



February 18, 2010

Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have prepared the enclosed table showing the estimated effects on revenues and direct spending for the Hiring Incentives to Restore Employment Act, as introduced in the Senate on February 11, 2010. The legislation has been introduced as Senate Amendment 3310, in the nature of a substitute for H.R. 2847.

The legislation contains several tax provisions, including temporarily exempting from payroll taxes paid by employers the wages of certain individuals hired in 2010, providing an additional business tax credit for firms that retain such individuals for at least one year of employment, increasing allowable expensing in 2010 for certain depreciable business assets, amending the treatment of interest paid in connection with issuances of certain tax credit bonds, and modifying rules applicable to foreign accounts and the allocation of interest expenses on the part of corporations with worldwide activities.

In addition, the legislation would extend through December 31, 2010, the authorization for surface transportation programs and would increase the budgetary resources for those programs by \$20.8 billion in fiscal year 2010 and \$12.2 billion in fiscal year 2011, relative to the amounts assumed in CBO's baseline. Finally, the bill would provide for the transfer of \$19.5 billion from the general fund of the Treasury to the Highway Trust Fund. Spending from the trust fund, however, is generally controlled by appropriation actions; as a result, the transfer may facilitate future spending but would not, by itself, increase such expenditures.

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According to CBO and JCT estimates, the proposed legislation would reduce revenues by about \$4.4 billion and increase direct spending by about \$0.1 billion in fiscal year 2010, resulting in an increase in the deficit of about \$4.5 billion this year. The legislation would increase the deficit in fiscal year 2011 by an additional \$6.0 billion.

As shown in the attached table, CBO and JCT estimate that the proposed legislation would lead to a net increase in deficits of \$11.4 billion over the 2010-2015 period, but would yield a net reduction in deficits of \$1.1 billion over the 2010-2020 period. (None of the effects of the legislation would change Social Security or Postal Service receipts or spending; thus, all of the estimated effects are classified as "on-budget.")

CBO has determined that the non-tax provisions of the proposed legislation contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA), and would impose no costs on state, local, or tribal governments. JCT has reviewed the tax provisions of the legislation and determined that they contain no intergovernmental mandates as defined in UMRA. JCT has also determined that the tax provisions contain two private-sector mandates: foreign account tax compliance and the delay in implementing worldwide allocation of interest expense until 2020. JCT estimates that the costs required to comply with the mandates would exceed the threshold established by UMRA for private-sector mandates (\$141 million in 2010, adjusted annually for inflation) in each of the 11 years from 2010 through 2020.

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

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large initial 'D' and 'E'.

Douglas W. Elmendorf
Director

Enclosure

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cc: Honorable Mitch McConnell
Republican Leader

Honorable Kent Conrad
Chairman
Committee on the Budget

Honorable Judd Gregg
Ranking Member

Honorable Max Baucus
Chairman
Committee on Finance

Honorable Chuck Grassley
Ranking Member

Honorable Barbara Boxer
Chairman
Committee on Environment and Public Works

Honorable James M. Inhofe
Ranking Member

Budgetary Effects of the Hiring Incentives to Restore Employment Act, as Introduced by Senator Reid on February 11, 2010
(Proposed as Senate Amendment 3310, in the nature of a substitute for H.R. 2847)

(Millions of dollars, by fiscal year)

February 18, 2010

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010- 2014	2010- 2015	2010- 2019	2010- 2020
CHANGES IN REVENUES															
Title I—Incentives for Hiring and Retaining Unemployed Workers	-4,184	-5,569	-2,430	-422	-193	-112	-48	0	0	0	0	-12,798	-12,910	-12,958	-12,958
Title II—Expensing	-556	-368	305	192	140	108	68	39	19	9	8	-287	-178	-44	-35
Title III—Qualified Tax Credit Bonds	13	104	206	321	417	510	597	684	700	712	722	1,061	1,571	4,264	4,986
Title V—Offset Provisions	<u>343</u>	<u>448</u>	<u>710</u>	<u>769</u>	<u>804</u>	<u>852</u>	<u>975</u>	<u>1,048</u>	<u>2,855</u>	<u>4,812</u>	<u>3,059</u>	<u>3,074</u>	<u>3,926</u>	<u>13,616</u>	<u>16,675</u>
TOTAL CHANGES IN REVENUES 1/	-4,384	-5,385	-1,209	860	1,168	1,358	1,592	1,771	3,574	5,533	3,789	-8,950	-7,591	4,878	8,668
CHANGES IN DIRECT SPENDING															
Title III—Qualified Tax Credit Bonds															
Estimated Budget Authority	64	469	696	756	756	756	756	756	756	756	756	2,741	3,497	6,521	7,277
Estimated Outlays	64	469	696	756	756	756	756	756	756	756	756	2,741	3,497	6,521	7,277
Title IV—Extension of Current Surface Transportation Programs 2, 3/															
Estimated Budget Authority	20,805	12,159	12,159	12,159	12,159	12,159	12,159	12,159	12,159	12,159	12,159	69,440	81,599	130,234	142,393
Estimated Outlays	43	167	63	20	17	10	7	7	0	0	0	311	321	334	334
TOTAL CHANGES IN DIRECT SPENDING															
Estimated Budget Authority	20,869	12,628	12,855	12,915	72,181	85,096	136,755	149,670							
Estimated Outlays	107	636	759	776	773	766	763	763	756	756	756	3,052	3,818	6,855	7,611
NET CHANGE IN DEFICITS FROM REVENUES AND DIRECT SPENDING															
NET CHANGES IN DEFICITS 4/	4,491	6,021	1,968	-84	-395	-592	-829	-1,008	-2,818	-4,777	-3,033	12,002	11,409	1,977	-1,057

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes:

1. Negative numbers denote a DECREASE in federal revenues; positive numbers denote an increase in revenues.
2. The bill would transfer about \$20 billion from the General Fund of the Treasury to the Highway Trust Fund. It would also allow for interest to accrue to the trust fund and make the general fund, rather than the Highway Trust Fund, responsible for certain repayments and credits. Although these transfers may facilitate additional spending from the trust fund, such spending would be subject to future appropriation action.
3. Title IV would provide about \$75 billion in new contract authority for transportation programs over the 2010-2011 period. (The amounts provided would exceed amounts assumed in the CBO baseline by \$20.8 billion for 2010 and \$12.2 billion for fiscal year 2011.) Consistent with the rules for baseline construction in the Balanced Budget and Emergency Deficit Control Act, CBO assumes that the contract authority provided for the first three months of fiscal year 2011 would continue at the same rate for the remainder of 2011 and for each of the following years. As a result, the extensions of authorizations for the surface transportation programs would increase estimated contract authority by \$12.2 billion for each year from 2011 through 2020. However, CBO expects that most spending by those programs will continue to be controlled by limits on annual obligations set in appropriations acts. Thus, most of the contract authority provided by this legislation would not increase direct spending.
4. Positive numbers denote an INCREASE in the budget deficit; negative numbers denote a decrease in the deficit.