CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 11, 2001

H.R. 7
Community Solutions Act of 2001

As ordered reported by the House Committee on the Judiciary on June 28, 2001

SUMMARY

H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services and would make several changes to tax law concerning deductions for charitable contributions. The Joint Committee on Taxation (JCT) estimates that the revenue loss associated with this legislation would be almost $50 billion over the 2002-2006 period and more than $120 billion over the 2002-2011 period. Because H.R. 7 would affect revenues, pay-as-you-go procedures would apply. The bill also would establish certain reporting requirements of the Secretary of the Treasury and authorize the appropriation of $1 million each year for the Secretary to comply with those requirements. Assuming the appropriation of the specified amounts, CBO estimates that implementing H.R. 7 would cost $5 million over the 2001-2006 period.

Section 104 of H.R. 7 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt certain state liability laws. CBO estimates that complying with this mandate would result in no direct costs to state governments and thus would not exceed the threshold established in that act ($56 million in 2001, adjusted annually for inflation). Title 2 of the bill also would establish new requirements and prohibitions on state and local governments as conditions of receiving federal assistance under numerous federal programs. This bill contains no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 7 is shown in the following table. The cost of this legislation falls within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Authorization Level	0	1	1	1	1	1
Estimated Outlays	0	1	1	1	1	1
CHANGES IN REVENUES[a]						
Deductions for charitable contributions of individuals who do not itemize deductions	0	-1,278	-8,603	-9,159	-9,748	-10,401
Tax-free distributions from individual retirement accounts for charitable purposes	0	-118	-195	-215	-284	-368
Expand and increase the charitable deduction for contributions of food	0	-78	-146	-173	-194	-208
Individual Development Accounts	0	-891	-1,750	-1,767	-1,874	-2,028
Total Changes in Revenue	0	-2,365	-10,694	-11,314	-12,100	-13,005

a. All estimates of the revenue effects of H.R. 7 were provided by JCT.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 7 will be enacted by the end of fiscal year 2001 and that the authorized amounts will be appropriated for each year.

Spending Subject to Appropriation

Title III would establish tax credits for certain financial institutions that provide individual development accounts and would set certain requirements for the administration of the accounts and for the withdrawals from those accounts by individual taxpayers. The bill would authorize the appropriation of $1 million in each year over the 2002-2008 period for the Secretary of the Treasury to monitor the cost and performance of the individual development account programs and prepare an annual report to the Congress. Assuming the appropriation of the specified amounts, CBO estimates that implementing H.R. 7 would cost $5 million over the 2002-2006 period.

H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services. It also would require that any governmental organization that contracts with a religious organization to provide social services guarantee that eligible individuals who object to a specific service provider on religious grounds be directed to a different provider of comparable services. Although in many areas the number of providers would be sufficient to ensure that alternative providers would be available, very small communities might find it difficult to comply with these requirements. Although the requirement to find an alternate provider could increase federal costs in some cases by requiring the federal government to pay a portion of the costs of such alternate providers, CBO has been unable to obtain data to estimate any such costs. However, CBO does not anticipate that any resulting costs to the federal government would be substantial.

Revenues

H.R. 7 would allow taxpayers who do not itemize their deductions to deduct their charitable contributions up to the amount of the standard deduction, and continue to allow such taxpayers to take the standard deduction. The bill would allow taxpayers to exclude from their gross income otherwise taxable withdrawals from individual retirement accounts if those withdrawals were made for certain charitable distributions. The bill also would amend charitable contribution rules to enhance deductions for donations of food for all taxpayers other than certain corporations, and would limit the liability of corporate entities for certain charitable contributions of equipment.

H.R. 7 would establish tax credits for certain financial institutions that provide a program for certain accounts in which eligible individuals receive matching contributions from those institutions (individual development account program). The tax credit for these financial institutions would be equal to the amount of matching contributions made under the program plus amounts for accounts opened or maintained during the taxable year. It would set certain requirements for the administration of individual development accounts and for withdrawals from those accounts by individual taxpayers.

The Joint Committee on Taxation estimates that the revenue loss associated with this legislation would be almost $50 billion over the 2002-2006 period and more than $120 billion over the 2002-2011 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays						Not applicable					
Changes in receipts[a]	0	-2,365	-10,694	-11,314	-12,100	-13,005	-13,534	-14,105	-14,212	-14,455	-15,432

a. Estimate was provided by JCT.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed section 104 and title 2 of H.R. 7 for intergovernmental mandates.

Mandates

Section 104 contains an intergovernmental mandate as defined in UMRA because it would preempt inconsistent or more stringent state liability laws that hold businesses civilly liable for injuries or death that result from the use of equipment, facilities, or vehicles donated or loaned to nonprofit organizations. This preemption would be an intergovernmental mandate as defined in UMRA, but because the preemption is narrow and state governments would not be required to take any action, CBO estimates complying with this mandate would result in no direct costs. Thus, the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation) would not be exceeded.

Other Impacts

Title 2 would establish new requirements and prohibitions on how state and local governments receive and use federal funds under numerous federal programs. Such programs include anything related to hunger relief activities, federal housing under the

Community Development Block Grant Program, prevention of domestic violence under the Child Abuse Prevention and Treatment Act, and services for the elderly under the Older Americans Act. Specifically, title 2 would require state and local governments to consider religious organizations on the same basis as other organizations to provide assistance under programs carried out using federal funds.

The bill also would require that the appropriate government entity notify applicants and recipients about provider options and provide, in a timely manner, an equivalent alternative from a nonreligious provider if a recipient objects to receiving services from a religious provider. In addition, state and local governments that discriminate on the basis of religion in selecting service providers could be sued for injunctive relief. All of those requirements are conditions of federal assistance, and therefore, are not mandates under UMRA. However, those requirements could increase state and local costs to administer numerous federal programs. In particular, some small communities could find it difficult or costly to comply with the alternate provider requirements. CBO does not have sufficient information to estimate the aggregate costs nationwide.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no new private-sector mandates as defined in UMRA.

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