CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 20, 2000

H.R. 4986
FSC Repeal and Extraterritorial Income Exclusion Act of 2000

As ordered reported by the Senate Committee on Finance on September 19, 2000

SUMMARY

H.R. 4986 would repeal present-law foreign sales corporation (FSC) rules. Under current law, U.S. firms generally are subject to U.S. tax on their worldwide income, but they are allowed tax credits for a portion of the income taxes they pay to foreign governments on that income. Within that general framework, U.S. law permits the use of FSCs, through which a portion of domestic firms' export income is characterized as foreign source and is exempted from U.S. tax. Under the proposal, U.S. firms could elect to exclude certain qualifying foreign trade income from their taxable income, with qualifying foreign trade income defined to include a portion of income attributable to sales by U.S. taxpayers. To be eligible for the exclusion, firms would not be allowed tax credits for income taxes paid to foreign governments on the qualifying foreign trade income. Qualifying foreign trade income would be calculated by using one of several formulas. The remaining portion of income earned from sources abroad would be taxed in a similar manner as under current law.

The Joint Committee on Taxation (JCT) estimates that the bill would reduce revenues by $141 million in 2001, by about $1.6 billion over the 2001-2005 period, and by about $4.4 billion over the 2001-2010 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

H.R. 4986 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4986 is shown in the following table. Estimates of all provisions in H.R. 4986 were provided by JCT.

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN REVENUES						
Estimated Revenues	0	-141	-305	-340	-378	-423

SOURCE: Joint Committee on Taxation.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in receipts	0	-141	-305	-340	-378	-423	-466	-514	-566	-623	-687
Changes in outlays	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4986 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On September 13, 2000, CBO transmitted a cost estimate for H.R. 4986 as ordered reported by the House Committee on Ways and Means on July 27, 2000, with subsequent amendments provided on September 12, 2000. This estimate reflects the removal of a provision from the earlier version of H.R. 4986 which would allow domestic corporations to receive a tax deduction for certain dividends received from their foreign subsidiaries. This change would decrease the reduction in revenues, relative to the earlier version of H.R. 4986, by $12 million in 2001, $36 million over the 2001-2005 period, and $36 million over the 2001-2010 period.

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