CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 25, 2002

H.R. 4946
Improving Access to Long-Term Care Act of 2002

As ordered reported by the House Committee on Ways and Means on June 19, 2002

SUMMARY

H.R. 4946 would provide an above-the-line deduction for a percentage of premiums for eligible long-term care insurance contracts. The deduction would be available for eligible long-term care insurance that covers the taxpayer, the taxpayer's spouse or the taxpayer's dependents and for which the taxpayer pays at least 50 percent of the cost of coverage. The deduction would phase out for single taxpayers with adjusted gross income (AGI) between $20,000 and $40,000 a year and for married taxpayers filing jointly with AGI between $40,000 and $80,000.

H.R. 4946 would also allow an additional personal exemption for taxpayers who provide home care to dependents with long-term care needs. This additional exemption would be phased in starting at $500 in 2003 and 2004, increasing in $500 increments every other year thereafter until it reaches $2,500 in 2011. Starting in 2012, a full personal exemption would apply.

In addition, the bill would add vaccines against Hepatitis A to the list of taxable vaccines, expand human clinical trial expenses qualifying for the orphan drug tax credit, and adjust employer contributions to the Combined Benefit Fund to reflect Medicare payments for prescription drug subsidies.

The Joint Committee on Taxation (JCT) and CBO estimate that enacting H.R. 4946 would reduce revenues by $106 million in 2003, $1.5 billion over the 2003-2007 period, and $5.5 billion over the 2003-2012 period. CBO estimates that the bill would increase direct spending by $5 million in 2003, $34 million over the 2003-2007 period, and $70 million over the 2003-2012 period. Because the bill would affect revenues and direct spending, pay-as-you-go procedures would apply. JCT and CBO have determined that the bill 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. 4946 is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Estimated Revenues	0	-106	-250	-329	-359	-455
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	5	7	7	7	7
Estimated Outlays	0	5	7	7	7	7

BASIS OF ESTIMATE

Revenues

All revenue estimates for H.R. 4946 were provided by JCT except for the provision adjusting employer contributions to the Combined Benefit Fund to reflect Medicare prescription drug subsidy payments. CBO estimates the revenue effect of that provision, by itself, would be zero because Medicare does not have an outpatient prescription drug benefit under current law. However, H.R. 4946, if enacted concurrently with or after the establishment of a Medicare prescription drug benefit, would decrease revenues in the form of health care premiums paid to the Combined Benefit Fund by certain coal companies.

The Combined Benefit Fund was created in 1992 to provide health benefits to retired coal industry workers. Under current law, the premiums coal companies pay to the fund on behalf of retired workers can be increased in the event that Medicare reduces its benefits to ensure that the same level of benefits is maintained. In contrast, there is no mechanism to decrease premiums if Medicare adds benefits. This provision would require the fund to reduce the premiums that coal companies pay to the fund by the amount the fund would receive from Medicare for the prescription drug benefit. The estimate assumes that the fund would make arrangements with Medicare to enroll all Medicare-eligible fund participants in the drug benefit and that the fund would pay the premiums and cost-sharing associated with participation in that plan.

CBO estimates the cost of implementing this provision in conjunction with the prescription drug benefit specified in H.R. 4954 (as ordered reported by the Committee on Ways and Means on June 19) would be $35 million over the 2003-2007 period and $92 million over the 2003-2012 period. (Those estimates are not included in the above table, which provides estimated changes in revenues relative to current law only.)

Direct Spending

The Hepatitis A vaccine tax provision would require vaccine buyers to pay an excise tax on each dose purchased. Medicaid is a major purchaser of vaccines through the Vaccines for Children program, administered through the Centers for Disease Control and Prevention (CDC). CBO assumes that Medicaid purchases approximately half of the Hepatitis A vaccines sold annually. Based on estimates provided by JCT, CBO expects that implementing H.R. 4946 would cost the Medicaid program about $3 million in 2003 and $48 million over the 2003-2012 period.

Receipts from the tax would go to the Vaccine Injury Compensation Fund (VICF), which is administered by the Health Resources and Services Administration (HRSA). The fund uses tax revenues to pay compensation to claimants injured by vaccines. Once a vaccine becomes taxable, injuries attributed to its use become compensable through this fund. Based on information provided by HRSA and CDC, we assume there will be few compensable claims related to the Hepatitis A vaccine. CBO estimates the provision would increase outlays from the VICF by $2 million in 2003 and $22 million over the 2003-2012 period.

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 outlays and 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 through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in receipts	0	-106	-250	-329	-359	-455	-498	-607	-662	-923	-1,297
Changes in outlays	0	5	7	7	7	7	7	7	7	7	8

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT and CBO have determined that the bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Revenues: Andrew Shaw
Federal Outlays: Alexis Ahlstrom
Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins
Impact on the Private Sector: Stuart Hagan

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis