CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 5, 2003

H.R. 2896
American Jobs Creation Act of 2003

As ordered reported by the House Committee on Ways and Means on October 28, 2003

SUMMARY

H.R. 2896 would repeal the exclusion for extraterritorial income, institute a reduced tax rate on certain corporate income, and make numerous other changes to existing tax law relating to corporations. In addition, H.R. 2896 would extend IRS and customs user fees. The tax provisions of the bill would generally take effect after December 31, 2003.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would reduce federal revenues by about $1.7 billion in 2004, $28.2 billion over the 2004-2008 period, and $76.6 billion over the 2004-2013 period. CBO estimates that the bill would decrease direct spending by $614 million in 2004, about $7 billion over the 2004-2008 period, and about $17.1 billion over the 2004-2013 period.

JCT has determined that the following tax provisions of H.R. 2896 contain private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA): (1) the provisions to reduce the potential for earnings stripping by further limiting the deduction for interest on certain indebtedness; (2) the provisions relating to reportable transactions and tax shelters; (3) the provision relating to the modification of the rules for certain property and casualty insurance companies; and (4) the provision to repeal the exclusion for extraterritorial income. CBO has reviewed the non-tax provisions and determined that the extension of the customs user fees is a private-sector mandate as defined in UMRA. In aggregate, the costs of those mandates would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation) in each of the first five years the mandates are in effect. JCT and CBO have determined that H.R. 2896 contains no intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2896 is shown in the following table. The costs of the legislation fall within budget functions 300 (natural resources and environment), 550 (health), 750 (administration of justice), and 800 (general government).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN REVENUES										
Title I: Tax Provisions Relating to Corporate Tax Rates, Depreciation Rules, and to Other Changes	-2,709	-4,062	-10,016	-16,120	-11,370	-9,931	-15,467	-17,175	-20,031	-21,841
Title II: Provisions to Relating to Corporate Earnings Stripping and Expatriation	119	111	197	350	386	429	445	466	487	508
Title III: Provisions Relating to Tax Shelters and Other Miscellaneous Provisions	441	1,448	382	401	392	428	459	492	525	556
Title IV: Trade and Compliance Provisions	453	880	1,436	3,636	5,490	5,714	5,983	6,253	6,515	6,787
Estimated Revenues	-1,696	-1,623	-8,001	-11,733	-5,102	-3,360	-8,580	-9,964	-12,504	-13,990
CHANGES IN DIRECT SPENDING										
Taxation of Hepatitis A Vaccine										
Estimated Budget Authority	5	7	7	7	7	7	7	7	7	7
Estimated Outlays	5	7	7	7	7	7	7	7	7	7
Reduction of Certain Excise Taxes										
Estimated Budget Authority	0	-4	-4	-4	-4	-4	-4	-5	-5	-5
Estimated Outlays	0	-1	-2	-4	-4	-4	-4	-4	-5	-5
Installment Agreements for Tax Payments										
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*	*	*	*	*
Extension of Customs User Fees										
Estimated Budget Authority	-619	-1,464	-1,546	-1,632	-1,722	-1,818	-1,919	-2,025	-2,138	-2,257
Estimated Outlays	-619	-1,464	-1,546	-1,632	-1,722	-1,818	-1,919	-2,025	-2,138	-2,257
Total Changes in Direct Spending										
Estimated Budget Authority	-614	-1,461	-1,543	-1,629	-1,719	-1,815	-1,916	-2,023	-2,136	-2,255
Estimated Outlays	-614	-1,458	-1,541	-1,629	-1,719	-1,815	-1,916	-2,022	-2,136	-2,255

Continued

Continued

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Extension of IRS User Fees										
Estimated Authorization Level	0	3	4	4	4	4	4	4	4	5
Estimated Outlays	0	3	4	4	4	4	4	4	4	5

SOURCES: CBO and the Joint Committee on Taxation.

NOTES: Positive (negative) changes in revenues correspond to decreases (increases) in budget deficits. Positive (negative) changes in direct spending correspond to increases (decreases) in budget deficits.

* = increase of less than $500,000.

BASIS OF ESTIMATE

Revenues

With the exception of the extension of IRS user fees, JCT provided all the revenue estimates. All together, CBO and JCT estimate that the provisions contained in H.R. 2896 would reduce federal revenues by about $1.7 billion in 2004, $28.2 billion over the 2004-2008 period, and $76.6 billion over the 2004-2013 period. The largest budgetary effects would result from repealing the exclusion for extraterritorial income and instituting a reduced tax rate on certain corporate income.

Title I of H.R. 2896 would alter numerous provisions of tax law for corporations. In total, JCT estimates enacting the provisions of title I would reduce federal revenues by about $2.7 billion in 2004,$44.3 billion over the 2004-2008 period, and $128.7 billion over the 2004-2013 period. A large portion of this reduction would come from lowering the tax rate on corporations for income from certain manufacturing and nonmanufacturing activities, which JCT estimates would decrease governmental receipts by about $1.7 billion in 2004, $22.9 billion over the 2004-2008 period, and $77.5 billion over the 2004-2013 period. Some of the other provisions in title I would extend increased expensing for small businesses for two years, alter depreciation rules, and modify the alternative minimum tax. Title I also would add Hepatitis A to the list of taxable vaccines, which would also affect direct spending (see “Direct Spending” section).

The provisions of title II would increase federal revenues by reducing tax avoidance through corporate earnings stripping and expatriation. In total, JCT estimates that these provisions would raise governmental receipts by $119 million in 2004, about $1.2 billion over the 2004-2008 period, and about $3.5 billion over the 2004-2013 period. Over half of the total increase would result from further limiting interest deductions on certain indebtedness in order to curb corporate earnings stripping.

The provisions of title III also would raise federal revenues over the next ten years. JCT estimates that modifying existing tax law relating to tax shelters and reportable and nonreportable transactions would increase revenues by $92 million in 2004, $628 million over the 2004-2008 period, and about $1.6 billion over the 2004-2013 period. Another provision of title III would extend IRS user fees through September 30, 2013. Currently, the fees are set to expire on December 31, 2004. CBO estimates this would increase revenues by $135 million over the 2005-2008 period and $345 million over the 2005-2013 period. In addition, the provisions include authorizing the IRS to enter into installment agreements for tax payments, which also would affect direct spending (see "Direct Spending" section). In total, CBO and JCT estimate that title III would increase governmental receipts by $441 million in 2004, about $3.1 billion over the 2004-2008 period, and about $5.5 billion over the 2004-2013 period.

Title IV of the bill would repeal the exclusion for extraterritorial income, including a transition period through 2006. JCT estimates doing so would increase federal revenues by about $453 million in 2004, by about $11.9 billion over the 2004-2008 period, and by about $43.1 billion over the 2004-2013 period.

Direct Spending

In total, CBO estimates that the bill would decrease direct spending by $614 million in 2004, by about $7 billion over the 2004-2008 period, and by about $17.1 billion over the 2004-2013 period. In addition, CBO estimates H.R. 2896 would increase spending by $15 million over the 2004-2008 period and $36 million over the 2004-2013 period, subject to the appropriation of the estimated amounts.

Taxation of Hepatitis A Vaccine. The Hepatitis A vaccine tax provision (section 1103) 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 section 1103 would cost the Medicaid program about $47 million over the 2004-2013 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 $21 million over the 2004-2013 period.

Reducing Certain Excise Taxes. Reducing excise taxes on certain hunting and fishing equipment would reduce deposits to the federal aid-wildlife fund and the aquatic resources trust fund. The loss of this income (and related interest earnings to the two funds) would result in lower spending for fish and wildlife conservation projects beginning in fiscal year 2005. CBO estimates that the resulting savings would be about $33 million over the 2005-2013 period.

Installment Agreements for Tax Payments. Section 3036 would allow the IRS to enter into agreements for the partial payment of tax liabilities. Under current law taxpayers can elect to pay their full tax liability through installments. The IRS charges a fee of $43 for each installment agreement, which it can retain and spend without further appropriation action. CBO estimates that allowing for the partial payment of tax liabilities would increase direct spending by about $1 million over the 2004-2013 period.

Extension of Customs User Fees. Under current law, customs user fees expire after March 31, 2004. H.R. 2896 would extend these fees through September 30, 2013. CBO estimates that this would increase offsetting receipts by about $17.1 billion over the 2004-2013 period.

Spending Subject to Appropriation

Extension of IRS User Fees. Section 3037 would extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through September 30, 2013. The bill would authorize the IRS to retain and spend a portion of the fees collected, subject to appropriation. Based on the historical level of fees spent, CBO estimates that implementing this provision would cost $15 million over the 2005-2008 period and $36 million over the 2005-2013 period, subject to the appropriation of the estimated amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT and CBO have reviewed the provisions of H.R. 2896 and have determined that the bill contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, and tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the following tax provisions of H.R. 2896 contain private-sector mandates as defined in UMRA: (1) the provisions to reduce the potential for earnings stripping by further limiting the deduction for interest on certain indebtedness; (2) the provisions relating to reportable transactions and tax shelters; (3) the provision relating to the modification of the rules for certain property and casualty insurance companies; and (4) the provision to repeal the exclusion for extraterritorial income. In aggregate, the costs of those mandates would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation).

CBO has reviewed the non-tax provisions of H.R. 2896 and determined that the extension of the customs user fees is a private-sector mandate as defined in UMRA. H.R. 2896 would extend through 2013 customs user fees that are scheduled to expire at the end of March 2004 under current law. CBO cannot determine the direct cost of this provision, however, because UMRA does not clearly specify how to calculate the cost associated with extending an existing mandate that has not yet expired. Under one interpretation, UMRA requires the direct cost to be measured relative to a case that assumes that the current mandate will not exist beyond its current expiration date. Under that interpretation, CBO estimates that the direct cost of the mandate would be more than $600 million in 2004 and larger in later years. Under the other interpretation, UMRA requires the direct cost to be measured relative to the mandate currently in effect. Under that interpretation, the direct cost of this provision would be zero.

ESTIMATE PREPARED BY:

Federal Revenues: Annabelle Bartsch

Federal Spending:
- Excise Taxes on Fishing and Hunting Equipment: Deborah Reis
- Installment Agreements and IRS User Fees: Matthew Pickford
- Hepatitis A Vaccine: Tom Bradley
- Customs User Fees: Mark Grabowicz

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Patrice Gordon and Paige Piper/Bach

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis