CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 26, 2005

Highway Reauthorization and Excise Tax Simplification Act of 2005

As ordered reported by the Senate Committee on Finance on April 19, 2005

SUMMARY

The Highway Reauthorization and Excise Tax Simplification Act of 2005 would make numerous changes to the Internal Revenue Code, most of which would modify various excise taxes. The affected excise taxes include several dedicated to the Highway Trust Fund (HTF) and the Aquatic Resources Trust Fund (ARTF). In addition, the bill would raise revenues mainly by changing the rules for deductibility of interest for certain debt instruments and by increasing certain penalties. Enacting the legislation would increase direct spending by allocating additional amounts to the ARTF (which would be renamed the Sport Fishing Restoration and Boating Trust Fund).

On net, CBO and Joint Committee on Taxation (JCT) estimate that enacting provisions of the bill would increase federal revenues by $9 million in 2005, $36 million over the 2006-2010 period, and $71 million over the 2006-2015 period. JCT is in the process of revising its portion of the estimate downward, however. JCT indicates that the change in estimated revenues may be large enough to result in an estimated net revenue loss under the bill as ordered reported by the Senate Committee on Finance. CBO estimates that the provisions affecting spending would increase direct spending by $103 million in 2006, by $506 million over the 2006-2010 period, and by $1.2 billion over the 2006-2015 period.

JCT has reviewed the tax provisions of the bill and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

CBO has reviewed the non-tax provisions of the bill and determined that they contain no intergovernmental mandates and would impose no costs on state, local, or tribal governments.

JCT has determined that the tax provisions contain private-sector mandates as defined in UMRA. CBO has reviewed the non-tax provision and determined that the declaration required by the chief executive officer, or other designated officer, relating to tax returns would be a new private-sector mandate as defined in UMRA. CBO estimates that the direct

cost of the mandate would be minimal. In aggregate, the costs of all the mandates contained in the bill would fall below the annual threshold established by UMRA for private-sector mandates ($123 million in 2005, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The budgetary impact of the bill over the 2005-2015 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES											
Trust Fund Reauthorization	0	0	0	0	0	0	0	0	0	0	0
Excise Tax Provisions	0	-36	-40	-94	-104	-106	-106	-106	-109	-110	-111
Miscellaneous Provisions	0	-6	-6	-8	-5	-7	-11	-13	-14	-19	-23
Revenue-raising Provisions [a]	9	41	75	105	111	116	120	126	131	137	143
Estimated Revenues	9	-1	29	3	2	3	3	7	8	8	9
On-budget	9	1	31	6	4	5	7	12	13	15	17
Off-budget [b]	0	-2	-2	-3	-2	-2	-4	-5	-5	-7	-8
CHANGES IN DIRECT SPENDING											
Changes in Spending and Deposits From Sport and Conservation Funds											
Estimated Budget Authority	0	92	120	128	134	140	145	147	151	154	157
Estimated Outlays	0	28	57	90	111	125	133	138	142	145	150
Cover Over (Payment) of Tax on Distilled Spirits											
Estimated Budget Authority	0	75	20	0	0	0	0	0	0	0	0
Estimated Outlays	0	75	20	0	0	0	0	0	0	0	0
Total Changes											
Estimated Budget Authority	0	167	140	128	134	140	145	147	151	154	157
Estimated Outlays	0	103	77	90	111	125	133	138	142	145	150

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	By Fiscal Year, in Millions of Dollars										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN SPENDING SUBJECT TO APPROPRIATION											
Alternative Financing Studies											
Estimated Authorization Level	0	18	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	2	2	3	3	4	4	0	0	0	0
Regional Transportation Plan											
Estimated Authorization Level	0	1	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	1	0	0	0	0	0	0	0	0	0
Total Changes											
Estimated Authorization Level	0	19	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	3	2	3	3	4	4	0	0	0	0

a. The Joint Committee on Taxation is revising the estimate downward for the provision that changes the rules for deductibility of interest for certain debt instruments.

b. Increasing the maximum amount of tax-free, employer-provided commuting benefits contains both on- and off-budget revenue effects.

SOURCES: Joint Committee on Taxation and Congressional Budget Office.

BASIS OF ESTIMATE

Revenues

Most of the estimated revenue effects of the bill were provided by JCT. CBO estimated the impact of two provisions affecting revenues: repealing the harbor maintenance tax on exports and capping the excise tax on certain fishing equipment. Pending an anticipated revision in JCT's estimates, CBO and JCT estimate that enacting provisions of the bill would increase federal revenues by $9 million in 2005, $36 million over the 2006-2010 period, and $71 million over the 2006-2015 period. However, JCT is likely to revise its portion of that estimate, which could result in the bill having an estimated net loss of revenue.

Trust Fund Reauthorization. The bill would extend the authority to collect all excise taxes that are deposited into the Highway Trust Fund and the Aquatic Resources Trust Fund. Under current law, excise taxes are imposed on motor fuels, certain vehicles, and tires. Most of those taxes are set to expire on September 30, 2005. Among these levies is a tax of 18.3 cents per gallon that is imposed on gasoline and special motor fuels used in motorboats and certain small engines. The bill would distribute all revenues collected from the tax on those fuels to the Aquatic Resources Trust Fund (ARTF). Under current law, only 13.5 cents per gallon is deposited in the ARTF; the balance of 4.8 cents per gallon remains in the general fund. JCT estimates that extending the expiring tax provisions would have no effect on federal revenues because the baseline already includes those revenues. Under section 257 of the Balanced Budget and Emergency Deficit Control Act, excise taxes dedicated to trust funds, if set to expire, are assumed to be extended in CBO's baseline at the current rates in place just before scheduled expiration.

Excise Tax Reform and Simplification. In total, JCT and CBO estimate that enacting title II would reduce federal revenues by $376 million over the 2006-2010 period and $918 million over the 2006-2015 period. Half of the decrease in receipts—$459 million over the 2006-2015 period—would result from repealing special occupational taxes on producers and marketers of alcoholic beverages. The remaining provisions modify various excise taxes and other taxes related to alcohol and would reduce receipts by $459 million over the 2006-2015 period.

Miscellaneous Provisions. JCT estimates that the remaining revenue-reducing provisions of the bill would decrease receipts by $33 million over the 2006-2010 period and $113 million over the 2006-2015 period. All of this change would result from increasing the maximum amount of tax-free, employer-provided commuting benefits. (Of this reduction, $41 million would apply to off-budget receipts.)

Revenue-Raising Provisions. In total, JCT estimates that the revenue provisions in title V would increase revenues by $9 million in 2005, about $450 million over the 2006-2010 period, and by about $1.1 billion over the 2006-2015 period. Most of that increase ($945 million over the 2005-2015 period) would result from changing the rules for deductibility of interest for certain debt instruments. (JCT is in the process of revising the estimate for that provision; the new estimate is likely to indicate a substantially smaller revenue gain.) Additional revenue increases would come from increasing certain penalties, including fines for frivolous tax submissions.

Direct Spending

Changes in Spending and Deposits From the Aquatic Resources Trust Fund. Changes made to the ARTF by this legislation would increase direct spending by $28 million in 2006 and about $1.1 billion over the 2006-2015 period.

Enacting this legislation would increase direct spending from the ARTF by allocating to that fund the entire tax of 18.3 cents per gallon of fuels used in motorboats and small engines rather than the 13.5 cents per gallon portion of the tax it currently receives. Because all revenues deposited to the trust fund are available to be spent in the following year without further appropriation, raising such deposits by 4.8 cents per gallon of fuel used in motorboats and small engines would increase direct spending by an estimated $29 million in 2007 and by $1.1 billion through 2015. The additional deposits would be used for sport fish and coastal wetlands conservation activities and for boating safety grants.

Enacting the legislation also would increase direct spending by making available without further appropriation the existing balance of the boating safety account of the ARTF (about $92 million) and any interest earned on the balance until it is expended (an estimated $5 million). CBO estimates that the provision would increase direct spending by $28 million in 2006, by $96 over the 2006-2010 period, and by $97 million over the 2006-2015 period.

Finally, CBO estimates that capping the excise tax on certain fishing equipment would reduce direct spending for sport fish and wildlife conservation grants**.** The modifications would reduce the amount of excise taxes deposited to the ARTF and to the Federal Aid-Wildlife Fund beginning in 2006. Because amounts deposited to those funds are available without appropriation (in the following year), cutting such deposits would reduce direct spending by an estimated $1 million in 2007 and by about $40 million over the 2007-2015 period.

Cover Over (Payment) of Tax on Distilled Spirits. Under current law, an excise tax of $13.50 per proof gallon is assessed on distilled spirits produced or brought into the United States. Until December 31, 2005, the treasuries of Puerto Rico and the Virgin Islands will receive $13.25 per proof gallon of the excise tax on rum imported into the U.S. from any country or those possessions (that amount is known as the tax cover over). Section 232 would increase the cover over to $13.50 per proof gallon for assessments made between January 1, 2006, and December 31, 2006. Those payments to Puerto Rico and the Virgin Islands are recorded in the budget as outlays. Based on recent tax and payment data, CBO estimates that this provision would increase direct spending by $95 million over the 2006-2007 period (with an additional $4 million in outlays after 2010).

Spending Subject to Appropriation

Alternative Financing Studies. Section 303 would authorize the appropriation of $1 million to Montana State University and $17 million to the University of Iowa for studies to be completed in fiscal year 2006 and fiscal year 2012 on supplemental or alternative funding sources for the Highway Trust Fund. Assuming the appropriation of the specified amounts, CBO estimates that implementing this provision would cost $14 million over the 2006-2010 period.

Regional Transportation Plan. Section 304 would authorize the appropriation of $1 million in fiscal year 2005 and 2006 for the Delta Regional Commission to study transportation needs in eight states in the Mississippi delta. Assuming the appropriation of the specified amount, CBO estimates that implementing this provision would cost $1 million over the 2006-2007 period.

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that the tax provisions of this legislation contain no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

CBO has determined that the non-tax provisions contain no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

IMPACT ON THE PRIVATE SECTOR

JCT has determined that the tax provisions contain private-sector mandates as defined in UMRA.

CBO has reviewed the non-tax provisions of the bill and determined that section 506 would impose a new private-sector mandate on the chief executive officer (CEO), or other designated officer, of certain companies. The provision would require a CEO or other officer to include a signed declaration with the federal annual income tax return of certain companies. The declaration would state that the company has processes and procedures in place to ensure compliance with the Internal Revenue Code and that the CEO was provided reasonable assurance of the accuracy of all material aspects of such return. CBO expects that the cost to comply with the mandate would be minimal.

In aggregate, the direct costs of all the mandates in the bill would fall below the annual threshold established by UMRA for private-sector mandates ($123 million in 2005, adjusted annually for inflation.)

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