CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 10, 2003

Armed Forces Tax Fairness Act of 2003

As ordered reported by the Senate Committee on Finance on February 5, 2003

SUMMARY

The Armed Forces Tax Fairness Act of 2003 would raise the exclusion for death gratuity payments for the military, provide military and foreign service homeowners with relief from capital gains taxes, authorize the Internal Revenue Service (IRS) to enter into installment agreements that provide for partial payment, impose a mark-to-market tax on individuals who expatriate, and extend IRS user fees through September 30, 2013. In addition, the bill would provide individual taxpayers serving in the National Guard and Reserve with a deduction for certain overnight travel expenses, including meals and overnight lodging, incurred while attending National Guard and Reserve meetings. The deduction would be "above the line." Such deductions are statutorily allowed subtractions from gross income that are used to compute adjusted gross income and may be taken by both taxpayers who itemize their deductions and those who do not.

The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that enacting the bill would reduce revenues by $78 million in 2003 and increase revenues by $64 million over the 2003-2008 period and by $6 million over the 2003-2013 period.

JCT has determined that the bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), and would not affect the budgets of state, local, or tribal governments. JCT has also determined that the provision imposing mark-to-market taxes on expatriates contains a private-sector mandate. The total cost of complying with the mandate would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
			CHANCES IN REVENUES			
Mark-to-market tax on expatriates	3	98	84	80	74	71
Extension of IRS user fees	0	33	34	35	36	38
Authorization of IRS to enter into installment agreements	11	30	14	5	a	a
Tax relief from capital gains for military and foreign service homeowners	-66	-14	-14	-15	-15	-16
Above-the-line deduction for travel expenses	-15	-75	-77	-78	-80	-82
Other provisions	-11	-4	-4	-4	-5	-6
Total Changes	-78	68	37	23	10	5

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: a = Gain of less than $500,000.

BASIS OF ESTIMATE

All estimates, with the exception of the provision extending IRS user fees, were provided by JCT. A number of provisions would reduce revenues if enacted, and several would increase revenues. All together, the bill's provisions would reduce revenues by $78 million in 2003, and would increase revenues by $64 million over the 2003-2008 period and by $6 million over the 2003-2013 period.

Most of the reduction in revenues would occur from the provisions providing reservists with an above-the-line deduction allowance for travel expenses and providing military and foreign service homeowners relief from taxation of capital gains. The provisions raising the exclusion for death gratuity payments for individuals in the military, providing an exclusion for amounts received under the Department of Defense Homeowners Assistance Program, expanding combat zone filing rules to contingency operations, extending section 501(c)(19) membership to certain relatives of military personnel, permitting service academy appointments to be treated as scholarships for certain purposes, and extending the benefits available under the Victims of Terrorism Tax Relief Act of 2001 to astronauts who lose their lives in the line of duty would also decrease governmental receipts. As estimated by JCT, all of these provisions together would reduce revenues by $92 million in 2003, by $583 million over the 2003-2008 period, and by $1.143 billion over the 2003-2013 period.

JCT estimates that together, the provisions imposing a mark-to-market tax on individuals who expatriate and authorizing IRS to enter into installment agreements that provide for partial payment would increase revenues by $14 million in 2003, by $471 million over the 2003-2008 period, and by $763 million over the 2003-2013 period.

The act also would extend the period during which IRS may charge fees on 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.

JCT and CBO estimate that these three provisions would increase revenues by $14 million in 2003, by about $647 million over the 2003-2008 period, and by $1.149 billion over the 2003-2013 period.

EFFECT ON REVENUES AND DIRECT SPENDING

The Armed Forces Tax Fairness Act of 2003 contains provisions that both increase and decrease revenues. The overall effect of the bill on revenues is shown in the table below. The bill contains no provisions that affect direct spending.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-76	68	37	23	10	5	a	-8	-14	-17	-22
Changes in outlays	Not applicable										

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: a = Loss of less than $500,000.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that the bill contains no intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provision relating to mark-to-market taxes on expatriates contains a private-sector mandate, and that the direct cost of complying with the mandate would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation).

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