



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

June 2, 2006

**H.R. 4297
Tax Increase Prevention and Reconciliation Act of 2005**

*As cleared by the Congress on May 11, 2006,
and signed by the President on May 17, 2006*

SUMMARY

H.R. 4297, enacted as Public Law 109-222, extends for two years (through 2010) the reduced rates of tax on capital gains and dividends, provides relief to individuals from the alternative minimum tax in tax year 2006, and makes other changes to the Internal Revenue Code.

The Joint Committee on Taxation (JCT) estimates that this legislation will reduce federal revenues by \$70.0 billion over the 2006-2010 period and by \$69.1 billion over the 2006-2015 period. In addition, based on information provided by JCT, CBO estimates that the legislation will have no effect on federal spending.

The Congressional budget resolution for fiscal year 2006 (H. Con. Res. 95) instructed the tax-writing committees to recommend legislative changes under the reconciliation process that would reduce revenues by not more than \$70 billion over the 2006-2010 period. H.R. 4297 is the resulting reconciliation legislation.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4297 is shown in the following table.

ESTIMATED BUDGETARY IMPACT OF H.R. 4297 (PUBLIC LAW 109-222), THE TAX INCREASE PREVENTION AND RECONCILIATION ACT OF 2005

By Fiscal Year, in Millions of Dollars

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Extension of the Reduced Tax Rates for Dividends	0	0	-860	-4,431	-8,008	-9,368	-6,326	-1,224	-450	-112
Extension of the Reduced Tax Rates for Capital Gains	0	0	-1,549	-8,375	2,672	-54	-12,698	*	*	0
Individual AMT Provisions	-12,984	-20,888	0	0	0	0	0	0	0	0
Extension of the Exception for Active Financing Income for Controlled Foreign Corporations	0	-775	-2,339	-1,682	0	0	0	0	0	0
Extension of the Increase in Section 179 Expensing	0	0	-2,605	-4,459	-209	2,707	1,772	1,222	826	476
Corporate Estimated Tax Provisions	2,209	-2,209	0	0	-5,640	-2,541	11,371	-2,793	-396	0
Elimination of Income Limitations on Roth IRA Conversions	0	0	0	-154	-293	2,541	4,929	1,756	-1,080	-1,267
Withholding on Certain Government Payments for Property and Services	0	0	0	0	0	6,079	215	220	228	235
All Other Provisions	<u>18</u>	<u>641</u>	<u>588</u>	<u>643</u>	<u>733</u>	<u>783</u>	<u>842</u>	<u>904</u>	<u>993</u>	<u>1,091</u>
Total Changes	-10,757	-23,231	-6,765	-18,458	-10,745	147	105	85	121	423

SOURCE: Joint Committee on Taxation.

Notes: * = loss of less than \$500,000.

AMT = Alternative Minimum Tax; IRA = Individual Retirement Account.

BASIS OF ESTIMATE

JCT provided all of the revenue estimates for H.R. 4297. JCT estimates that this legislation will reduce federal revenues by \$70.0 billion over the 2006-2010 period and by \$69.1 billion over the 2006-2015 period.

Most of the reduction in revenues will result from extending the reduced tax rates for dividends and capital gains. Those provisions account for \$50.8 billion of the estimated reduction in revenues over the 10-year period. In addition, JCT estimates that provisions providing relief to individuals from the alternative minimum tax (AMT) for tax year 2006 will reduce revenues by \$33.9 billion over the 2006-2007 period.

Several provisions will increase revenues over the 10-year period, JCT estimates, including instituting withholding on certain government payments (\$7.0 billion) and eliminating the income limitations on Roth IRA conversions (\$6.4 billion).

The estimates of the revenue effects of the legislation are measured relative to CBO's March 2005 baseline projections, which underlie the Congressional budget resolution for fiscal year 2006. The estimates, therefore, do not reflect more recent information on economic and taxpaying activity, such as that embodied in CBO's March 2006 baseline projections. For example, the more recent baseline projection updated the share of tax liabilities for 2006 from the AMT that taxpayers will pay in fiscal years 2006 and 2007, which would cause differences in the estimates of the effects of the AMT provisions of H.R. 4297 measured relative to the two baselines. As a result, an updated revenue baseline cannot be constructed by adding or subtracting the estimated revenue effects cited here from the revenue amounts in that (more recent) March 2006 baseline.

PREVIOUS CBO ESTIMATES

On November 17, 2005, CBO transmitted a cost estimate for H.R. 4297, the Tax Relief Extension Reconciliation Act of 2005, as reported by the Committee on Ways and Means. For that earlier version of the act, JCT estimated a reduction in revenues of \$80.5 billion over the 2006-2015 period.

On December 12, 2005, CBO transmitted a cost estimate for S. 2020, the Tax Relief Act of 2005, as passed by the Senate. For that legislation, JCT estimated a reduction in revenues of \$37.5 billion over the 2006-2015 period.

On May 9, 2006, CBO transmitted a cost estimate for the conference agreement on H.R. 4297. The revenue estimates provided on May 9 have not changed.

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