

Theme 2: Taxes in U.S. History
Lesson 7: Tax Reform in the 1990s and 2000s

Main Measures of Tax Relief Act of 1997

In 1997, with the economy fairly strong and the federal *deficit* on its way to becoming a *surplus*, President Clinton and Congress enacted the Taxpayer Relief Act. The key components of the Act were intended to reduce taxes for low- to middle-income taxpayers.

Child tax credit. The Act introduced a \$400 child *tax credit* for each child under age 17 (in 1998) and increased the credit to \$500 in 1999.

Education tax credit. The Taxpayer Relief Act introduced two *nonrefundable* education credits.

- The Hope credit, now called the American Opportunity credit, is intended to help offset the expenses of tuition and fees for the first two years of postsecondary education. The maximum amount of credit per student per year was later increased from \$1,500 to \$1,800 and the credit is up to \$2,500 for 2011 for an eligible student who pays \$4,000 or more in qualifying expenses.
- The Lifetime Learning credit placed no limit on the number of years claimed. The maximum amount of credit per taxpayer per year was later increased from \$1,000 to \$2,000. For this credit, the eligible student is either the taxpayer or the taxpayer's spouse or dependent.

Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)

In 2001, the economy was struggling, and the federal surplus was starting to turn into a deficit again. Hoping that further tax cuts would put more spending and investment money in taxpayers' pockets, President Bush and Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA increased the child tax credit and expanded the education credits. In addition, it lowered income tax rates and provided a tax rebate of up to \$300.

Child tax credit increase. Doubled the \$500 per child tax credit to \$1,000 and made it refundable up to 10% for every dollar of earned income above \$10,000, up to the maximum per child. The refundability rate rose to 15% in 2005 and the \$10,000 threshold was indexed for inflation.

Child and dependent care tax credit. Provided a credit of 25% on expenditures for employer-provided childcare, and increased the dependent care and adoption credits.

Education credit and deduction expansions. Allowed \$4,000 maximum deduction of college tuition expenses; allowed tax-free distributions from pre-paid college tuition plans, allowed private institutions to offer these, and allowed taxpayers to simultaneously claim Hope or Lifetime Learning credits in some instances; eliminated the 60-month limit on student loan interest deduction; plus other expansions.

Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)

By 2003, the decrease in tax revenue and the increase in federal spending for defense and security, disaster relief, and unemployment payments was further increasing the annual deficit. In response, President Bush and Congress enacted the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). JGTRRA accelerated provisions of EGTRRA and provided states \$20 billion in fiscal relief over 2003-04.

Working Families Tax Relief Act of 2004 (WFTRA)

The Working Families Tax Relief Act (WFTRA) of 2004 amplified the impact of EGTRAA and JGTRRA on government revenue by extending the provisions of EGTRAA and JGTRRA.

Housing and Economic Recovery Act of 2008

In response to a slowing housing market, the Housing and Economic Recovery Act of 2008 established a *refundable First-Time Homebuyer* tax credit of up to \$7,500 as long as the home was to be used as the taxpayer's main residence. For homes purchased in 2008, the credit was similar to a no-interest loan and had to be repaid in 15 equal, annual installments, beginning with the 2010 income tax season.

American Recovery and Reinvestment Act of 2009

In September of 2008, the United States experienced a severe economic downturn. In response, President Obama and Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA or Recovery Act). To put more money in the pockets of consumers, ARRA also:

- Increased the First-Time Homebuyer credit (introduced in 2008) to \$8,000 for homes purchased in 2009, and waived the requirement for paying back the credit as long as the home remained the taxpayer's main residence for at least three years following the purchase.
- Created the refundable *Making Work Pay credit* of up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns. Most wage earners benefited from larger paychecks in 2009 and 2010 as a result of the changes made to the federal income tax withholding tables to implement the Making Work Pay tax credit.
- Replaced Hope credit with the *American Opportunity tax credit*. ARRA increased the amount of the credit, extended its range from first two years of postsecondary education to the first four years, and made the credit partially refundable under certain circumstances.