CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

August 1, 2006

Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have estimated the direct spending and revenue effects of H.R. 5970, the Estate Tax and Extension of Tax Relief Act of 2006.

The legislation would increase the estate and gift tax exemption amounts and reduce the rates, as well as extend and modify various other tax relief provisions. It also would make several changes to the Surface Mining Control and Reclamation Act, and it would increase the minimum wage. JCT and CBO estimate that the legislation would decrease revenues by $15.4 billion in 2007, by $48.1 billion over the next five years, and by $302.4 billion through 2016. CBO and JCT estimate that, under the bill, direct spending would increase by $83 million in 2006, by $3.8 billion over the 2007-2011 period, and by $7.3 billion over the 2007-2016 period.

For some budget enforcement procedures, the relevant budget periods are 2006-2010 and 2006-2015. Therefore, we are providing those summarized totals as well. CBO and JCT estimate that enacting this legislation would decrease revenues by $32.524 billion over the 2006-2010 period and by $240.664 billion over the 2006-2015 period. The act would increase direct spending for those periods by $3.008 billion and $6.866 billion, respectively.

The estimated budgetary impact of the act is shown in the attached table.

CBO has reviewed the non-tax provisions of the legislation—subtitle A of title III and all of title IV—for mandates and has determined that title III contains a private-sector mandate and title IV contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act

(UMRA). CBO estimates those mandates would impose costs that exceed the annual thresholds established in that act ($64 million for intergovernmental mandates and $128 million for private-sector mandates, in 2006 adjusted annually for inflation.)

JCT did not review the tax provisions of H.R. 5970 for mandates.

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 5970 would not cause an increase in direct spending greater than $5 billion in any of the 10-year periods between 2016 and 2055. (Direct spending would exceed $5 billion over the 2007-2016 period, primarily because of amendments to the Surface Mining Control and Reclamation Act, but these effects would be significantly lower for subsequent 10-year periods.)

Revenues

H.R. 5970 would make several changes to tax law, resulting in decreases in federal revenues. JCT and CBO estimate that the legislation would decrease revenues by $15.4 billion in 2007, by $48.1 billion over the next five years, and by $302.4 billion through 2016.

Title I would modify rules related to the estate and gift taxes. Currently, the effective exemption amount for the estate tax is larger than that for the gift tax. In 2009, under current law, the estate exemption will be $3.5 million, while the gift tax exemption will be $1 million. Under H.R. 5970, the estate and gift exemption amounts would be equal to each other, as they were prior to enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001. Further, the exemption would be increased to $5 million in 2015. The estate and gift tax rates would be reduced after 2009, and any unused exemption amounts would be allowed to be used by a surviving spouse. JCT estimates that this title would reduce revenues by $14.9 billion over the 2007-2011 period and by $267.6 billion over the 2007-2016 period.

Title II would extend and modify various tax relief provisions in current law. JCT and CBO estimate that this title would reduce revenues by $15.5 billion in 2007, by $35.3 billion over the 2007-2011 period, and by $38.2 billion over the 2007-2016 period.

Provisions in title II include:

- Modification (January 1, 2007, through December 31, 2007) and extension (January 1, 2006, through December 31, 2007) of a research credit of 20 percent of the amount by which a taxpayer's qualified research expenses exceed the base amount for that taxable year. JCT estimates that this provision would reduce revenues by $7.5 billion in 2007, by $16.3 billion over the 2007-2011 period, and by $16.5 billion over the 2007-2016 period.

- Extension for two years of 15-year straight-line cost recovery for qualified restaurant property and leasehold improvement property through December 31, 2007. JCT estimates that this provision would decrease revenues by $418 million in 2007, by $2.9 billion over the 2007-2011 period, and by $5.7 billion over the 2007-2016 period.

- Extension for two years of taxpayers' option to deduct state and local sales taxes instead of state and local income taxes through December 31, 2007. JCT estimates that this would reduce revenues by $3.0 billion in 2007 and by $5.5 billion over the 2007-2009 period.

- Extension for two years of the deduction for qualified tuition and other higher education expenses ($2,000 to $4,000, depending on gross income) through December 31, 2007. This provision would decrease revenues by an estimated $1.6 billion in 2007 and $1.7 billion in 2008.

Title III would make changes to the Surface Mining Control and Reclamation Act and the Internal Revenue Code of 1986. CBO estimates that those provisions would increase net revenues by $560 million over the 2007-2011 period and by $1.0 billion over the next 10 years.

These estimates for title III are the net result of two sets of provisions. CBO estimates that reauthorizing certain fees charged to companies that produce coal would increase revenues by $600 million over the 2007-2011 period and by $1.3 billion over the next 10 years (net of effects on income and payroll tax receipts). We also estimate that provisions that affect the financing of retiree benefits for certain retired coal miners would reduce federal revenues, on net, primarily by reducing premiums paid by certain coal companies in the future. Such changes would result in a net revenue loss of $40 million over the 2007-2011 period and $300 million over the next 10 years.

Direct Spending Effects

H.R. 5970 includes several provisions that would increase direct spending. CBO and JCT estimate that the bill would increase outlays by $83 million in 2006, by $3.8 billion over the 2007-2011 period, and by $7.3 billion over the 2007-2016 period.

The bulk of the new direct spending stems from the Surface Mining Control and Reclamation Act Amendments of 2006 (title III). Title III would make several changes to the Surface Mining Control and Reclamation Act and the Internal Revenue Code of 1986. CBO estimates that enacting this title would increase direct spending by $2.1 billion over the 2007-2011 period and by $4.9 billion over the next 10 years. (Such spending would drop off, though not completely, after 2016.)

Most of the increased spending under title III—$3.8 billion over the next 10 years—would be payments by the Department of the Interior to states, primarily to support efforts to reclaim land that has been mined for coal and for other public purposes. (Roughly $2 billion of that amount would come from the general fund of the Treasury; additional amounts would come primarily from revenues collected as a result of the legislation.) An additional $1.1 billion would be spent under the legislation for health benefits of certain retired coal miners and their dependents and survivors who are eligible to receive retiree health benefits through the United Mine Workers of America Benefit Funds.

H.R. 5970 also would affect outlays by:

- Instituting a refundable tax credit against the individual alternative minimum tax, which JCT estimates would increase outlays by $1.0 billion over the 2007-2011 period and $1.2 billion over the 2007-2016 period.

- Authorizing, in effect, New York City or the state of New York to spend certain federal tax withholding amounts, which CBO estimates would increase spending by $1.0 billion over the 2007-2016 period.

- Extending for two years, through the end of 2007, the payment to the treasuries of Puerto Rico and the Virgin Islands of certain amount of excise taxes on imported distilled spirits. CBO estimates this provision would increase outlays by $83 million in 2006 and $95 million over the 2007-2008 period, assuming that H.R. 5970 is enacted in August 2006.

- Adding to the existing list of taxable vaccines two additional vaccines, which CBO estimates would result in increases in spending of $60 million over the 2007-2016 period because some of the proceeds of the excise tax are paid as compensation to injured individuals and some of the vaccines are purchased by Medicaid.

- Extending for one year the option for individuals to include combat pay in earned income for purposes of the earned income credit, which JCT estimates would increase refundable outlays by $10 million in 2008.

Intergovernmental and Private-Sector Mandates

JCT did not review the tax provisions of H.R. 5970 for mandates.

CBO has reviewed the non-tax provisions of the bill—subtitle A of title III and all of title IV—for mandates and has determined that title III contains a private-sector mandate and title IV contains both intergovernmental and private-sector mandates as defined in UMRA. CBO estimates those mandates would impose costs that exceed the annual thresholds established in that act ($64 million for intergovernmental mandates and $128 million for private-sector mandates, in 2006 adjusted annually for inflation.)

Specifically, section 312 of title III would create a mandate by requiring certain firms that currently pay for health benefits for retired coal miners (and their dependents and survivors) through collectively bargained agreements to make additional payments for those benefits in specified years. At the same time, other provisions would generate significant reductions in financial obligations existing under current law with regard to payments for retiree health benefits.

In addition, section 401 of title IV would amend the Fair Labor Standards Act to increase the federal minimum wage in three steps from $5.15 per hour to $7.25 per hour. The provision would impose mandates, as defined in UMRA, on state and local governments, Indian tribes, and private-sector employers because it would require them to pay higher wages than they are required to pay under current law. CBO estimates that the costs to state, local, and tribal governments and to the private sector would exceed the thresholds established in UMRA.

Finally, section 402 of title IV would preempt the minimum wage laws of states that exclude tips from being considered as wages in determining if certain employees have been paid the applicable minimum wage rate. That preemption would be considered an intergovernmental mandate as defined in UMRA; CBO estimates, however, that this mandate would not impose significant additional costs on states.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact for this estimate is Emily Schlect.

Sincerely,

Donald B. Marron

Donald B. Marron
Acting Director

Enclosure

cc: Honorable Kent Conrad
Ranking Member

Honorable Charles E. Grassley
Chairman
Committee on Finance

Honorable Max Baucus
Ranking Democratic Member

Honorable William "Bill" M. Thomas
Chairman
House Committee on Ways and Means

Honorable Charles B. Rangel
Ranking Democrat

Honorable Jim Nussle
Chairman
House Committee on the Budget

Honorable John M. Spratt Jr.
Ranking Member

ESTIMATED CHANGES IN DIRECT SPENDING AND REVENUES UNDER H.R. 5970, THE ESTATE TAX AND EXTENSION OF TAX RELIEF ACT OF 2006

	By Fiscal Year, in Millions of Dollars												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2011	2007-2016
CHANGES IN REVENUES													
Title I: Estate and Gift Tax Effective Exclusion Amount	0	0	0	0	-803	-14,096	-39,186	-44,073	-50,598	-57,157	-61,684	-14,899	-267,596
Title II: Extension and Expansion of Certain Tax Relief Provisions	0	-15,442	-10,211	-3,956	-2,572	-1,582	-838	-435	-382	-282	-142	-33,766	-35,847
Title III: Surface Mining Control and Reclamation Act Amendments	0	30	160	150	120	100	110	90	90	90	90	560	1,030
Total Changes in Revenues	0	-15,412	-10,051	-3,806	-3,255	-15,578	-39,914	-44,418	-50,890	-57,349	-61,736	-48,105	-302,413
On-budget	0	-15,410	-10,041	-3,805	-3,255	-15,578	-39,914	-44,418	-50,890	-57,349	-61,736	-48,092	-302,400
Off-budget	0	-2	-10	-1	0	0	0	0	0	0	0	-13	-13
CHANGES IN DIRECT SPENDING													
Surface Mining Control and Reclamation Act Amendments													
Budget Authority	0	40	460	480	580	590	650	660	630	430	430	2,150	4,950
Outlays	0	40	450	480	570	590	640	660	630	420	430	2,130	4,910
Refundable AMT Credits													
Budget Authority	0	0	349	283	224	174	128	86	0	0	0	1,030	1,244
Outlays	0	0	349	283	224	174	128	86	0	0	0	1,030	1,244
Spending Authorized for New York													
Budget Authority	0	40	160	0	200	100	100	100	100	100	100	500	1,000
Outlays	0	40	160	0	200	100	100	100	100	100	100	500	1,000
Cover-over of Tax on Distilled Spirits													
Budget Authority	83	77	18	0	0	0	0	0	0	0	0	95	95
Outlays	83	77	18	0	0	0	0	0	0	0	0	95	95
Meningococcal Vaccine													
Budget Authority	0	2	3	3	3	3	3	3	3	4	4	16	33
Outlays	0	2	3	3	3	3	3	3	3	4	4	16	33
HPV Vaccine													
Budget Authority	0	1	4	4	3	3	3	3	3	2	2	14	27
Outlays	0	1	4	4	3	3	3	3	3	2	2	14	27
Extend Option to Include Combat Pay in Earned Income													
Budget Authority	0	0	10	0	0	0	0	0	0	0	0	10	10
Outlays	0	0	10	0	0	0	0	0	0	0	0	10	10

(Continued)

ESTIMATED CHANGES IN DIRECT SPENDING AND REVENUES UNDER H.R. 5970, THE ESTATE TAX AND EXTENSION OF TAX RELIEF ACT OF 2006 (CONTINUED)

	By Fiscal Year, in Millions of Dollars												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2011	2007-2016
Total Changes in Direct Spending													
Budget Authority	83	160	1,005	770	1,010	870	884	852	736	536	536	3,815	7,359
Outlays	83	160	995	770	1,000	870	874	852	736	526	536	3,795	7,319
NET INCREASE IN BUDGET DEFICIT													
Net Change in Deficit	83	15,572	11,046	4,576	4,255	16,448	40,788	45,270	51,626	57,875	62,272	51,900	309,732

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTES: Components may not add to totals because of rounding.
AMT = Alternative Minimum Tax
HPV = Human papillomavirus

(August 1, 2006)