CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 23, 2003

H.R. 2
Jobs and Growth Tax Relief Reconciliation Act of 2003

As cleared by the Congress on May 23, 2003

SUMMARY

The Jobs and Growth Tax Relief Reconciliation Act of 2003 would amend numerous provisions of existing tax law. The act would accelerate to 2003 the income tax rate reductions scheduled for 2004 and 2006. It also would accelerate previously enacted tax changes to increase the child tax credit and expand the 10- and 15-percent tax brackets. Those changes would revert to tax law currently scheduled for 2005. In addition, H.R. 2 would increase the exemption amount for the individual alternative minimum tax (AMT), decrease the tax rates for income from dividends and capital gains, modify tax law relating to bonus depreciation and expensing, and allow certain 2003 corporate estimated tax payments to be shifted into 2004. H.R. 2 also would provide $20 billion in fiscal relief to states.

The Joint Committee on Taxation (JCT) and CBO estimate that H.R. 2 would increase budget deficits by $60.8 billion in 2003, by $342.9 billion over the 2003-2008 period, and by $349.7 billion over the 2003-2013 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2 is shown in following table. Most of the budgetary effects of the legislation are reductions in revenues. However, the bill also would increase outlays by making various changes to the income tax brackets and rates of taxation. By reducing the amount of taxes owed, those changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. The act also would increase the child credit, which is refundable under the tax code and counted as outlays in the budget to the extent that it results in “refunds” of income taxes not actually paid. In addition, H.R. 2 would increase outlays by increasing the federal share of Medicaid spending in 2003 and 2004 and by providing funds directly to states.

	By Fiscal Year, in Millions of Dollars											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total 2003-2013
CHANGES IN REVENUES												
Title I: Acceleration of Previously Enacted Tax Reductions [a]	-30,904	-88,324	-46,292	-5,915	0	0	0	0	0	0	0	-171,435
Title II: Growth Incentives For Businesses	-11,565	-35,979	-15,374	8,387	12,024	9,954	7,938	5,924	4,233	2,622	1,690	-10,146
Title III: Reductions in Taxes on Dividends and Capital Gains [a]	-4,312	-18,434	-20,550	-23,123	-25,717	-26,747	-19,180	-10,025	0	0	0	-148,086
Title V: Corporate Estimated Tax Payments in 2003	-6,325	6,325	0	0	0	0	0	0	0	0	0	0
Subtotal, Revenues and Outlays	-53,106	-136,412	-82,216	-20,651	-13,693	-16,793	-11,242	-4,101	4,233	2,622	1,690	-329,667
Less: Outlays for Refundable Tax Credits [a]	3,617	1,042	4,649	76	45	44	52	0	0	0	0	9,525
Total Changes in Revenues	-49,489	-135,370	-77,567	-20,575	-13,648	-16,749	-11,190	-4,101	4,233	2,622	1,690	-320,142
CHANGES IN DIRECT SPENDING												
Outlays for Refundable Tax Credits [a]	3,617	1,042	4,649	76	45	44	52	0	0	0	0	9,525
Title IV: Temporary State Fiscal Relief Fund	7,730	12,270	0	0	0	0	0	0	0	0	0	20,000
Total Changes in Outlays	11,347	13,312	4,649	76	45	44	52	0	0	0	0	29,525
TOTAL CHANGES												
Net Increase in Budget Deficits	60,836	148,682	82,216	20,651	13,693	16,793	11,242	4,101	-4,233	-2,622	-1,690	349,667

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: Components may not sum to totals because of rounding.

a. The Joint Committee on Taxation has determined that certain revenue provisions in titles I and III have direct spending effects from the refundable tax credits. Separate estimates of the effect of each provision on revenues and outlays are not available.

BASIS OF ESTIMATE

Revenues

All the estimates for the revenue provisions were provided by JCT. H.R. 2 contains numerous provisions altering existing individual and corporate tax law. JCT estimates that, together, the provisions contained in the act would decrease federal revenues by about $49 billion in 2003, by about $313 billion over the 2003-2008 period, and by about $320 billion over the 2003-2013 period.

Title I: Acceleration of Certain Previously Enacted Tax Reductions. Provisions contained in this title would:

- Accelerate to 2003 the cuts in individual income tax rates currently scheduled to take place in 2004 and 2006;

- Expand the child credit to $1,000 for 2003 and 2004 and include an advance payment mechanism for 2003;

- Accelerate the expansion of the 15-percent tax bracket and the increase in the standard deduction for married taxpayers filing a joint return to 2003, and revert to present law in 2005;

- Accelerate the expansion of the 10-percent tax bracket for all taxpayers to 2003, and revert to present law in 2005; and

- Increase the exemption amount for the individual AMT by $4,500 for single taxpayers ($9,000 for joint filers) for 2003 and 2004.

JCT estimates that these provisions would decrease governmental receipts and increase refundable outlays by about $31 billion in 2003 and by about $171 billion over the 2003-2006 period (with no effects after 2006).

Under the advance payment mechanism for the increased child credits in 2003, some of what is classified as reduced revenue in this estimate could have instead been classified as increased outlays. The act would provide for 2003 taxpayers to receive a higher child credit of $1,000 per qualifying child instead of the $600 allowed under current law. Qualifying taxpayers who filed tax returns for tax year 2002 would receive an advance payment of the increased credit during 2003. For some taxpayers, the amounts they would receive as advance payments based on their 2002 tax returns would exceed allowable amounts based on their 2003 circumstances because they had insufficient tax liabilities in 2003. Such taxpayers would not be required by law to repay the excess. That excess might properly be considered an outlay because the amount could not be construed as a refund of 2003 taxes (the taxpayer did not owe this amount as 2003 liability) and the provision does not stipulate that any advance payments exceeding the 2003 allowed credit for such a taxpayer are to be deemed as refunds of prior years' taxes. Such a treatment would be consistent with the budgetary treatment of the Earned Income Tax Credit. In this cost estimate, however, those excesses are considered reductions in revenues based on the budgetary treatment by the Treasury and the Office of Management and Budget for an analogous advanced payment mechanism enacted in 2001.

Title II: Growth Incentives for Businesses. The provisions contained in this title would increase bonus depreciation to 50 percent and extend it through 2004. They would also increase the amounts and types of investment that qualify for immediate deductibility ("expensing") under section 179 of the Internal Revenue Code. The provisions would decrease revenues for 2003 through 2005, but would increase revenues for 2006 through 2013. JCT estimates that these provisions would decrease governmental receipts by about $12 billion in 2003, by about $33 billion over the 2003-2008 period, and by about $10 billion over the 2003-2013 period.

Title III: Reductions in Taxes on Dividends and Capital Gains. Title III would apply tax rates of 15 percent and 5 percent to income from dividends and long-term capital gains through 2007, and 15 percent and 0 percent for 2008. Thereafter, the rates would revert to present law. JCT estimates that these rate changes would decrease governmental receipts and increase refundable outlays by $4 billion in 2003, by about $119 billion over the 2003-2008 period, and by about $148 billion through 2010 (with no effects after 2010).

Title V: Modification to Corporate Estimated Tax Payments for 2003. Title V would allow certain 2003 corporate estimated tax payments to be paid in 2004, which JCT estimates would decrease federal revenues by about $6 billion in 2003, but then increase revenues by the same amount in 2004.

Direct Spending

Outlays from Refundable Tax Credits. JCT provided the outlay effects resulting from the refundable tax credits contained in titles I and III of the bill. JCT estimates that enacting those provisions would increase outlays by $3.6 billion in 2003 and by $9.5 billion over the 2003-2009 period (with no effects after 2009).

Fiscal Relief for States. Section 401 of the act would increase the federal share of Medicaid spending in 2003 and 2004 and provide a total of $10 billion in funds for states to use on government services. CBO estimates that these provisions would increase spending by a total of $7.7 billion in 2003 and $12.3 billion in 2004.

Increase in Medicaid match rate. The federal government pays a portion of the costs for each state's Medicaid program. The federal government's share, known as the federal medical assistance percentage (FMAP), varies for each state and is based on each state's per capita income. Under current law, FMAPs are updated annually to reflect new data on per capita income in each state. The act would change the FMAPs in three ways:

- The FMAP for the last two quarters of 2003 would equal the higher of the FMAPs (as determined under current law) for 2002 or 2003;

- The FMAP for the first three quarters of 2004 would equal the higher of the FMAPs (as determined under current law) for 2003 or 2004; and

- The FMAP for all states would increase by 2.95 percentage points for the last two quarters of 2003 and the first three quarters of 2004.

These provisions are not mutually exclusive; states could potentially qualify for all three increases. CBO estimates that these provisions would increase federal Medicaid spending by $2.7 billion in 2003 and $7.3 billion in 2004.

Aid to states. The act would provide $5 billion in each of fiscal years 2003 and 2004 for states to use on maintaining essential government services or to cover the cost of complying with unfunded federal intergovernmental mandates as defined in the Unfunded Mandates Reform Act. Under H.R. 2, payments would be made to the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. Such payments would be based on the population of each state, except that the provision would establish minimum payment levels. CBO estimates that this provision would result in outlays of $5 billion in 2003 and $5 billion in 2004.

SUMMARY OF THE EFFECTS ON REVENUES AND DIRECT SPENDING

The overall effects of H.R. 2 on revenues and direct spending over the 2003-2013 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-49,489	-135,370	-77,567	-20,575	-13,648	-16,749	-11,190	-4,101	4,233	2,622	1,690
Changes in outlays	11,347	13,312	4,649	76	45	44	52	0	0	0	0

SOURCES: CBO and the Joint Committee on Taxation.

PREVIOUS CBO ESTIMATES

On May 8, 2003, CBO transmitted a cost estimate for H.R. 2, the Jobs and Growth Tax Act of 2003, as reported by the House Committee on Ways and Means. CBO and JCT estimated that version of H.R. 2 would increase budget deficits by about $550 billion over the 2003-2013 period. On May 14, 2003, CBO transmitted a cost estimate for S. 1054, the Jobs and Growth Tax Relief Reconciliation Act of 2003, as reported by the Senate Committee on Finance. CBO and JCT estimated that bill would increase budget deficits by about $350 billion over the 2003-2013 period. H.R. 2, as cleared, also would increase deficits by about $350 billion over the 2003-2013 period, but the legislation differs in many ways from S. 1054.

ESTIMATE PREPARED BY:

Federal Revenues: Annie Bartsch

Federal Spending:
Medicaid—Jeanne De Sa and Eric Rollins
Aid to States—Matthew Pickford

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis