CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 15, 2003

H.R. 7
The Charitable Giving Act of 2003

As ordered reported by the House Committee on Ways and Means on September 9, 2003

SUMMARY

H.R. 7 would provide taxpayers with several incentives for charitable giving, authorize the Compassion Capital Fund, reauthorize the Individual Development Account (IDA) program, create a new program for maternity group homes, and increase the amount of Temporary Assistance to Needy Families (TANF) funds that may be transferred to activities funded out of the Social Services Block Grant (SSBG).

CBO and the Joint Committee on Taxation (JCT) estimate that enacting the bill would decrease governmental receipts by $659 million in 2004, by about $6.8 billion over the 2004-2008 period, and by about $12.7 billion over the 2004-2013 period. The bill would increase direct spending by $114 million in 2004 and by $17 million over the 2004-2008 period. However, over the entire 2004-2013 period, there would be no net effect on outlays.

The bill also would authorize the appropriation of $209 million in 2004 and $938 million over the 2004-2008 period for the Compassion Capital Fund, the IDA program, and the Maternity Group Homes. Assuming that those amounts are appropriated, CBO estimates that the resulting outlays would be $838 million over the 2004-2008 period.

JCT and CBO have determined that H.R. 7 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 7 is shown in Table 1. The spending under the bill falls in budget functions 500 (education, training, employment, and social services) and 600 (income security).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 7

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
Changes in Revenue						
Estimated Revenues	0	-659	-2,193	-2,104	-934	-948
Changes in Direct Spending						
Increase in Transfer Authority from TANF to SSBG						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	114	84	-82	-49	-50
Changes in Spending Subject to Appropriation						
Compassion Capital Fund						
Estimated Authorization Level	0	150	153	156	159	162
Estimated Outlays	0	78	144	152	157	160
Individual Development Accounts						
Authorization Level	0	25	25	25	25	25
Estimated Outlays	0	13	24	25	25	25
Maternity Group Homes						
Estimated Authorization Level	0	34	0	0	0	0
Estimated Outlays	0	17	15	2	0	0
Total						
Estimated Authorization Level	0	209	178	181	184	187
Estimated Outlays	0	108	183	179	182	185

NOTES: The Joint Committee on Taxation provided the revenue estimates.
TANF = Temporary Assistance for Needy Families; SSBG = Social Services Block Grant.

BASIS OF ESTIMATE

For this estimate, CBO assumes H.R. 7 will be enacted early in fiscal year 2004, that the authorized amounts for 2004 will be appropriated early in that year, and that the authorized amounts in later years will be appropriated at the beginning of those years.

Revenues

All estimates were provided by JCT. In total, the bill's provisions would reduce governmental receipts by $659 million in 2004 and by about $6.8 billion over the 2004-2008 period. (See Table 2.)

TABLE 2. ESTIMATED REVENUE EFFECTS OF H.R. 7

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
Incentives for Charitable Giving						
Allow nonitemizers to deduct charitable contributions	0	-214	-1,431	-1,244	0	0
Allow tax-free distributions from IRAs for charitable purposes for persons age 70 ½ or older	0	-97	-204	-236	-256	-242
Raise caps on corporate charitable contributions	0	-40	-89	-118	-149	-156
Reform certain excise taxes related to private foundations	0	-144	-196	-218	-225	-230
Expand enhanced deduction allowed for scientific property	0	-67	-133	-142	-149	-156
Other provisions relating to charitable giving	0	-61	-115	-122	-130	-138
Subtotal	0	-623	-2,168	-2,080	-909	-922
Other Revenue Provisions	0	-36	-25	-24	-25	-26
Total Change in Revenues	0	-659	-2,193	-2,104	-934	-948

Source: Joint Committee on Taxation

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

Much of the reduction in revenues would result from five of the bill's provisions. Those provisions would permit taxpayers who do not itemize deductions in their income tax returns to deduct some of their cash charitable contributions (such deductions are currently limited to taxpayers who itemize their deductions), allow tax-free distributions from individual retirement accounts (IRAs) for charitable purposes, raise the cap on corporate charitable contributions, reduce the excise tax rate on net investment income of private foundations, and expand the deduction allowed for certain scientific property. Together, these five provisions would reduce revenues by $562 million in 2004, by about $6.1 billion over the 2004-2008 period, and by about $11 billion over the 2004-2013 period. The remaining provisions to provide incentives to increase charitable giving would reduce governmental receipts by about $1.4 billion over the 2004-2013 period.

H.R. 7 also contains several provisions that would alter existing tax law relating to charitable organizations and programs. Those provisions would decrease governmental receipts by $288 million over the 2004-2013 period.

Direct Spending

Title III would allow states to maintain the authority to transfer up to 10 percent of TANF funds to SSBG. The 1996 welfare law that established the TANF program set the level of the transfer authority at 10 percent. Subsequent legislation permanently lowered the authority to 4.25 percent. However, recent appropriation bills, including that for fiscal year 2003, restored the authority to 10 percent on an annual basis. In the absence of further legislation, the authority will fall to 4.25 percent in 2004 and after. (Although the TANF program is not authorized beyond 2003, CBO assumes that funding continues in its baseline in accordance with rules for constructing baseline projections, as set forth in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985.)

In recent years, states have transferred about $1 billion annually. Maintaining the transfer authority at the higher level would make it easier for states to spend their TANF grants and would tend to accelerate spending relative to current law. Based on recent state transfers, CBO expects that states would transfer an additional $400 million in 2004 under the provision, but because some of this money would have been spent within the TANF program anyway, only $114 million of additional spending would occur in 2004. The provision would increase net TANF spending in 2005 (by $84 million). Because total TANF funding is assumed to remain fixed over the 2004-2013 period, the increase in spending in 2004 and 2005 would be offset by decreased spending in subsequent years. Thus, there would be no net impact on TANF spending over the 2004-2013 period as a whole.

Spending Subject to Appropriation

CBO estimates that title III would authorize appropriations of $209 million in 2004 and $939 million over the 2004-2008 period. Assuming appropriation of the authorized amounts, CBO estimates outlays of $108 million in 2004 and $837 million over the 2004-2008 period.

Compassion Capital Fund. The bill would authorize the Compassion Capital Fund. The program received an appropriation of $35 million for 2003 and is currently administered by the Secretary of Health and Human Services under authority given under section 1110 of the Social Security Act (Cooperative Research or Demonstration Projects). The Compassion Capital Fund would provide funds to private entities that operate promising social service programs. Funds could be used for many purposes, including technical assistance, information for identifying best practices, and research. The bill would authorize $150 million in 2004 and such sums as may be necessary in years 2005 through 2008. CBO estimates funding over the 2005-2008 period at the level authorized for 2004 adjusted for inflation.

Individual Development Accounts. The bill would reauthorize the Individual Development Accounts (IDA) program and authorize the appropriation of $25 million in each year from 2004 through 2008. The IDA program, administered by the Department of Health and Human Services, provides matching funds to qualified low-income individuals who save in order to encourage more savings. Appropriations for the program were $25 million for 2003.

Maternity Group Homes. H.R. 7 also would create a Maternity Group Homes program within the Runaway and Homeless Youth program. It would give the Runaway and Homeless Youth program authority to award funds to Maternity Group Homes and would also authorize the appropriation of an additional $33 million in 2003 and such sums as may be necessary in 2004 specifically for this purpose. However, because CBO assumes that enactment of this legislation will not occur until after fiscal year 2003 has ended, the authorized amount for 2003 is not displayed in the tables. CBO estimates funding in 2004 at the level authorized for 2003 adjusted for inflation.

The Maternity Group Homes program would fund community-based, adult-supervised group homes for young mothers and their children. Activities could include providing information, assistance with prenatal care, and counseling.

EFFECTS ON REVENUES AND DIRECT SPENDING

The overall effects of H.R. 7 on revenues and direct spending over the 2003-2013 period are displayed in Table 3.

TABLE 3. EFFECTS ON REVENUES AND DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	0	-659	-2,193	-2,104	-934	-948	-955	-1,001	-1,134	-1,320	-1,418
Changes in outlays	0	114	84	-82	-49	-50	-17	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT and CBO have determined that H.R. 7 contains no intergovernmental mandates as defined in UMRA.

Title III of the bill would benefit states by authorizing grants for social services programs, some of which may be run by state or local governments, and it would allow states to use up to 10 percent of their TANF funds for SSBG programs. For fiscal year 2004, CBO estimates that state and local governments would be eligible for up to $37.5 million in technical assistance from the Compassion Capital Fund for implementing social service programs and for part of the $34 million estimated to be authorized for maternity group homes. In fiscal years 2005-2008, state and local governments would be eligible for up to 25 percent of the appropriation for the Compassion Capital Fund for technical assistance. Any obligations incurred by states would be the result of complying with conditions of federal grant assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT and CBO have determined that H.R. 7 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On February 25, 2003, CBO transmitted a cost estimate for the CARE Act of 2003 as ordered reported by the Senate Committee on Finance on February 5, 2003. While some major provisions are similar, the two bills contain many different revenue proposals. The CARE Act contained a number of tax provisions that would increase revenues, whereas H.R. 7 has no such provisions. H.R. 7 contains different authorizations of discretionary spending and, unlike the Senate bill, would not increase the Social Services Block Grant appropriation. JCT determined that the tax shelter provisions in the Senate-reported bill contained private-sector mandates. Neither bill contains intergovernmental mandates.

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