



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Thursday, Nov. 17, 2005

## Grassley Highlights Tax Relief for Families, Consumers

Iowa Senator's Legislation Prevents Tax Increase by Extending Current Tax Laws

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, said the tax relief bill approved by his committee this week and advancing through the full Senate will keep 14 million families from paying the unfair alternative minimum tax, allow millions of low-income savers a continued benefit for retirement, preserve the college tuition deduction for millions of families and students, and give new incentives for charitable giving for those who don't itemize on their taxes.

“If Congress does its job, taxpayers won't suffer any tax increase,” Grassley said. “If we don't do our job, and let these provisions lapse, taxpayers will see a tax increase. We owe it to taxpayers to get the job done. These items keep middle-class families from paying the alternative minimum tax, which they weren't supposed to pay in the first place, and help parents send their kids to college. Today's approval is an important step. I hope these tax benefits will get final approval as soon as possible and reach the President's desk before the year's end.”

The *Tax Relief Act of 2005* includes the following provisions: (Charts with state-by-state statistics are available at <http://finance.senate.gov/sitepages/legislation.htm>).

**Alternative minimum tax.** The largest provision in the bill -- about \$32 billion of tax relief or more than half of the net tax package – is designed to keep people out of the alternative minimum tax, Grassley said. This piece of the package affects 14 million American families in every state, including roughly 132,000 families in Iowa.

The alternative minimum tax was designed decades ago to prevent the wealthy from avoiding most or all taxes by using exemptions, credits and other income deductions. Because the tax is not indexed to inflation, Congress has had to adopt a series of stop-gap measures to blunt its impact on the middle class. The latest such patch is scheduled to expire this year. Grassley has worked hard to enact temporary relief every year.

“The AMT is terrible and we need to repeal it,” Grassley said. “Until then, we owe it to American taxpayers to ensure that they're not hit by this tax.”

**Low-income savers credit.** The *Economic Growth and Tax Relief Reconciliation Act of 2001* provided a temporary nonrefundable credit for contributions made by eligible taxpayers to

certain qualified retirement plans (e.g., 401(k), 403(b), annuity, SIMPLE, SEP, traditional and Roth IRAs) through the end of 2006. The maximum annual contribution for the credit is \$2,000. The credit rate depends on the adjusted gross income of the taxpayer. Only taxpayers with AGI of \$25,000 or less (\$50,000 for married couples) are eligible for the credit. The credit is in addition to any deduction or exclusion that would otherwise apply with respect to the contribution. The new tax relief bill extends that provision through the end of 2009. Nationwide, 5.5 million taxpayers – including 95,889 taxpayers in Iowa – benefit from this provision.

“The national savings rate is very low, and some people don’t have much spare income to save,” Grassley said. “Every incentive that helps to increase savings is important.”

**Tuition deduction.** The 2001 tax act created a new above-the-line tax deduction for qualified higher education expenses paid during tax years 2002 to 2005. Currently, the maximum deduction is \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for married couples) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for married couples). The new tax bill extends the provision through the end of 2009. Across the country, 3.6 million taxpayers – including 37,364 taxpayers in Iowa – benefit from this provision. “This is an example of using the tax code to promote positive activity, like going to college,” Grassley said. “Society benefits from an educated workforce, and every bit helps toward college affordability.”

**Non-itemizer/itemizer deduction.** The bill provides for a charitable deduction for cash donations made by taxpayers who do not itemize their deductions – approximately 74 percent of filers currently cannot take a charitable deduction because they do not itemize. The bill creates a floor of \$210 for single filers (\$420 for joint filers) that applies to both taxpayers who do not itemize and those who do. The new deduction is not subject to an income cap. “A lot of taxpayers don’t file complicated tax returns but still donate to charity,” Grassley said. “They should get the same tax break as those who file long returns.”

**Charitable deduction for contributions of food inventory.** For donations of food inventory by qualifying businesses, the bill provides an enhanced deduction equal to the lesser of the fair market value or twice the taxpayer’s basis in the contributed inventory. In general, farmers and ranchers will be able to treat the basis of the contributed food as being equal to 25 percent of the food’s fair market value. The enhanced deduction is available only for food that qualifies as “apparently wholesome food,” which is defined as food intended for human consumption that meets all quality and labeling standards imposed by federal, state, and local laws and regulations even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions. “It’s a shame to waste food when people go hungry,” Grassley said. “This provision helps the needy as well as farmers who don’t want their good food products to go to waste.”

**Deduction for certain expenses of elementary and secondary school teachers.** In 2002, Congress began permitting teachers and other school professionals to deduct \$250 (above-the-line) for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services), other equipment, and supplementary materials used by the educator in the classroom. This provision expires at the end of 2005, and the proposal would extend the provision for an additional year. Nationwide, 3.3 million teachers – including 33,812 in Iowa – benefit from this provision. “Teachers who subsidize classroom supplies out of their own pockets deserve at least this

deduction,” Grassley said.

**Small business expensing.** The 2003 tax act increased the amount that small businesses may expense from \$25,000 to \$100,000 for three years (through the end of 2005). The *American Jobs Creation Act of 2004* (the “JOBS” Act) extended a slightly expanded version of small business expensing (with higher phase-out levels for small business) through 2007. The new tax bill extends that enhanced provision through the end of 2009. “Small businesses create most jobs in our country,” Grassley said. “We need to encourage them to keep up the good work.”