CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 15, 2002

S. 2119
Reversing the Expatriation of Profits Offshore Act

As ordered reported by the Senate Committee on Finance
on June 18, 2002

SUMMARY

S. 2119 would allow the Department of the Treasury to issue regulations regarding certain transactions by which corporations that were previously incorporated in the United States reincorporate in foreign jurisdictions ("inversion transactions"). These inversion transactions allow certain corporations to pay less tax under the foreign regime than they would if they remained incorporated in the United States. The regulations issued under the bill would eliminate some of the tax benefits for corporations that engage in such transactions. For U.S. corporations that become subsidiaries of foreign-incorporated entities in which former shareholders of the U.S. corporation hold 80 percent or more of the stock of the foreign-incorporated entities and the foreign-incorporated entities do not have substantial business activities in the entity's country of incorporation, the related top-tier foreign corporation would be treated as a domestic corporation for taxation purposes. For those corporations in which former shareholders of the U.S. corporation hold greater than 50 percent but less than 80 percent of the stock of the foreign incorporated entities, the Secretary of the Treasury would have expanded authority to monitor related-party transactions, and certain charges for establishing the new corporate structure would be fully taxable. Furthermore, both types of transactions would be defined to include certain partnership transactions. The bill also would modify the rules by which the Secretary would allocate certain items among the parties to a reinsurance agreement.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase governmental receipts by $25 million in 2002, by $628 million over the 2002-2007 period, and by about $2.1 billion over the 2002-2012 period. Since S. 2119 would affect receipts, pay-as-you-go procedures would apply.

JCT has determined that the bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local,

or tribal governments. JCT has determined that the bill would impose private-sector mandates. The cost of complying with those mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation) in 2006.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. All revenue estimates were provided by JCT.

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Estimated Revenues	25	81	97	117	140	168

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 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	25	81	97	117	140	168	202	242	290	348	418
Changes in outlays	Not applicable										

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

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

IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provisions of the bill would impose private-sector mandates. The cost of complying with those mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation) in 2006.

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