration will work with Congress to refine these provisions. The Administration is pleased that the bill would extend a number of important tax provisions, including the research and experimentation tax credit, which would otherwise expire shortly.

The Administration opposes the provision to codify the "economic substance" doctrine and urges Congress to eliminate this provision from the final legislation. The Administration also opposes the provision in the bill that would disallow use of the last-in, first-out (LIFO) method of accounting for certain taxpayers. This provision would result in a retroactive tax increase by changing a long-accepted accounting practice. The President's senior advisors would recommend that the President veto the bill if this provision remains in the final legislation.

Finally, the Administration strongly supports tax relief for dividends and capital gains and urges Congress to include this in the final version of the bill. These extensions are necessary to provide certainty for investors and businesses and are essential to sustaining long-term economic growth. Tax relief for dividends and capital gains have contributed directly to the strengthening of our economy, which has created over four million new jobs since their enactment, and the stronger economy has helped produce substantial additional revenues that have reduced the deficit.

## Budget Estimates and Enforcement

This bill would affect direct spending and receipts. To sustain the economy's expansion, it is critical to exercise responsible restraint over Federal spending. The Budget Enforcement Act's pay-as-you-go requirements and discretionary spending caps expired on September 30, 2002. The President's FY 2006 Budget includes a proposal to extend the discretionary caps through 2010, a pay-as-you-go requirement for direct spending, and a new mechanism to control the expansion of long-term unfunded obligations. OMB's cost estimate of this bill currently is under development.

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