



May 9, 2006

Honorable William “Bill” M. Thomas
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Based on a review of the conference agreement on H.R. 4297, the Tax Increase Prevention and Reconciliation Act of 2005, the Joint Committee on Taxation (JCT) estimates that enacting this legislation would reduce revenues by \$70.0 billion over the 2006-2010 period and by \$69.1 billion over the 2006-2015 period. In addition, CBO and JCT estimate that the legislation would have no effect on federal spending.

The Congressional budget resolution for fiscal year 2006 (H. Con. Res. 95) instructed the tax-writing committees to recommend legislative changes under the reconciliation process that would reduce revenues by not more than \$70 billion over the 2006-2010 period. H.R. 4297 is the resulting reconciliation bill.

The estimates of the revenue effects of the conference agreement are measured relative to CBO’s March 2005 baseline projections, which underlie the Congressional budget resolution for fiscal year 2006. The estimates, therefore, do not reflect more recent information on economic and taxpaying activity, such as that embodied in CBO’s March 2006 baseline projections. For example, the more recent baseline projection updated the share of tax liabilities for 2006 from the alternative minimum tax (AMT) that taxpayers will pay in fiscal years 2006 and 2007, which would cause differences in the estimates of the effects of the AMT provisions of H.R. 4297 measured relative to the two baselines. As a result, if the conference agreement were enacted, an updated revenue baseline could not be constructed by adding or subtracting the estimated revenue effects cited here from the March 2006 baseline revenue amounts.

JCT has determined that the tax provisions of the conference agreement contain two unfunded private-sector mandates that were not previously considered by either the House or the Senate: (1) repeal of the foreign sales corporation-extraterritorial income (FSC-ETI) grandfather rule, and (2) an amendment to the section 911 housing exclusion. In addition, the provision relating to withholding on certain government payments (section 511) would impose an intergovernmental mandate not previously considered by either the House or the Senate. The costs of all the mandates in the bill would exceed the annual threshold established in the Unfunded Mandates Reform Act for private-sector mandates beginning in 2007 and for intergovernmental mandates beginning in 2011 (\$128 million in 2006 for private-sector mandates and \$64 million in 2006 for intergovernmental mandates, adjusted annually for inflation).

The estimated revenue effects of H.R. 4297 are summarized below. A table with additional details is attached. JCT provided all of the revenue estimates.

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Estimated Revenues	-10,757	-23,231	-6,765	-18,458	-10,745	147	105	85	121	423

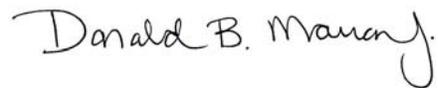
SOURCE: Joint Committee on Taxation.

Most of the reduction in revenues would result from extending the reduced tax rates for dividends and capital gains. Those provisions account for \$50.8 billion of the estimated reduction in revenues over the 10-year period. In addition, JCT estimates that provisions providing relief to individuals from the alternative minimum tax for tax year 2006 would reduce revenues by \$33.9 billion over the 2006-2007 period. Several provisions would increase revenues over the 10-year period, JCT estimates, including instituting withholding on certain government payments (\$7.0 billion) and eliminating the income limitations on Roth IRA conversions (\$6.4 billion).

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If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Emily Schlect.

Sincerely,

A handwritten signature in cursive script that reads "Donald B. Marron".

Donald B. Marron
Acting Director

Attachment

cc: Honorable Charles B. Rangel
Ranking Democrat

Honorable Jim Nussle
Chairman
Committee on the Budget

Honorable John M. Spratt Jr.
Ranking Member

Identical letter sent to the Honorable Charles E. Grassley.

ESTIMATED BUDGETARY EFFECTS OF H.R. 4297

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Extension of the Reduced Tax Rates for Dividends	0	0	-860	-4,431	-8,008	-9,368	-6,326	-1,224	-450	-112
Extension of the Reduced Tax Rates for Capital Gains	0	0	-1,549	-8,375	2,672	-54	-12,698	*	*	0
Individual AMT Provisions	-12,984	-20,888	0	0	0	0	0	0	0	0
Extension of the Exception for Active Financing Income for Controlled Foreign Corporations	0	-775	-2,339	-1,682	0	0	0	0	0	0
Extension of the Increase in Section 179 Expensing	0	0	-2,605	-4,459	-209	2,707	1,772	1,222	826	476
Corporate Estimated Tax Provisions	2,209	-2,209	0	0	-5,640	-2,541	11,371	-2,793	-396	0
Elimination of Income Limitations on Roth IRA Conversions	0	0	0	-154	-293	2,541	4,929	1,756	-1,080	-1,267
Withholding on Certain Government Payments for Property and Services	0	0	0	0	0	6,079	215	220	228	235
All Other Provisions	<u>18</u>	<u>641</u>	<u>588</u>	<u>643</u>	<u>733</u>	<u>783</u>	<u>842</u>	<u>904</u>	<u>993</u>	<u>1,091</u>
Total	-10,757	-23,231	-6,765	-18,458	-10,745	147	105	85	121	423

SOURCE: Joint Committee on Taxation.

Note: * = Loss of less than \$500,000.
