CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 25, 1999

H.R. 462

A bill to clarify that governmental pension plans of the possessions of the United States shall be treated in the same manner as state pension plans for purposes of the limitation on the state income taxation of pension income

As ordered reported by the House Committee on the Judiciary on May 19, 1999

CBO estimates that enacting this legislation would have no impact on the federal budget. Because the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply. H.R. 462 contains an intergovernmental mandate, as defined in the Unfunded Mandates Reform Act (UMRA), that applies to U.S. possessions. CBO estimates, however, that the costs would not be significant and would not exceed the threshold established in that act ($50 million in 1996, adjusted annually for inflation). State, local, and tribal governments would not be significantly affected by the enactment of this bill. H.R. 462 contains no new private-sector mandates as defined in UMRA.

H.R. 462 would prohibit a possession of the United States from taxing the retirement income of individuals who are no longer residing in that possession. The bill effectively would apply to certain U.S. territories the provisions of current law that prohibit states from taxing such pension income. Based on information received from the territories, CBO has determined that Puerto Rico would be the only territorial government affected by this prohibition. As of last year, Puerto Rico stopped taxing the pensions of new retirees who move from the island. Puerto Rico was unable to provide data about the amount of revenue currently received from the taxed pensions of those who retired under the old system and moved elsewhere. CBO estimates, however, that because the number of retirees affected by this bill is likely to be very small, the losses to Puerto Rico would not be significant.

States that currently offer a tax credit to residents for taxes paid to other states or territories, particularly those that are popular retirement destinations, would realize an increase in tax revenue. Like the costs, however, CBO estimates that such revenue increases would not be significant.

The CBO staff contacts for this estimate are Mark Grabowicz (for federal costs), and Michelle Patterson or Lisa Driskill (for the state and local impact). This estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.