



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 14, 2003

H.R. 3053

Sacrifice and Responsibility Act

As introduced on September 9, 2003

SUMMARY

H.R. 3053 would alter existing tax law to increase the top two individual income tax rates for taxable years beginning after December 31, 2003. The bill also would repeal the special tax rates for certain dividend income of individuals that were enacted in 2003 as part of Public Law 108-27, the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA). In addition, H.R. 3053 would provide \$86.6 billion in supplemental appropriations for 2004 to cover the costs of military operations and reconstruction activities in Iraq and Afghanistan, as well as costs of other operations that support the global war on terrorism.

Because H.R. 3053 would alter tax law and provide appropriations, enactment of the bill would directly affect revenues and outlays.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3053 would increase federal revenues by \$30.6 billion in 2004 and by \$259.5 billion over the 2004-2011 period. CBO estimates that outlays from the specified supplemental appropriations for 2004 would total \$36.6 billion in 2004 and \$86.1 billion over the 2004-2012 period. (Relative to current law, there would be no effect on revenues after 2011 and no effect on spending after 2012.) Because the higher taxes under H.R. 3053 would remain in effect through 2010, but the funding provided by the bill would be just for 2004 supplemental appropriations, enacting this legislation would reduce deficits by an estimated \$173.4 billion over the 2004-2012 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3053 is shown in the following table. The costs of appropriations provided by the bill fall within budget functions 050 (national defense) and 150 (international affairs).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN REVENUES										
Estimated Revenues	30,570	38,037	37,623	38,402	39,268	38,841	28,360	8,422	0	0
CHANGES IN SPENDING										
Military Operations										
Budget Authority	65,500	0	0	0	0	0	0	0	0	0
Estimated Outlays	31,040	25,081	7,360	1,400	304	81	23	3	0	0
Iraq and Afghanistan Reconstruction Activities										
Budget Authority	21,100	0	0	0	0	0	0	0	0	0
Estimated Outlays	5,514	7,946	4,250	1,581	667	386	230	153	76	0
Total										
Budget Authority	86,600	0	0	0	0	0	0	0	0	0
Estimated Outlays	36,554	33,027	11,610	2,981	971	467	253	156	76	0
TOTAL CHANGES										
Estimated Net Changes in Budget Deficits	5,984	-5,010	-26,013	-35,421	-38,297	-38,374	-28,107	-8,266	76	0

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted before the end of calendar year 2003. In instances where the bill would provide appropriations for programs not authorized by the Congress and where current law restricts the use of such appropriations, the estimate assumes the Congress will provide (or waive) the necessary authorizations.

Revenues

H.R. 3053 would alter existing tax law to increase the top two individual income tax rates for taxable years beginning after December 31, 2003. The current-law income tax rates of 33 percent and 35 percent would be increased to 36 percent and 39.6 percent, respectively. Currently those rates, which were established in JGTRRA, are scheduled to expire on December 31, 2010. The bill also would repeal the special tax rates for certain dividend

income of individuals that were enacted as part of JGTRRA. In total, JCT estimates that enacting these provisions would increase federal revenues by \$30.6 billion in 2004 and by \$259.5 billion over the 2004-2011 period, with no effect after 2011.

Appropriations

The bill would provide appropriations totaling \$86.6 billion for the costs of military operations, reconstruction activities, and other activities in Iraq and elsewhere in the world.

Military Activities. The bill would appropriate \$65.5 billion for the Department of Defense (DoD) operations in Iraq and Afghanistan and for other activities that support the global war on terrorism. The President has requested a similar amount for those same activities and CBO assumes that the funds specified in the bill would be used for the same purposes as outlined in that request.

Based on that request, CBO assumes that DoD would allocate \$18.6 billion for military pay, \$5.6 billion for procurement and research activities, \$2.8 billion for other activities including support of coalition partners and of the provisional government in Iraq, and \$0.4 billion for military construction. According to DoD, most of the remaining \$38.1 billion in funding is needed to support other aspects of the military operations.

CBO estimates that outlays from this funding would total about \$31 billion in 2004 and \$65.3 billion over the 2004-2011 period, with no effect after 2011. The estimate of outlays for appropriations for military pay is based on historical spending patterns. Estimated outlays for most other appropriations reflect the slower spending patterns observed for similar large amounts of supplemental funding.

Reconstruction Activities. The bill would appropriate \$21.1 billion for Iraq and Afghanistan relief and reconstruction activities. That amount is similar to the funding requested by the President for those two countries, and CBO assumes that the funds specified in the bill would be used for the same purposes as outlined in that request. CBO estimates that outlays from this appropriation would total about \$5.5 billion in 2004 and \$20.8 billion over the 2004-2012 period, with no effect after 2012. Estimated outlays are based on a mix of historical spending rates for the cost of providing security, for the cost of importing necessary food and commodities for humanitarian relief, and for long-term construction of infrastructure.

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