CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 23, 2007

Small Business and Work Opportunity Act

As reported by the Senate Committee on Finance on January 22, 2007

SUMMARY

The Small Business and Work Opportunity Act would make various changes to tax law. Some would reduce revenue and others would raise revenue. The legislation would reduce revenue by extending existing tax incentives for certain businesses and making other changes to business taxation. It would increase revenue by altering the tax treatment of certain business transactions, limiting certain types of deferred compensation, and making other changes.

The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase revenues by $1.1 billion in 2007 and decrease revenues by $1.5 billion over the 2007-2012 period and by $1.1 billion over the 2007-2017 period. CBO estimates that the bill would increase direct spending by $165 million over the 2007-2012 period and by $421 million over the 2007-2017 period. Additionally, CBO estimates that enacting the legislation would increase spending subject to appropriations by $55 million over the 2007-2012 and by $105 million over the 2007-2017 period. (The estimated effect on revenues does not include $920 million in additional revenues over the 2007-2017 period from section 213, which modifies whistleblower provisions, because scorekeeping guidelines do not permit including revenue increases from provisions that provide direct spending for administration or program management activities.)

JCT has determined that the tax provisions of the bill contain two private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA): (1) modification to the effective date for the application of the American Jobs Creation Act of 2004 leasing (SILO) provision and (2) tax treatment of inversion transactions. CBO has determined that the nontax provisions of the bill contain no private-sector mandates as defined in UMRA. CBO and JCT have determined that the legislation contains no intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2007-2017 period is shown in the following table. The cost for spending under this legislation falls within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CHANGES IN REVENUES											
Title I – Small Business Tax Relief Provisions											
Extension of Work Opportunity Tax Credit	0	-150	-411	-569	-657	-726	-591	-302	-143	-75	-34
Extension of 15-Year Straight-Line Cost Recovery	-44	-172	-301	-340	-334	-321	-303	-298	-302	-292	-266
Extension of Section 179 Expensing	0	0	0	-2,964	-1,897	1,732	1,092	792	613	375	192
All Other Tax Relief Provisions	-6	-282	-226	-154	-161	-156	-164	-178	-190	-204	-218
Title II – Revenue Provisions											
Leasing Loss Limitation	1,018	1,662	896	407	290	288	260	135	-239	-629	-854
Tax Treatment of Inversion Transactions	42	86	99	107	115	123	123	143	153	162	170
Limitation of Deferred Compensation Plans	43	59	60	63	83	94	97	100	103	106	105
All Other Revenue Provisions	53	282	223	193	185	178	175	177	206	207	177
Total Changes in Revenues	1,106	1,485	340	-3,257	-2,376	1,212	689	569	201	-350	-728
On-Budget	1,106	1,465	327	-3,259	-2,375	1,215	692	572	204	-347	-725
Off-Budget	0	20	13	2	-1	-3	-3	-3	-3	-3	-3
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	*	23	29	34	38	41	42	47	54	55	58
Estimated Outlays	*	23	29	34	38	41	42	47	54	55	58
CHANGES IN SPENDING SUBJECT TO APPROPRIATION											
Authorization Level	10	10	10	10	10	10	10	10	10	10	10
Estimated Outlays	5	10	10	10	10	10	10	10	10	10	10

NOTE: Numbers may not add to totals due to rounding.

* = Increase of less than $500,000.

BASIS OF ESTIMATE

Revenues

The legislation would reduce revenues through multiple tax relief provisions related to small businesses, and it would also raise revenues by altering the tax treatment of certain business transactions, limiting certain types of deferred compensation, and making other changes. All in all, CBO and JCT estimate that the bill would reduce revenues by $1.5 billion over the 2007-2012 period and by $1.1 billion over the 2007-2016 period.

Three provisions of title I would have the largest negative effect on revenues. First, the work opportunity tax credit would be extended. Currently, employers who hire workers from among certain targeted groups may claim a work opportunity tax credit. This bill would extend (through December 31, 2012) and expand certain criteria for eligibility for the credit. JCT estimates that this provision would reduce revenues by $2.5 billion over the 2007-2012 period and by $3.7 billion over the 2007-2017 period.

Second, 15-year cost recovery for certain properties would be extended or newly allowed. Currently, certain properties are allowed to use a 15-year straight-line cost recovery method, but only until January 1, 2008. This bill would extend the use of this method for qualified leasehold improvement property and qualified restaurant improvements and new restaurant buildings until March 1, 2008. It also would allow qualified retail property to use this method as well. JCT estimates that these provisions would reduce revenues by $1.5 billion over the 2007-2012 period and by $3.0 billion over the 2007-2017 period.

Third, the bill would extend for one year through 2010 the increased amounts and types of investment that qualify for immediate deductibility (“expensing”) under section 179 of the Internal Revenue Code. JCT estimates that this would reduce revenues by $3.1 billion over the 2007-2012 period and by $64 million over the 2007-2017 period.

All other provisions of title I combine to reduce revenues by $985 million over the 2007-2012 period and by $1.9 billion over the 2007-2017 period. Of the revenue loss from a provision regarding professional employer organizations, JCT estimates that a portion would be off-budget—totaling $89 million over the 2007-2017 period.

Three provisions in title II would have the largest positive effect on revenues. First, the legislation would accelerate the effective date for provisions of the American Jobs Creation Act of 2004 that provided for loss deferral rules for certain tax exempt use property involved in so-called sale-in, lease-out (“SILO”) transactions. JCT estimates that this provision would increase revenues by $4.6 billion over the 2007-2012 period and by $3.2 billion over the 2007-2017 period.

Second, the American Jobs Creation Act of 2004 included a provision regarding the tax treatment of inversion transactions, which occur when a multinational firm with a U.S. parent corporation restructures so that a new foreign corporation becomes the parent corporation, with little or no change in operating structure. This bill would change the effective date of that corporate inversion provision from March 4, 2003, to March 20, 2002, thus increasing revenue from certain companies that have incorporated abroad. JCT estimates that this provision would increase revenues by $572 million over the 2007-2012 period and by $1.3 billion over the 2007-2017 period

Third, the bill would limit the annual amounts that an employee may defer from taxation under nonqualified deferred compensation plans. JCT estimates that this would increase revenues by $401 million over the 2007-2012 period and by $910 million over the 2007-2017 period.

All other provisions of title II, JCT and CBO estimate, would increase revenues by $1.1 billion over the 2007-2012 period and by $2.1 billion over the 2007-2017 period. Of the revenue gain from a provision regarding collection procedures for employment tax liabilities, JCT estimates that a portion would be off-budget—totaling $103 million over the 2007-2017 period.

The Internal Revenue Service uses information provided by individuals with knowledge of tax fraud ("whistleblowers") to administer compliance with the tax system. Whistleblowers receive awards that depend on the type of information they provide and the amount of tax recovered. Section 213 of the bill would modify whistleblower provisions, which JCT estimates would result in additional revenues of $920 million over the 2007-2017 period. It would also result in additional spending of $421 million over the period. Thus, JCT and CBO expect that net savings from provisions of section 213 would total $499 million over the period.

However, Scorekeeping Guideline number 14 (adopted by the Congress in the conference report for the Balanced Budget Act of 1997) states: "No increase in receipts or decrease in direct spending will be scored as a result of provisions of a law that provides direct spending for administration or program management activities." In consultation with the Committees on the Budget, CBO has concluded that Scorekeeping Guideline number 14 applies to the provisions. Consequently, CBO's cost estimate for section 213 does not reflect the additional revenues, but does include the additional direct spending for activities related to whistleblower cases.

Direct Spending

Based on estimates provided by JCT, CBO estimates that direct spending on administration of the whistleblower program would increase by $421 million over the 2007-2017 period. That additional spending would occur as a result of increased payments to individual whistleblowers and to attorneys who represent such individuals.

Additionally, section 105 would allow the IRS to charge up to $500 for the certification of professional employer organizations who provide services related to employee benefits like a human resources department. The charge would result in more revenues—some of which the IRS can spend without further appropriation. Based on information from JCT and historical levels of fees collected and spent, CBO estimates that implementing this provision would not have a significant impact on direct spending.

Spending Subject to Appropriation

Section 213 would authorize the appropriation of $10 million annually to establish a Whistleblower Office within the IRS to analyze information and investigate whistleblower information. Assuming appropriation of the specified amount, CBO estimates that implementing this provision would cost $5 million in 2007 and $105 million over the 2007-2017 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the tax provisions of the legislation contain two private-sector mandates as defined in UMRA: (1) modification to the effective date for the application of the AJCA 2004 leasing (SILO) provision and (2) tax treatment of inversion transactions. The modification of the SILO provision would apply loss limitation to leases with foreign entities regardless of when the lease was entered into. CBO has determined that the nontax provisions of the bill contain no private-sector mandates as defined in UMRA.

CBO and JCT have determined that the bill contains no intergovernmental mandates as defined in UMRA.

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