CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 13, 2007

H.R. 1677
Taxpayer Protection Act

As ordered reported by the House Committee on Ways and Means on March 28, 2007

SUMMARY

H.R. 1677 would make several changes to tax law. It would allow the Internal Revenue Service (IRS) to disclose the return information of federal inmates to the head of the Federal Bureau of Prisons in certain circumstances and it would modify reporting requirements on dispositions of U.S. real property interests. It also would prohibit the IRS from giving providers of refund anticipation loans debt indicators if the providers are deemed predatory. The bill also would simplify tax reporting for couples who operate a joint business venture, prohibit the misuse of Treasury names and symbols on the Internet, and require the IRS to notify taxpayers who may be eligible for the earned income tax credit (EITC).

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 1677 would decrease revenues by less than $500,000 in 2007, by $6 million over the 2007-2012 period, and by $16 million over the 2007-2017 period. The Congressional Budget Office (CBO) estimates that enacting the bill could increase federal revenues and direct spending as a result of the collection of additional civil and criminal penalties assessed for misuse of Treasury names and symbols. CBO estimates, however, that any additional revenues and direct spending that would result from the penalty provisions would not be significant. CBO also estimates that implementing the bill would cost $2 million to $3 million annually, subject to appropriation of the necessary amounts.

JCT reviewed the tax provisions of the bill and determined that they 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. 1677 and determined that they contain no intergovernmental mandates as defined in UMRA. Those provisions would impose no costs on state, local, or tribal governments. CBO has also determined that the non-tax provisions of H.R. 1677 contain a private-sector mandate as defined in the UMRA. The bill would prohibit anyone from using words, abbreviations, titles, or letters associated with the Department of the Treasury (or one of its bureaus, offices, or subdivisions) as a part of an Internet domain address in a manner which could be reasonably interpreted as conveying the

false impression that the domain address is connected to or authorized by the department. Based on information from government and industry sources, CBO expects the total direct cost of the mandate would fall below the annual threshold established by UMRA ($131 million in 2007, adjusted annually for inflation) in the first five years the mandate is in effect.

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 budgetary impact of this legislation falls within function 800 (general government).

	By Fiscal Year, in Millions of Dollars												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-2012	2007-2017
CHANGES IN REVENUES													
Estimated Revenues	*	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	-6	-16
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	3	3	3	2	2	2	2	2	2	2	13	23
Estimated Outlays	0	3	3	3	2	2	2	2	2	2	2	13	23

NOTES: Numbers may not sum to totals because of rounding.

* = loss of less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO and JCT assume that the bill will be enacted by July 1, 2007.

Revenues and Direct Spending

The legislation would make several tax law changes related to taxpayer protection. CBO and JCT estimate that enacting H.R. 1677 would reduce revenues by less than $500,000 in 2007, by $6 million over the 2007-2012 period, and by $16 million over the 2007-2017 period.

H.R. 1677 would amend reporting requirements on dispositions of U.S. real estate. When foreign citizens sell their holdings of U.S. real estate, they are subject to income tax withholding under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Currently, the seller must identify that he or she is a U.S. citizen in order to avoid the requirement that the buyer withhold some payments from the seller and remit them to the Treasury as tax withholding. The bill would give the seller the option to give proof of identity to an intermediary. JCT estimates that this provision would reduce compliance with the tax laws and result in a revenue loss of less than $500,000 in 2007, $7 million over the 2007-2012 period, and $17 million over the 2007-2017 period.

The bill would authorize the IRS to disclose an individual's tax return to the head of the Federal Bureau of Prisons if the IRS believes that an incarcerated individual may have filed a false return. JCT estimates that this provision, which would be in effect for three years, would increase revenues by $1 million over the 2009-2011 period and would have no impact after 2011.

The bill also would require the IRS to notify taxpayers of potential eligibility for the EITC. Taxpayers would be informed that they may be eligible for the EITC if they did not claim the credit for any preceding year (unless certain limitations apply) and their returns show that they are potentially eligible. JCT estimates that this would reduce revenues and increase outlays by less than $500,000 in total over the 2007-2017 period.

H.R. 1677 would establish a new federal crime for the misuse of Treasury names and symbols on the Internet. The bill also would apply and increase civil and criminal penalties (that are already levied on misuse of Treasury names in other mediums) to such Internet misuse. Enacting the provision could increase federal revenues and direct spending as a result of the collection of additional civil and criminal penalties. (Collections of criminal penalties are recorded in the budget as revenues, deposited in the Crime Victims Fund, and later spent without further appropriation.) CBO estimates, however, that any additional revenues and direct spending that would result from enacting the bill would not be significant because of the relatively small number of cases likely to be involved.

Additionally, H.R. 1677 would simplify tax filing for married couples who file jointly and who both participate in a joint business venture. Under current law, such couples are required to file a partnership income tax return and divide income from the venture between the spouses according to their respective interests in the venture. Under the proposal, couples would each report their share of income on Form 1040, Schedule C as income from a sole proprietorship.

There is anecdotal evidence that some couples who operate joint ventures may already use Schedule C (intended to be used only by sole proprietors) and attribute all the income from the joint venture to one spouse. That attribution could affect the Social Security taxes the couple pays as well as the benefits they receive. JCT has determined that the proposal would have a negligible effect on revenues.

Social Security benefits are calculated by a formula that is based on lifetime earnings. Some people may also collect benefits based on their spouses' lifetime earnings. Depending on each couple's full earnings history, a change in which spouse reports income could raise or lower the combined benefit the couple would receive. Because of limited data on the earnings of the couples potentially affected by this change, CBO cannot determine whether the proposal would raise or lower spending in the Social Security program, but any such effect is likely to be small.

Spending Subject to Appropriation

H.R. 1677 would require the IRS to notify any taxpayer that the agency determines has been a victim of identify theft and when any criminal charges have been filed. The bill also would require, to the extent possible, that the IRS annually provide written notice to taxpayers who may qualify for an earned income tax credit or refund. In addition, H.R 1677 would allow the IRS to share prisoners' tax information with prison officials over the next three years if necessary to investigate fraudulent tax filings. Under the bill, the IRS would report to the Congress on the effectiveness of this information sharing program. Based on information from the IRS, and assuming the appropriation of the necessary amounts, CBO estimates that implementing those provisions would cost $2 million to $3 million annually.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT reviewed the tax provisions of the bill and determined that they contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act. CBO has reviewed the non-tax provisions and determined that they contain no intergovernmental mandates as defined in UMRA. Those provisions would impose no costs on state, local, or tribal governments.

However, CBO has determined that the non-tax provisions of H.R.1677 contain a private-sector mandate as defined in UMRA. The bill would prohibit anyone from using words, abbreviations, titles, or letters associated with the Department of the Treasury (or one of its bureaus, offices, or subdivisions) as a part of an Internet domain address in a manner which could be reasonably interpreted as conveying the false impression that the domain address is connected to or authorized by the department.

The costs of the mandate would be the expenditures incurred to bring the Internet domain address into compliance added to any loss of net income associated with those changes. Current law already prohibits the use of words or symbols related to the department of Treasury in connection with advertisements, solicitations, or other business activities in such a manner. Based on information from government and industry sources, CBO expects the total direct cost of the mandate would fall below the annual threshold established by UMRA ($131 million in 2007, adjusted annually for inflation).

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