CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 12, 2003

S. 2
Jobs and Growth Tax Act of 2003

As reported by the Senate Committee on Finance on May 9, 2003

SUMMARY

The Jobs and Growth Tax Act of 2003 would amend numerous provisions of existing tax law. The bill would accelerate to 2003 the income tax rate reductions scheduled for 2004 and 2006. The bill would also accelerate previously enacted tax changes to increase the child tax credit and expand the 10- and 15-percent tax brackets. In addition, S. 2 would increase the exemption amount for the individual alternative minimum tax (AMT), provide a partial exclusion from taxation for income from dividends, and increase the amount of investment by certain businesses that may be deducted immediately. S. 2 also includes numerous provisions that would increase revenues, most notably a repeal of the exclusion from taxation of certain income earned abroad.

The Joint Committee on Taxation (JCT) and the Congressional Budget Office estimate that enacting the bill would decrease governmental receipts on net by about $29 billion in 2003, by about $273 billion over the 2003-2008 period, and by about $319 billion over the 2003-2013 period. JCT and CBO also estimate that enacting the bill would increase net outlays by about $15 billion in 2003, $37 billion over the 2003-2008 period, and $31 billion over the 2003-2013 period. In total, those changes would increase budget deficits (excluding interest effects for financing federal debt) by $350.2 billion through 2013.

The non-tax provisions of S. 2 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would provide $20 billion in assistance for a variety of continuing programs at both the state and local government levels, as well as funds to states for emergency health care services provided to undocumented aliens. CBO estimates that other provisions would result in reduced state spending. JCT has determined that the remaining provisions contain no intergovernmental mandates as defined in UMRA.

JCT has determined that the following provisions of the bill contain private-sector mandates as defined by UMRA: (1) provisions relating to clarification of economic substance doctrine and related penalties; (2) provisions relating to reportable transactions and tax shelters; (3) provisions relating to limitation on transfer or importation of built-in losses; (4) provisions relating to executive compensation reforms; (5) provisions relating to tax treatment of corporate inversion transactions; (6) a provision relating to repeal of section 911 of the tax code; (7) a provision relating to reform of section 501 (c)(15) of the tax code; and (8) a provision relating to charitable contribution of certain intangible property. CBO also 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 in UMRA for private-sector mandates ($117 million in 2003, adjusted annually for inflation).

MAJOR PROVISIONS

Title I: Acceleration of Certain Previously Enacted Tax Reductions; Increased Expensing for Small Businesses

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;
- Accelerate the scheduled increases in the child credit to $1,000 starting in 2003, and include an advance payment mechanism for 2003;
- Accelerate to 2003 the scheduled expansion of the 15 percent tax bracket and the increase in the standard deduction for married taxpayers filing a joint return;
- Accelerate to 2003 the scheduled expansion of the 10 percent tax bracket for all taxpayers; and
- Increase the exemption amount for the individual AMT for 2003 through 2005.

Title II: Partial Exclusion for Dividends

Starting in 2004, title II would provide an exclusion for dividends received by individuals from corporations of 100 percent of the first $500 per tax return. The provision would provide an exclusion for an additional 10 percent of dividends received above $500 from 2004 through 2007, and 20 percent from 2008 through 2012. The dividend exclusions would expire after 2012.

Title III: Revenue Provisions

This title contains numerous provisions, most of which would increase federal revenues. Some of the provisions contained in this title would:

- Repeal the exclusion for wage and salary income earned abroad by U.S. citizens;
- Alter the tax treatment of inversion transactions;
- Limit the deduction for charitable contributions of patents and similar property;
- Extend customs user fees through 2013;
- Allow the Internal Revenue Service (IRS) to contract with private collection agencies (PCAs) to help recover delinquent taxes; and
- Provide $20 billion in aid to state and local governments.

Title IV: Small Business and Agricultural Provisions

Title IV would repeal special occupational taxes for alcoholic beverages, provide special rules for livestock sold as a result of weather-related conditions, and make certain other changes. All provisions in title IV would expire at the end of 2012.

Title V: Simplication and Other Provisions

This title includes provisions that would establish a uniform definition of a qualifying child for the dependency exemption, the child credit, the earned income credit, the dependent care credit, and the head-of-household filing status. All provisions in title V would expire at the end of 2012.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2 is shown in Table 1. Most of the budgetary effects of the legislation are either reductions in revenues (Titles I, II, IV, and V) or increases in revenues (Title III). But enacting S. 2 would also affect outlays. The bill 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. S. 2 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.

The bill would also increase outlays by extending IRS user fees, adding hepatitis A to the list of taxable vaccines, allowing the IRS to use private collection agencies, providing fiscal aid to state and local governments, and providing a federal reimbursement of certain emergency health services. The bill would decrease outlays by extending customs user fees, making reforms to the Supplemental Security Income (SSI) program, and prohibiting the use of funds from the State Children's Health Insurance Program (SCHIP) to provide coverage for childless adults. The spending effects of this legislation would fall within budget functions 550 (health), 600 (income security), 750 (administration of justice), and 800 (general government).

BASIS OF ESTIMATE

Revenues

JCT provided all of the estimates for the revenue provisions, with the exception of the provision for extension of IRS user fees. CBO and JCT estimate that, altogether, the provisions contained in the bill would decrease federal revenues on net by about $29 billion in 2003, by about $273 billion over the 2003-2008 period, and by about $319 billion over the 2003-2013 period.

Table 1. ESTIMATED BUDGETARY IMPACT OF S. 2

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN REVENUES AND OUTLAYS FROM REFUNDABLE TAX PROVISIONS											
Title I: Acceleration of Previously Enacted Tax Reductions and Increasing Expensing for Small Businesses [a]	-34,024	-93,133	-76,366	-51,303	-25,888	-21,541	-18,173	-12,685	-3,574	-2,392	2,961
Title II: Partial Exclusion of Dividends [a]	0	-2,049	-4,415	-5,329	-5,708	-7,000	-10,372	-11,064	-12,075	-13,195	-9,904
Title III: Revenue Provisions	395	4,065	6,929	6,952	6,479	6,387	6,752	7,296	7,978	9,136	10,190
Title IV: Small Business and Agricultural Provisions	-66	-82	-100	-90	-88	-87	-88	-89	-83	-82	-15
Title V: Simplification and other Provisions [a]	-14	-153	-452	-470	-427	-389	-386	-448	-542	-571	-443
Subtotal, Revenues and Outlays	-33,709	-91,352	-74,404	-50,240	-25,632	-22,630	-22,267	-16,990	-8,296	-7,104	2,789
Less: Outlays for Refundable Tax Credits [a]	5,070	1,244	6,291	4,224	3,892	3,758	3,572	2,255	182	63	49
Total Changes in Revenues	-28,639	-90,108	-68,113	-46,016	-21,740	-18,872	-18,695	-14,735	-8,114	-7,041	2,838
CHANGES IN DIRECT SPENDING											
Outlays for Refundable Tax Credits [a]	5,070	1,244	6,291	4,224	3,892	3,758	3,572	2,255	182	63	49
Taxation of Hepatitis A Vaccine	3	7	7	7	7	7	7	7	7	8	8
IRS Contracting with PCAs for Tax Collections	0	0	18	32	33	29	27	27	27	27	27
Prohibition of Certain Uses of SCHIP Funds	0	0	-5	-20	-30	-85	-95	-100	-110	-105	-105
Extension of Customs User Fees	0	-1,318	-1,465	-1,545	-1,632	-1,722	-1,817	-1,918	-2,025	-2,137	-2,257
Aid to States	10,000	10,000	0	0	0	0	0	0	0	0	0

Continued

Table 1. Continued

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Review of SSI Blindness and Disability Awards	0	-7	-30	-60	-90	-124	-159	-195	-238	-265	-314
Federal Reimbursement of Certain Emergency Health services	0	28	12	8	0	0	0	0	0	0	0
Total Changes in Outlays	15,073	9,954	4,828	2,646	2,180	1,863	1,535	76	-2,157	-2,409	-2,592
TOTAL CHANGES											
Net Increase in Budget Deficits	43,712	100,062	72,941	48,662	23,920	20,735	20,230	14,811	5,957	4,632	-5,430

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, II, and V have direct spending effects from the refundable tax credits. Separate estimates of the effect of each provision on revenues and outlays are not available.

The above revenue totals include about $450 million over the 2003-2008 period and about $1 billion over the 2003-2013 period for increased revenues from IRS use of private collection agencies. Under current law, the IRS is not allowed to use PCAs for collection of federal taxes. Section 357 would permit the IRS to enter into contracts for such efforts and would allow the agency to use up to 25 percent of any additional tax revenues for payments under such contracts. (See the “Direct Spending” section, below, for a discussion of outlays resulting from this provision.)

CBO estimated the revenue effects of extending the period during which IRS may charge fees to businesses for providing ruling, opinion, and determination letters. Under current law, IRS's authority to charge such fees will expire at the end of fiscal year 2003. The bill would extend the authority to charge such fees until September 30, 2013. Based on the amount of fees collected in recent years and on information from IRS, CBO estimates that extending the fees would increase governmental receipts by $176 million over the 2004-2008 period and $386 million over the 2004-2013 period.

The provision for a child credit rebate in 2003 is structured in such a way that some of what is classified as reduced revenue in this estimate could have instead been classified as increased outlays. The bill would provide for taxpayers to receive a higher child credit of $1,000 per qualifying child in 2003 instead of the $600 allowed under current law. Qualifying taxpayers who filed tax returns for tax year 2002 would receive an advance payment (rebate) 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 Treasury's treatment of rebates from an analogous provision enacted in 2001.

Direct Spending

In total, CBO and JCT estimate that the bill would increase outlays by about $15 billion in 2003, by about $37 billion over the 2003-2008 period, and $31 billion over the 2003-2013 period.

Outlays for Refundable Tax Credits. JCT provided the outlay effects resulting from changes in refundable tax credits as a result of provisions contained in titles I, II, and V of the bill. JCT estimates that enacting those provisions would increase outlays by about $5 billion in 2003, $25 billion over the 2003-2008 period, and $31 billion over the 2003-2013 period.

Taxation of Hepatitis A Vaccine. The Hepatitis A vaccine tax provision (section 352) 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 352 would cost the Medicaid program about $50 million over the 2003-2013 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 $22 million over the 2003-2013 period.

IRS Contracting for Tax Collections. Section 357 would allow the IRS to enter into qualified tax collection contracts with PCAs to collect delinquent tax liabilities. The PCAs would be given specific, limited information regarding a taxpayer's outstanding tax liability. This legislation would allow the IRS to retain and spend up to 25 percent of the amount collected by the PCAs for the cost of the services provided under the contracts. CBO estimates that allowing the IRS to retain and spend 25 percent of the amounts collected would increase direct spending by $112 million over the 2003-2008 period and by $244 million over the 2003-2013 period.

Prohibition of Certain Uses of SCHIP Funds. Section 373 would prohibit the Secretary of Health and Human Services (HHS) from allowing states to provide health care coverage to certain childless adults with funding from the State Children's Health Insurance Program. Under section 1115 of the Social Security Act, the Secretary may waive provisions of SCHIP law to permit states to cover childless adults under SCHIP. Several states currently have five-year waivers that allow them to do so, while several others have applications that are pending or in the development stage. The provision would ban the Secretary from approving new waivers and from renewing existing waivers. It also would clarify that states would still be able to provide SCHIP coverage to a childless adult who is pregnant.

CBO estimates that enacting this provision would have no budgetary effect on SCHIP in 2004 and would decrease that program's spending by $430 million over the 2005-2013 period. Because reducing SCHIP spending on childless adults would increase the amount of SCHIP funds available for other purposes, state SCHIP programs would have more flexibility in covering children and their parents and would use a portion of the freed-up funds to do so. (The remainder would likely be spent after 2013.) As a result, state Medicaid programs would no longer assume some of the costs of covering those individuals. Therefore, CBO estimates that enacting this provision would have no budgetary effect on Medicaid in 2004 and would decrease Medicaid spending by $225 million over the 2005-2013 period. Thus, in total, enacting section 373 would reduce direct spending by $655 million through 2013.

Extension of Customs User Fees. Under current law, customs user fees expire at the end of fiscal year 2003. S. 2 would extend the fees through the end of fiscal year 2013. This would increase offsetting receipts by almost $18 billion over the 2004-2013 period.

Aid to States. Section 371 would provide $20 billion in 2003 in funds for states to use on education or job training, health care, transportation and infrastructure, law enforcement or public safety, or maintaining essential government services. The legislation would make up to 50 percent of that amount available in fiscal year 2003. CBO estimates this provision would cost $10 billion in 2003 and $10 billion in 2004.

Under section 371, states would be required to allocate one-half of the funds directly to local governments. Of the $20 billion provided, section 371 would earmark just under $500,000 specifically for increased payments to states under the Medicaid program.

Review of SSI Blindness and Disability Awards. Section 372 would require the Social Security Administration to conduct reviews of initial decisions to award Supplemental Security Income benefits to certain disabled adults. The legislation would require that the agency review at least 25 percent of all favorable adult disability determinations made by state-level Disability Determination Service (DDS) offices in 2004. Under the legislation, the agency must review at least half of the adult disability awards granted in 2005 and beyond.

CBO anticipates state DDS offices will approve between 350,000 and 400,000 adult disability applications for SSI benefits annually between 2004 and 2008. By 2008, CBO projects that nearly 6,000 DDS awards will have been ultimately overturned, resulting in lower outlays for SSI and Medicaid. (In most states SSI eligibility automatically confers entitlement to Medicaid benefits.) CBO estimates that, in 2004, section 372 would reduce SSI benefits by $3 million and Medicaid outlays by $4 million. Over the 2004-2013 period, CBO estimates this provision would lower outlays by $425 million and $1.1 billion for SSI and Medicaid, respectively, for total savings of about $1.5 billion over 10 years.

Federal Reimbursement of Certain Emergency Health Services. Section 527 would appropriate $48 million in 2004 for emergency health care services provided to undocumented aliens. The bill would allocate $32 million to states based on the number of undocumented aliens living in each state and provide the remaining $16 million directly to the six states with the highest number of apprehensions of undocumented aliens. All funds would remain available until expended. CBO estimates that enacting this provision would increase federal outlays by $28 million in 2004, $12 million in 2005, and $8 million in 2006.

Installment Agreements for Tax Payments. Section 360 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 Internal Revenue Service 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 the use of installment agreements which would increase direct spending by about $1 million over the 2003-2013 period.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effects of the bill on revenues and direct spending over the 2003-2013 period are shown in Table 2.

Table 2. 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	-28,639	-90,108	-68,113	-46,016	-21,740	-18,872	-18,695	-14,735	-8,114	-7,041	2,838
Changes in outlays	15,073	9,954	4,828	2,646	2,180	1,863	1,535	76	-2,157	-2,409	-2,592

SOURCES: CBO and the Joint Committee on Taxation.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed the non-tax provisions of S. 2 and determined that those provisions contain no intergovernmental mandates as defined in UMRA. The bill would provide $20 billion to states over the 2003-2004 period for improving education, job training, health care, transportation and infrastructure, law enforcement, public safety, or for maintaining essential government services. The bill also would appropriate $48 million in fiscal year 2004 to states for emergency health care services provided to undocumented aliens. The bill would prohibit states from using SCHIP funds to provide health care services to childless adults, and as a result, CBO estimates that states would reduce their spending over the 2004-2013 period for SCHIP by $185 million and for Medicaid by $170 million. The bill also would require the Social Security Administration to review initial decisions to award SSI to certain disabled adults. As a result of those reviews, CBO estimates that state spending for Medicaid would decline by about $795 million over the 2004-2013 period in states that automatically grant Medicaid benefits to SSI recipients. JCT has determined that the remaining provisions contain no intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the following provisions of the bill contain private-sector mandates as defined by UMRA: (1) provisions relating to clarification of economic substance doctrine and related penalties; (2) provisions relating to reportable transactions and tax shelters; (3) provisions relating to limitation on transfer or importation of built-in losses; (4) provisions relating to executive compensation reforms; (5) provisions relating to tax treatment of corporate inversion transactions; (6) a provision relating to repeal of section 911 of the tax code; (7) a provision relating to reform of section 501 (c)(15) of the tax code; and (8) a provision relating to charitable contribution of certain intangible property. In aggregate, the costs of those mandates would greatly exceed the annual threshold established in UMRA for private-sector mandates ($117 million in 2003, adjusted annually for inflation).

CBO has reviewed the non-tax provisions and determined that the extension of the customs user fees is a private-sector mandate. We 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 about $1.3 billion 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: Annie Bartsch

Federal Spending:
IRS Collections, State Aid: Matthew Pickford
Hepatitis A Vaccine: Alexis Ahlstrom
SCHIP: Eric Rollins and Jeanne De Sa
Customs User Fees: Mark Grabowicz
SSI: Geoff Gerhardt
Federal Reimbursement of Health Services: Eric Rollins and Jeanne De Sa

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis