CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 26, 1999

Taxpayer Refund Act of 1999

As ordered reported by the Senate Committee on Finance on July 21, 1999

SUMMARY

The Taxpayer Refund Act of 1999 would provide for a variety of phased-in tax-reduction proposals, including a reduction of the 15 percent income tax rate to 14 percent and an expansion of the proposed 14 percent bracket, a provision for married couples to file single returns, modifications of the individual alternative minimum tax, an increase of the annual contribution limit for individual retirement accounts, a reduction of estate and gift taxes, and a new tax deduction for health insurance expenses. The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that the bill would decrease governmental receipts by about $4 billion in fiscal year 2000, by about $155 billion over the 2000-2004 period, and by nearly $792 billion over the 2000-2009 period. In addition, the legislation would increase direct spending by $40 million over the 2000-2004 period, but would decrease direct spending by $83 million over the 2000-2009 period. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply.

The bill contains a new intergovernmental mandate, the cost of which would not exceed the threshold for intergovernmental mandates ($50 million in fiscal year 1996, adjusted annually for inflation) established in the Unfunded Mandates Reform Act (UMRA). The bill also contains 16 new private-sector mandates. The costs of those mandates would exceed the threshold established by UMRA for private-sector mandates ($100 million in fiscal year 1996, adjusted annually for inflation) in fiscal years 2000 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN REVENUES						
Estimated Revenues						
On-Budget	22	-4,042	-24,391	-39,124	-41,685	-45,043
Off-Budget	0	-97	-224	-274	-292	-312
Total Change in Revenues	22	-4,139	-24,615	-39,398	-41,977	-45,355
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	2	4	6	6	10
Estimated Outlays	0	2	4	9	9	13
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Outlays	0	a	a	a	a	a

a. Amounts under $500,000.

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

All estimates, with the exception of the following provisions, were prepared by JCT.

Revenues

Accelerate the Repeal of the FUTA Surtax. The Federal Unemployment Tax Act (FUTA) imposes on employers an effective tax of 0.8 percent on the first $7,000 in wages paid annually to each employee. This 0.8 percent includes a 0.2 percent surtax scheduled to expire on December 31, 2007. The bill would accelerate the expiration date to December 31, 2004.

Revenues from the FUTA tax are deposited into federal unemployment trust funds, which are statutorily capped. Under current law, CBO projects that the amounts in the federal trust funds will exceed the caps beginning in 2003. Amounts above the caps are transferred to state unemployment compensation trust funds. Since the state funds are included in the unified federal budget, this transfer will have no net budgetary effect. However, CBO expects that states would respond to this transfer by lowering their unemployment taxes so that their trust fund balances would remain constant.

The bill would lower the amount of revenues deposited into the federal trust funds and thus would reduce the amounts flowing to the state funds. CBO assumes that in the year following each lowered transfer, states would respond by not lowering their unemployment taxes as much as they would have, thus increasing revenues relative to current law. CBO estimates that the measure would reduce governmental receipts by $1,029 million in fiscal year 2005 and by lesser amounts in 2006 and 2007. We estimate increases in receipts in fiscal years 2008 and 2009. Over the 2005-2009 period, CBO estimates that the measure would have no net impact on governmental receipts.

IRS User Fees. The bill would adjust and extend the authority of the Internal Revenue Service (IRS) to charge taxpayers fees for certain rulings by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. The bill would eliminate the fee the IRS currently charges on determination letter requests regarding new small business pension plans beginning on December 31, 2000. The bill also would extend for six years beyond its current expiration date of September 30, 2003, the authority of the IRS to charge taxpayers fees for certain rulings. CBO estimates that the adjustment and extension of IRS fees would increase governmental receipts by $42 million over fiscal years 2001 through 2004 and by $323 million during the 2001-2009 period, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS.

Federal Spending

IRS User Fees. The bill would adjust and extend the authority of the IRS to charge taxpayers fees for certain rulings by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. The IRS has the authority to retain and spend a small portion of these fees without further appropriation. CBO estimates that the adjustment and extension of fees would increase direct spending by $3 million over the 2001-2004 period and by $18 million over the 2001-2009 period.

National Vaccine Injury Compensation Fund and Medicaid. The bill would add conjugate vaccines against streptococcus pneumoniae to the list of taxable vaccines and thus would allow for compensation for injuries related to those vaccines from the National Vaccine Injury Compensation Trust Fund. CBO estimates that this provision would increase outlays by $4 million over the 2000-2004 period. This provision would also increase federal Medicaid outlays by $21 million over the 2000-2004 period because Medicaid would be required to pay the excise tax on purchases of vaccines against streptococcus pneumoniae.

The federal government purchases about one-half of all vaccines through its Vaccines for Children program.

In addition, the bill would reduce the tax rate applicable to all taxable vaccines from 75 cents per dose to 25 cents per dose for sales of vaccines after December 31, 2004. This provision would reduce the amount of tax that the Medicaid program would be required to pay for vaccines purchased through its Vaccines for Children program and would decrease federal outlays after the effective date by about $35 million annually.

Also, by adding conjugate vaccines against streptococcus pneumoniae to the list of taxable vaccines, the bill would increase the cost of vaccines purchased under section 317 of the Public Health Service Act. Section 317 authorizes grants to states for the purchase of vaccines under federal contracts with vaccine manufacturers. The bill would also reduce the cost of vaccines purchased under this program after December 31, 2004, by reducing the excise tax rate. Any changes in spending under this section would be subject to the annual appropriation process. CBO estimates that there would be additional, but insignificant costs from the addition of the streptococcus pneumoniae vaccines and savings of about $9 million annually from the reduction in the excise tax after December 31, 2004.

Reduced PBGC Premiums for New Plans. Under current law, single-employer defined benefit pension plans pay two types of annual premiums to the Pension Benefit Guaranty Corporation (PBGC). All covered plans are subject to a flat-rate premium of $19 per participant. In addition, underfunded plans must also pay a variable premium that depends on the amount by which the plan's liabilities exceed its assets.

The bill would reduce the flat-rate premium from $19 to $5 per participant for plans established by employers with 100 or fewer participants during the first five years of the plan’s operation. According to information obtained from the PBGC, approximately 3,000 plans would qualify for this reduction. Those plans contain an average of about 10 participants each. CBO estimates that the premium change would reduce PBGC's premium income, which is classified as an offsetting collection, by about $0.4 million annually beginning in 2002 or by about $1.3 million over the 2000-2004 period.

Reduction of Additional PBGC Premiums for New and Small Plans. The bill would make two changes affecting the variable-rate premium paid by underfunded plans. First, for all new plans that are underfunded, the bill would phase in the variable-rate premium the plans must pay. In the first year, they would pay nothing. In the succeeding four years, they would pay 20 percent, 40 percent, 60 percent, and 80 percent, respectively, of the full amount. In the sixth and later years, they would pay the full variable-rate premium determined by their funding status. On the basis of information on premium payments to the PBGC in 1996-1997, CBO estimates that this change would affect the premiums of approximately 400 plans each year. It would reduce PBGC's total premium receipts by about $4.2 million over the 2000-2004 period.

The bill would also reduce the variable-rate premium paid by all underfunded plans (not just new plans) established by employers with 25 or fewer employees. Under the bill, the variable-rate premium per participant paid by those plans would not exceed $5 multiplied by the number of participants in the plan. CBO estimates that approximately 8,300 plans would have their premium payments to PBGC reduced by this provision beginning in 2002. Premium receipts by the PBGC would decline by $1.5 million in 2002 and by about $4.6 million over the 2002-2004 period.

Missing Plan Participants. The legislation would expand the missing participant program. The Retirement Protection Act of 1994 established a missing participant program at PBGC for terminating defined benefit plans. The bill would expand the program to include terminating multiemployer plans, defined benefit plans not covered by PBGC, and defined contribution plans.

The budgetary impact of this provision would be less than $0.5 million annually. PBGC does not expect a high volume of missing participants as a result of this proposal, and the administrative costs of expanding the program would not be high. The net budgetary effect of increased benefit payments would also be small. Amounts paid by a pension plan to PBGC for missing participants are held in PBGC's trust fund, which is off-budget. Amounts paid out by PBGC to participants at the time they are located are funded in the same manner as benefit payments to participants in plans for which PBGC is the trustee—partially by the trust fund and partially by on-budget revolving funds.

Rules for Substantial Owner Benefits in Terminated Plans. The legislation would simplify the guarantee and asset allocation rules as they relate to terminated plans involving a substantial owner (ownership interest of at least 10 percent). All owners other than majority owners (those with an ownership interest of 50 percent or more) would be treated the same as other participants, thus receiving a more generous guarantee than under current law. Majority owners would be subject to simplified special rules. The guarantee for majority owners would be phased in at the rate of 1/10 for each year that the plan has been in effect, which is faster than the current-law phase-in, but the nonguaranteed benefits of majority owners would be given a lower priority in the allocation of assets. Only about one-third of the plans taken over by PBGC involve substantial owners, and the change in benefits paid out by PBGC to owner-employees under this provision would be less than $0.5 million in each year.

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 and outlays that are subject to pay-as-you-go procedures are shown in the following table. Only changes affecting on-budget outlays and receipts affect the pay-as-you-go scorecard. 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										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in Receipts	22	-4,042	-24,391	-39,124	-41,685	-45,043	-89,541	-114,318	-129,025	-145,337	-156,219
Changes in Outlays	0	2	4	9	9	13	-16	-26	-26	-26	-27

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that the provision that would add streptococcus pneumoniae to the list of taxable vaccines is an intergovernmental mandate. JCT estimates that the cost of the mandate would not exceed the threshold specified in UMRA ($50 million in fiscal year 1996, adjusted for inflation). Sections of the bill reviewed by CBO regarding pension plans and IRS user fees contain no intergovernmental mandates as defined in UMRA. The section that would move the expiration date of the federal unemployment surtax back three years would have implications for state unemployment compensation programs as noted above.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that 16 provisions in the bill contain private-sector mandates. The private-sector mandates in the bill would:

- Add certain vaccines against streptococcus pneumoniae to the list of taxable vaccines;

- Impose a 10 percent vote or value test for real estate investment trusts (REITs);

- Change the treatment of income and services provided by taxable subsidiaries of REITs;

- Modify foreign tax credit carryover rules;

- Require reporting of information regarding cancellation of indebtedness by nonbank financial institutions;

- Limit the use of the nonaccrual experience method of accounting to the amounts to be received for the performance of qualified professional services;

- Impose a limitation on prefunding of certain employee benefits;

- Repeal the installment method for most taxpayers using the accrual basis;

- Prevent the conversion of ordinary income or short-term capital gains into income eligible for long-term capital gain rates;

- Deny the deduction and impose an excise tax with respect to charitable split-dollar life insurance programs;

- Modify the estimated tax rules of closely held REITs;

- Change the tax treatment of prohibited allocation of stock in an Employee Stock Ownership Plan of a subchapter S corporation;

- Modify anti-abuse rules related to the assumption of liabilities;

- Require consistent treatment and provide basis allocation rules for transfers of intangibles in certain nonrecognition transactions;

- Modify the treatment of certain closely held REITs; and

- Provide for a basis reduction to assets of a corporation, if stock in that corporation is distributed by a partnership to a corporate partner.

JCT estimates that the cost of the private-sector mandates would exceed the threshold established in UMRA ($100 million in fiscal year 1996, adjusted annually for inflation) in each of the fiscal years 2000-2004.

Estimated Cost of Private-Sector Mandates

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
Cost to the Private Sector	22	830	1,611	1,370	1,083	814

Source: Joint Committee on Taxation.

ESTIMATE PREPARED BY:

Federal Revenues: Hester Grippando and Noah Meyerson

Federal Spending: Tami Ohler, Jeanne De Sa (for National Vaccine Injury Compensation Fund and Medicaid), and John Righter (for IRS fees)

ESTIMATE APPROVED BY:

Robert A. Sunshine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis