



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 16, 2003

### **S. 1136**

#### **Servicemembers Civil Relief Act**

*As ordered reported by the Senate Committee on Veterans' Affairs on September 30, 2003*

#### **SUMMARY**

S. 1136 would restate, clarify, and revise the Soldiers' and Sailors' Civil Relief Act of 1940, which provides for financial protection and temporary suspension of certain judicial proceedings for servicemembers on active duty. The bill contains provisions that would increase the rent level under which a servicemember or family members are protected from eviction, limit a state's ability to increase the tax liability of a servicemember's spouse, and increase the value of life insurance coverage that is protected by the government if premiums are not paid. CBO estimates that implementing S. 1136 would cost \$3 million in 2004 and \$12 million over the 2004-2008 period, assuming appropriation of the necessary amounts. Enacting this legislation would not affect direct spending or receipts.

S. 1136 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost would not exceed the threshold established by UMRA (\$59 million in 2003, adjusted annually for inflation).

The bill also contains several private-sector mandates as defined in UMRA. CBO estimates that the cost of a mandate that would increase the rent level under which a servicemember or family members are protected from eviction would not exceed the threshold established by UMRA for private-sector mandates (\$117 million in 2003, adjusted annually for inflation). CBO does not have sufficient information to estimate the costs of two other private-sector mandates in the bill.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 1136 is shown in the following table. For this estimate, CBO assumes the legislation will be enacted this fall and that the necessary amounts will be

appropriated for each year. The costs of this bill fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars				
	2004	2005	2006	2007	2008
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Estimated Authorization Level	3	3	2	2	2
Estimated Outlays	3	3	2	2	2

Under current law, a servicemember may apply to the Department of Veterans Affairs (VA) for protection to prevent a life insurance policy from being terminated for nonpayment of the premiums. If VA determines the servicemember is entitled to protection, then it will guarantee the payment of the premiums and attempt to collect any amounts paid by VA from the servicemember. Section 402 of the bill would increase the maximum value of a life insurance policy that is eligible for protection from cancellation for nonpayment of premiums from \$10,000 to an amount equal to the Servicemembers' Group Life Insurance limit, which is currently \$250,000.

CBO estimates that implementing this legislation would cost \$3 million in 2004 and \$12 million over the 2004-2008 period, assuming appropriation of the necessary amounts. Almost all of that amount would result from payments made by VA to guarantee life insurance protection. According to VA, the costs of providing this additional protection would be \$186,000 a year for every 10,000 reservists called to active duty. According to the Department of Defense, as of October 1, 2003, there were about 170,000 reservists mobilized to fight the war with Iraq and support the global war on terrorism. For this estimate, CBO assumes that the number of reservists on active duty will be about 180,000 in 2004 and decline to about 100,000 by 2008 as tensions around the globe subside. If the number of reservists called to active duty were to remain at current levels over the 2004-2008 period, then the estimated costs would be correspondingly higher. CBO also estimates that VA's cost to administer this guarantee would increase somewhat—but by less than \$100,000 a year.

## **ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

S. 1136 contains an intergovernmental mandate as defined in UMRA because it would prohibit jurisdictions from imposing income taxes in certain instances. Under the current

Soldiers' and Sailors' Relief Act (section 574), servicemembers may only be taxed on their military income by the tax jurisdiction of which they are a resident. Servicemembers may not be taxed on their military pay by the state in which they are stationed if it is not their state of legal residence. However, if a servicemember or a servicemember's spouse earns additional pay off-base, the nonresident state may tax that off-base income.

In certain states with graduated income tax rates, the income tax rate which is applied to the off-base pay may be based on the servicemember's total income, including military pay, and not the off-base pay only. Including military pay in the calculation can push the off-base pay into a higher tax bracket. That method of calculating state income tax is sometimes called the "California Method" (although as many as 18 or more other states also use it). If the servicemember's state of legal residence also charges income tax, the resident state will offer an income tax credit for the income tax on the off-base pay that the individual paid to the nonresident state.

Section 511 would prohibit a tax jurisdiction from using the military compensation of a nonresident servicemember to increase the tax liability imposed on other income earned by the nonresident servicemember or spouse subject to tax by the jurisdiction. Thus, a state where a servicemember is stationed could not use the "California method" to determine the income tax rate for the off-base pay, which may result in a lower income tax rate on that off-base pay. This provision would preempt state law under UMRA and would impose costs (in the form of lost revenues) in certain cases.

For states with a graduated tax structure that use the California method to calculate nonresident income taxes, enacting section 511 could result in a lower income tax rate on off-base earnings. But the net effect on the servicemember's overall income tax payments to states would depend on the income tax structure of the servicemember's resident state. In no case would section 511 increase the overall income tax payments to states by the servicemember and their spouse. In some cases the provision would have no net effect on income tax payments to states by servicemembers and their spouses, and in some cases the provision would reduce income tax payments to states. Thus, states as a group would lose some income tax revenue. CBO estimates that the cost of enacting section 511 would total about \$20 million annually, and thus would be well below the threshold established by UMRA (\$59 million in 2003, adjusted annually for inflation).

Other provisions in S. 1136 would have no impact on state, local, or tribal governments.

## **ESTIMATED IMPACT ON THE PRIVATE SECTOR**

S. 1136 contains private-sector mandates as defined in UMRA. Section 301 of the bill would require a landlord who wishes to evict an active-duty tenant or his or her dependents for nonpayment of rent to obtain a court order authorizing the eviction. If the court finds that the member's military service materially affects the ability to pay rent, it can stay eviction for up to three months. Under current law, the stay of eviction proceedings covers premises for which the rent does not exceed \$1,200 per month. Section 301 would increase the mandate by raising the monthly lease amount that is protected under S. 1136 to \$2,400 and requiring that this amount be adjusted annually by a housing price index. CBO estimates that the cost of complying with this mandate would not exceed the threshold as specified in UMRA for private-sector mandates (\$117 million in 2003, adjusted annually for inflation).

Section 305 would provide that a servicemember, who enters military service for not less than 180 days, or who is transferred outside the Continental United States for not less than 180 days can terminate an existing lease for a motor vehicle upon written notice to the lessor. Section 706 would preclude the use of a servicemember's personal assets to satisfy the member's trade or business liability while he or she is in military service. While sections 305 and 706 would constitute private-sector mandates under UMRA, CBO does not have sufficient information to estimate their costs. Given the possibility of large trade or business liabilities, the cost of section 706's mandate could potentially exceed the private-sector threshold specified in UMRA.

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