CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 14, 2008

H.R. 5719
Taxpayer Assistance and Simplification Act of 2008

As ordered reported by the House Committee on Ways and Means on April 9, 2008

SUMMARY

H.R. 5719 would make several changes to tax law. The bill would reduce revenues by modifying standards placed on preparers of tax returns, by loosening the restrictions on deducting cellular phone costs as a business expense, by delaying the withholding of taxes on payments for certain government contracts, and by repealing the Internal Revenue Service's (IRS's) authority to hire private debt collectors. H.R. 5719 would raise revenues by requiring additional information from preparers of tax returns regarding the use of health savings accounts (HSAs) and subjecting the wages of certain employees working under U.S. government contracts to payroll taxes. The bill also would shift some corporate receipts from 2014 into 2013.

The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that enacting H.R. 5719 would increase revenues by $41 million and reduce direct spending by $247 million over the 2008-2018 period.

JCT reviewed the tax provisions of the bill and determined that they contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the nontax provisions of H.R. 5719 and determined that they contain no intergovernmental mandates as defined in UMRA.

CBO has determined that the nontax provisions contain a private-sector mandate as defined in UMRA. The bill would prohibit anyone from using words, abbreviations, titles, or letters associated with the Department of the Treasury (or one of its bureaus, offices, or subdivisions) as a part of an Internet domain address in a manner that could be reasonably interpreted as conveying the false impression that the domain address in connected to or authorized by the department. Based on information from industry sources, CBO expects the total direct cost of the mandate would fall below the annual threshold established by UMRA ($136 million in 2008, adjusted annually for inflation) in the first five years the mandate is in effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5719 is shown in the following table. The costs of this legislation fall within budget functions 800 (general government) and 650 (Social Security).

	By Fiscal Year, in Millions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN REVENUES													
Standards for Tax Return Preparers	0	-1	-1	-2	-2	-2	-2	-2	-3	-3	-3	-9	-22
Expensing of Cellular Phone Use	0	-3	-8	-13	-18	-22	-26	-30	-34	-39	-44	-63	-237
Delay in Implementing Government Withholding	0	0	0	-6,313	5,998	0	0	0	0	0	0	-316	-316
Repeal of Private Debt Collection Contracting Authority	0	-26	-54	-59	-59	-59	-59	-59	-59	-59	-59	-257	-552
Substantiation of HSA Distributions	0	0	0	61	59	31	25	28	31	33	39	151	308
Employment Taxes on Wages Paid Under Certain Government Contracts[a]	14	81	80	81	83	84	85	86	88	89	90	422	860
Corporate Estimated Tax Payment Due in 2013	0	0	0	0	0	147	-147	0	0	0	0	147	0
Total Change in Revenues	14	51	17	-6,245	6,061	179	-124	23	23	21	23	75	41
On-Budget Revenues	-1	-37	-70	-6,333	5,972	88	-216	-71	-72	-75	-75	-383	-891
Off-Budget Revenues	15	88	87	88	89	91	92	94	95	96	98	458	932
CHANGES IN DIRECT SPENDING (OUTLAYS)[b]													
Wages Paid Under Certain Government Contracts[a]	*	*	*	*	1	1	1	2	2	3	4	2	14
Private Debt Collection Authority	0	-12	-25	-28	-28	-28	-28	-28	-28	-28	-28	-121	-261
Total Changes in Direct Spending	*	-12	-25	-28	-27	-27	-27	-26	-26	-25	-24	-119	-247
On-Budget Spending	0	-12	-25	-28	-28	-28	-28	-28	-28	-28	-28	-121	-261
Off-Budget Spending	*	*	*	*	1	1	1	2	2	3	4	2	14
NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS FROM CHANGES IN REVENUES AND DIRECT SPENDING													
Net Change in the Deficit or Surplus[c]	14	63	42	-6,217	6,088	206	-97	49	49	46	47	194	288
On-Budget	-1	-25	-45	-6,305	6,000	116	-188	-43	-44	-47	-47	-262	-630
Off-Budget	15	88	87	88	88	90	91	92	93	93	94	456	918

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	By Fiscal Year, in Millions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Low-Income Taxpayer Clinics													
Estimated Authorization Level	0	4	4	4	4	4	4	4	4	4	4	20	40
Estimated Outlays	0	4	4	4	4	4	4	4	4	4	4	20	40
Other Provisions													
Estimated Authorization Level	0	3	2	2	2	2	2	2	2	2	2	11	21
Estimated Outlays	0	3	2	2	2	2	2	2	2	2	2	11	21
Total Changes													
Estimated Authorization Level	0	7	6	6	6	6	6	6	6	6	6	31	61
Estimated Outlays	0	7	6	6	6	6	6	6	6	6	6	31	61

Sources: Congressional Budget Office and Joint Committee on Taxation.

Notes: HSA = health savings account; * = less than $500,000.

a. A portion of the estimated effects on revenues, and all of the estimated effects on direct spending, are off-budget.

b. Changes in direct spending budget authority would be identical to the changes in outlays for each year.

c. Negative numbers indicate increases in deficits (or decreases in surpluses); positive numbers indicate decreases in deficits (or increases in surpluses).

BASIS OF THE ESTIMATE

JCT estimated the effects of H.R. 5719 on revenues, and CBO estimated the effects on direct spending.

Revenues

H.R. 5719 would affect revenues through a number of changes to tax law, some of which, JCT estimates, would have a negligible effect on revenues. Those provisions with measurable effects are described below.

Standards for Preparers of Tax Returns. Under current law, a preparer of tax returns can be subject to a penalty for understating an income tax liability if the justification for the tax position does not meet a certain standard. H.R. 5719 would reduce the standards that such preparers must meet when not providing justification for a tax position. JCT estimates that this provision would decrease revenues by $22 million over the 2009-2018 period.

Expensing of Cellular Phone Use. Taxpayers can deduct business expenses associated with the use of cellular telephones only if they substantiate the use with detailed information, including the date and amount of each use in a tax year. Under the bill, the use of cellular telephones would not be subject to such information requirements. JCT estimates that this provision would decrease revenues by $237 million over the 2009-2018 period.

Delay on Implementation of Government Withholding. After December 31, 2010, federal, state, and local government entities making payments to persons providing goods and services will be required to withhold for income tax purposes 3 percent of those payments. Under H.R. 5719, that withholding would begin after December 31, 2011. JCT estimates that this provision would decrease revenues in 2011 and increase them in 2012, with a net reduction in revenues of $316 million over the 2011-2012 period.

Repeal of IRS's Authority to Contract with Private Debt Collectors. The bill would repeal the IRS's authority to enter into qualified tax collection contracts with private collection firms to collect delinquent tax liabilities. Any existing contracts entered into after February 29, 2008, would be void, as would any extensions or renewals occurring after such date. JCT estimates that this change would reduce revenues by $552 million over the 2009-2018 period. The provision also would affect direct spending (see "Direct Spending" section).

Substantiation of HSA Distributions. Individuals who maintain a health savings account must determine whether money disbursed from the account and used to pay for a medical expense should be included in their taxable income. Under the bill, such persons would need to provide additional substantiation that an HSA distribution qualifies as excludable from taxable income. The additional requirements would apply to amounts disbursed after December 31, 2010. JCT estimates that this provision would increase revenues by $308 million over the 2011-2018 period.

Employment Taxes on Wages Paid Under Certain Government Contracts. For the purposes of determining one's employment tax liability, H.R. 5719 would extend the definition of a U.S. employer to include foreign subsidiaries of U.S. parent companies that employ a U.S. citizen working in connection with a U.S. government contract. The controlling parent entity and the employee of the foreign subsidiary would be liable for employment taxes. JCT estimates that this change would increase revenues by $860 million

over the 2008-2018 period. Off-budget revenues would increase by an estimated $932 million, and on-budget revenues would decrease by an estimated $72 million over that period. The provision also would affect direct spending (see "Direct Spending" section).

Shifts in Corporate Estimated Payments. H.R. 5719 would shift revenues between 2013 and 2014. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated tax payments due in July through September of 2013. JCT estimates that this change would increase revenues by $147 million in 2013 and decrease revenues by $147 million in 2014.

Direct Spending

Prohibition on the Use of Treasury Names and Symbols. The bill would establish a new federal crime for the misuse of Treasury names and symbols on the Internet. The bill also would apply and increase civil and criminal penalties (that are already levied on misuse of Treasury names in other mediums) to such Internet misuse. Enacting the provision could increase federal revenues and direct spending as a result of the collection of additional civil and criminal penalties. (Collections of civil penalties are recorded in the budget as revenues, deposited in the Crime Victims Fund, and later spent without further appropriation.) CBO estimates, however, that any additional revenues and direct spending that would result from enacting the bill would not be significant because of the relatively small number of cases likely to be involved.

Repeal of IRS's Authority to Contract with Private Debt Collectors. As discussed above in the "Revenues" section, the bill would repeal the authority for the IRS to enter into any new or extended contracts for private debt collection. Under current law, the IRS enters into contracts with private collection firms to collect delinquent tax liabilities owed to the federal government. Under those contracts, the IRS may allow those firms to retain up to 25 percent of the amounts they collect. Another 25 percent of amounts collected is available to IRS to spend on collection enforcement activities. Based on information from the IRS, CBO estimates that 47 percent of the amounts collected are retained by either the IRS or the private collection firms. Thus, CBO estimates that repealing the private debt collection authority and allowing the current contracts to expire would reduce direct spending by $261 million over the 2009-2018 period.

Employment Taxes on Wages Paid Under Certain Government Contracts. As discussed above, the bill would require certain U.S. parent companies with foreign subsidiaries to pay employment taxes on behalf of some employees. Those employees also would be liable for their share of employment taxes. Because Social Security benefits are calculated by a formula that is based on lifetime earnings subject to employment taxes, increasing the

amount of earnings counted in the benefit formula would increase Social Security benefits. CBO estimates that enacting the provision would increase direct spending for Social Security benefits by less than $500,000 in 2008 and by $14 million over the 2009-2018 period.

Spending Subject To Appropriation

Clinics for Low-Income Taxpayers. Under current law, the Secretary of the Treasury is authorized to provide up to $6 million per year to clinics for low-income taxpayers. The bill would increase this authorization to $10 million per year and allow volunteers who provide income tax assistance to receive grants. Assuming appropriation of the specified amounts beginning in 2009, CBO estimates that implementing this provision would cost $40 million over the 2009-2018 period.

Other Provisions. H.R. 5719 would require the IRS to notify any taxpayer when the agency determines that the taxpayer has been a victim of identity theft and when any criminal charges have been filed. The bill also would require, to the extent possible, that the IRS annually provide written notice to taxpayers who may qualify for an earned income tax credit or refund. In addition, H.R. 5719 would require a report by the Treasury on the feasibility to delivering tax refunds through electronic means to individuals who do not have a bank account. Based on information from IRS, and assuming the appropriation of the necessary amounts, CBO estimates that implementing those provisions would cost $3 million in 2009 and $2 million in each subsequent year.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT reviewed the tax provisions of the bill and determined that they contain no private-sector or intergovernmental mandates as defined in UMRA. CBO has reviewed the nontax provisions and determined that they contain no intergovernmental mandates as defined in UMRA.

CBO has determined that the nontax provisions of H.R. 5719 contain a private-sector mandate as defined in UMRA. The bill would prohibit anyone from using words, abbreviations, titles, or letters associated with the Department of the Treasury (or one of its bureaus, offices, or subdivisions) as a part of an Internet domain address in a manner that could be reasonably interpreted as conveying the false impression that the domain address is connected to or authorized by the department.

The costs of the mandate would be the expenditures incurred to bring such an Internet domain address into compliance, added to any loss of net income associated with those changes. Current law already prohibits the use of words or symbols related to the Department of the Treasury in connection with advertisements, solicitations, or other business activities in such a manner. Based on information from industry sources, CBO expects the total direct cost of the mandate would fall below the annual threshold established by UMRA ($136 million in 2008, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Revenues: Zachary Epstein
Federal Spending: Matthew Pickford and Sheila Dacey
Impact on State, Local, and Tribal Governments: Elizabeth Cove
Impact on the Private Sector: Jacob Kuipers

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Assistant Director for Budget Analysis