CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 24, 2007

H.R. 3056
Tax Collection Responsibility Act of 2007

As ordered reported by the House Committee on Ways and Means on July 18, 2007

SUMMARY

H.R. 3056 would make several changes to tax law. Some would reduce revenue and others would raise revenue. The legislation would reduce revenue by repealing the private debt collection program and making other changes in tax rules. It would increase revenue by altering tax rules for expatriates and making other tax-related changes.

The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that enacting H.R. 3056 would increase revenues by $34 million in 2008 and by $26 million over the 2008-2012 period, and reduce revenues by $252 million over the 2008-2017 period. CBO estimates that H.R. 3056 would reduce direct spending by $25 million in 2008, by $306 million over the 2008-2012 period, and by $676 million over the 2008-2017 period. CBO also estimates that the bill would not significantly affect spending subject to appropriation.

JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the non-tax provisions of H.R. 3056 (sections 2 and 3) and has determined that they contain no private-sector or intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2008-2017 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
						CHANGES IN REVENUES						
Repeal of Private Debt Collection Contract Authority	-49	-129	-135	-147	-147	-147	-147	-147	-147	-147	-607	-1,342
Delayed Implementation of Government Withholding	0	0	0	-6,079	6,057	-11	-6	-3	-1	0	-23	-44
U.S. Virgin Islands Residency Tax Rules	*	-1	-3	-5	-10	-10	-5	-3	-1	*	-19	-38
Tax Rules for Expatriates	74	78	74	75	75	76	77	78	78	79	376	764
Repeal Suspension of Interest and Penalties	9	13	13	13	13	13	13	13	13	14	61	128
Increase Information Return Penalties	0	0	12	35	36	37	38	39	41	42	83	280
Increase the Corporate Estimated Tax Payments	0	0	0	0	155	-155	0	0	0	0	155	0
Total Changes in Revenues	34	-39	-39	-6,108	6,179	-197	-30	-23	-17	-12	26	-252
						CHANGES IN DIRECT SPENDING						
IRS Contracting for Debt Collection												
Estimated Budget Authority	-25	-65	-68	-74	-74	-74	-74	-74	-74	-74	-306	-676
Estimated Outlays	-25	-65	-68	-74	-74	-74	-74	-74	-74	-74	-306	-676

Notes: Numbers may not add to totals due to rounding.
* = Loss of less than $500,000

Sources: Congressional Budget Office and Joint Committee on Taxation

BASIS OF ESTIMATE

JCT and CBO assume that the bill will be enacted by October 1, 2007.

Revenues

The legislation would reduce and raise revenues through multiple tax provisions. All in all, JCT and CBO estimate that the bill would increase revenues by $26 million over the 2008-2012 period and decrease revenues by $252 million over the 2008-2017 period.

Revenue Reductions. Several provisions would reduce revenues over the 2008-2012 and 2008-2017 periods. First, the bill would repeal the Internal Revenue Service's (IRS's) authority to enter into qualified tax collection contracts with private collection agencies to collect delinquent tax liabilities. The repeal would not apply to contracts entered into before July 18, 2007. JCT estimates that this change would reduce revenues by $49 million in 2008, by $607 million over the 2008-2012 period, and by $1.3 billion over the 2008-2017 period. (JCT has indicated that CBO should reduce the estimated revenue loss that JCT initially estimated for the provision by $39 million in 2008 to reflect the exclusion of certain existing contracts.) The provision also would affect direct spending (see "Direct Spending" section).

Second, the bill would delay implementation of certain withholding requirements. Under current law, federal, state, and local governments must withhold taxes at a 3 percent rate on any payments for goods or services made after December 31, 2010. This bill would make the requirement applicable instead to payments made after December 31, 2011. JCT estimates that this provision would decrease revenues by $23 million over the 2008-2012 period and by $44 million over the 2008-2017 period.

Third, the bill would apply a statute of limitations on the collection of taxes from residents of the U.S. Virgin Islands (USVI). Residents must file income tax returns with the USVI, and certain residents do not also need to file returns with the U.S. government. In general, the IRS must levy taxes within three years after a return's due date. For certain residents of the USVI, this three-year period currently begins upon filing a return with the USVI. For others, it begins upon filing a return with the IRS. This bill would start the limitations period for all USVI residents when they file their returns with the USVI. JCT estimates that this provision would reduce revenues by less than $500,000 in 2008, by $19 million over the 2008-2012 period, and by $38 million over the 2008-2017 period.

Revenue Increases. Three other provisions would increase revenues. First, the bill would change tax rules related to U.S. expatriates. Under the bill, for tax purposes, expatriates' property would be treated as sold for its market value on the day before the expatriation. It would also subject expatriates to tax immediately rather than treating them as U.S. citizens or long-term residents until they give certain notice of expatriation. JCT estimates that this provision would increase revenues by $74 million in 2008, by $376 million over the 2008-2012 period, and by $764 million over the 2008-2017 period.

Second, the bill would change the rules for accrual of interest and penalties on unpaid taxes. Currently, individuals must pay interest and penalties for unpaid taxes, but their accrual is suspended starting 36 months after filing the tax return for those tax liabilities that may be assessed after that time. This bill would repeal that suspension. JCT estimates that this change would increase revenues by $9 million in 2008, by $61 million over the 2008-2012 period and by $128 million over the 2008-2017 period.

Third, under current law, certain individuals and businesses are penalized for filing incorrect information returns. For returns filed after January 1, 2008, H.R. 3056 would increase those penalties. JCT estimates that this provision would increase revenues by $83 million over the 2010-2012 period and by $280 million over the 2010-2017 period.

Other Revenue Effects. One provision would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets in 2012, the bill would increase the portion of corporate estimated tax payments due in July through September of that year. This change would increase revenues by $155 million in 2012 and decrease revenues by $155 million in 2013. This provision was also passed by the House of Representatives as part of H.J. Res 44 on July 23, 2007. If that legislation is enacted, this provision of H.R. 3056 would no longer have any budgetary effect.

Direct Spending

As discussed above (under "Revenues"), section 2 would repeal the authority for the IRS to enter into any new or extended contracts for private debt collection after July 18, 2007. All current contracts would continue until they expire in March 2008. Under current law, the IRS enters into contracts with private collection agencies to collect delinquent tax liabilities owed to the government. Under those contracts, the IRS may allow those agencies to retain up to 25 percent of the amounts they collect. Another 25 percent of amounts collected is available to the IRS to spend on collection enforcement activities. Based on revenue estimates from JCT and using information from the IRS, CBO estimates that repealing the private debt collection authority and allowing the current contracts to expire would reduce direct spending by $25 million in 2008, $306 million over the 2008-2012 period, and $676 million over the 2008-2017 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

CBO has reviewed the non-tax provisions of H.R. 3056 (sections 2 and 3) and has determined that they contain no private-sector or intergovernmental mandates as defined in UMRA. Enactment of section 3 would benefit state and local governments by delaying for one year the application of a requirement to withhold taxes on certain payments for goods and services.

ESTIMATE PREPARED BY:

Federal Revenues: Emily Schlect
Federal Spending: Matthew Pickford
Impact on State, Local, and Tribal Governments: Teri Gullo
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Robert A. Sunshine
Assistant Director for Budget Analysis