



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 29, 2008

H.R. 6081 **Heroes Earnings Assistance and Relief Tax Act of 2008**

As cleared by the Congress on May 22, 2008

SUMMARY

H.R. 6081 would primarily amend tax law as it relates to veterans of the military and active servicemen and servicewomen. Among its provisions, the act would modify the rules applicable to veterans eligible for qualified mortgage bonds, expand the rebate program enacted in the Economic Stimulus Act of 2008 (enacted as Public Law 110-185), and impose payroll taxes on wages paid under certain government contracts. The Joint Committee on Taxation (JCT) and the Congressional Budget Office estimate that enacting H.R. 6081 would increase revenues by \$18 million in 2008 and by \$124 million over the 2008-2018 period. CBO and JCT estimate that the act would increase direct spending by \$118 million over the 2008-2018 period. On net, the legislation would decrease budget deficits (or increase surpluses) by \$6 million over the 2008-2018 period.

The legislation would change both revenues and spending under the Social Security program; thus, some of the estimated budget effects would be classified as off-budget. They would add an estimated \$734 million to off-budget surpluses over the 10-year period. The remaining budgetary effects would increase on-budget deficits by \$102 million over the 2008-2013 period and by \$728 million over the 2008-2018 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 6081 is shown in the following table. The costs of this legislation fall within budget functions 550 (health), 600 (income security), 650 (Social Security), and 800 (general government).

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													
Benefits for the Armed Forces	-3	-25	-46	-69	-89	-110	-132	-152	-171	-188	-204	-344	-1,197
Parity in the Application of Limits to Mental Health Benefits ^a	0	-15	-10	0	0	0	0	0	0	0	0	-25	-25
Wages Paid Under Certain Government Contracts ^a	11	76	80	81	83	84	85	86	88	89	90	414	852
Other Revenue-Raising Provisions	<u>10</u>	<u>58</u>	<u>61</u>	<u>57</u>	<u>53</u>	<u>48</u>	<u>43</u>	<u>38</u>	<u>40</u>	<u>42</u>	<u>44</u>	<u>286</u>	<u>494</u>
Total Changes in Revenues	18	94	85	69	47	22	-4	-28	-43	-57	-70	331	124
On-budget	8	32	16	-3	-26	-52	-79	-104	-121	-136	-150	-29	-624
Off-budget	10	62	69	72	73	74	75	76	78	79	80	360	748
CHANGES IN DIRECT SPENDING (OUTLAYS)^b													
Expansion of Stimulus Rebates	0	10	0	0	0	0	0	0	0	0	0	10	10
Wages Paid Under Certain Government Contracts ^a	*	*	*	*	1	1	1	2	2	3	4	2	14
Expanded Benefits in and Eligibility for SSI	0	1	3	4	3	4	4	4	4	4	4	15	36
Inclusion of Combat Pay in Earned Income for Calculating the EIC	<u>0</u>	<u>17</u>	<u>16</u>	<u>9</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>48</u>	<u>58</u>
Total Changes in Direct Spending	*	28	19	13	7	8	7	8	8	9	10	75	118
On-budget	*	28	19	13	6	7	6	6	6	6	6	73	104
Off-budget	*	*	*	*	1	1	1	2	2	3	4	2	14
NET EFFECT ON THE BUDGET DEFICIT OR SURPLUS													
Net Change in the Budget Deficit or Surplus ^c	18	66	66	56	40	14	-11	-36	-51	-66	-80	256	6
On-budget	8	4	-3	-16	-32	-59	-85	-110	-127	-142	-156	-102	-728
Off-budget	10	62	69	72	72	73	74	74	76	76	76	358	734

Sources: Congressional Budget Office and Joint Committee on Taxation.

Notes: SSI = Supplemental Security Income; EIC = earned income credit; * = effect 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. For all direct spending changes, budget authority equals outlays.
- c. Positive numbers indicate decreases in deficits (or increases in surpluses); negative numbers indicate the opposite.

BASIS OF THE ESTIMATE

JCT estimated the effects of H.R. 6081 on revenues, with the exception of one provision. CBO estimated the effects on revenues from the provision that would extend parity in the application of certain limits to mental health benefits. CBO and JCT estimated the effects on direct spending.

Revenues

H.R. 6081 would modify certain rules applicable to veterans for the use of both qualified mortgage bonds and qualified veterans' mortgage bonds. The act would permanently extend a special rule that allows the proceeds of qualified mortgage bonds to finance mortgages of veterans who are not first-time homebuyers. Furthermore, the legislation would increase the volume of qualified veterans' mortgage bonds that certain states may issue and loosen the requirements that veterans must satisfy to be eligible for such bonds.

Additionally, the act would expand the rebate program enacted in the Economic Stimulus Act of 2008 to allow taxpayers who file a joint return to receive a rebate provided that one of the joint filers is an active member of the armed forces. Under current law, both members of a married couple filing a joint return must have a Social Security number to qualify for a rebate, but under the act, this requirement would be waived if one member is serving on active duty. The provision also would affect direct spending (see "Direct Spending" section). The legislation also would extend parity in the application of certain limits to mental health benefits and modify the rules applicable to Peace Corps volunteers and members of the intelligence community for the calculation of the gain on sale of a principal residence. JCT and CBO estimate that these provisions and others related to veterans and active members of the armed forces would reduce revenues by \$1.2 billion over the 2008-2018 period.

The legislation includes three provisions that would raise revenues over the 2008-2018 period. First, the act would change tax rules related to U.S. citizens and permanent residents who relinquish their citizenship or residency. Under the act, for tax purposes, such persons' property would be treated as sold for its market value on the day before the relinquishment of citizenship or residency. Gains on the deemed sale in excess of \$600,000 would be subject to income taxation. The act also would immediately subject such persons to tax rather than treat them as U.S. citizens or long-term residents until they give certain notice of expatriation. Second, H.R. 6081 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. (The provision also would

affect direct spending). Third, the act would increase the penalty for failure to file an income tax return. JCT estimates that these three provisions would increase revenues by \$1.3 billion over the 2008-2018 period.

Direct Spending

Expansion of Stimulus Rebate Program. The act would allow married couples filing joint tax returns to receive a stimulus rebate provided that one member of the couple is in active military service. Some individuals who would receive a rebate pay no income taxes, or the rebate would exceed the amount the income taxes they do pay. Rebates that exceed an individual's income-tax liability are classified in the budget as direct spending. As a result, JCT estimates that this provision would increase direct spending by \$10 million in 2009.

Employment Taxes on Wages Paid Under Certain Government Contracts. The legislation 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.

Expanded Benefits in and Eligibility for Supplemental Security Income. Section 201 would change how the Social Security Administration (SSA) treats certain military cash allowances in determining eligibility and benefits for Supplemental Security Income (SSI), and would codify SSA's current treatment of the military basic allowance for housing. CBO estimates that enacting this proposal would increase the benefits of nearly 3,000 existing SSI beneficiaries and would make up to 200 additional individuals each year newly eligible for SSI (many of those also would become eligible for Medicaid as a result of their SSI eligibility). CBO estimates that, as a result, outlays would increase by \$11 million over the 2009-2013 period and by \$26 million over the 2009-2018 period.

Furthermore, under the legislation, SSA would disregard annuities paid by states to blind, disabled, or aged veterans when calculating a veteran's SSI eligibility and benefit amount. CBO estimates that enacting this provision would increase annual SSI benefits by \$1,200 for about 60 veterans. Accordingly, CBO estimates the provision would increase outlays by less than \$500,000 over the 2009-2013 period and by \$1 million over the 2009-2018 period.

Additionally, SSA would disregard payments from Americorps programs when calculating an Americorps volunteer's SSI eligibility and benefit amount. CBO estimates that enacting this provision would increase annual SSI benefits by \$2,000 for about 400 volunteers, resulting in an increase in outlays of \$4 million over the 2009-2013 period and \$9 million over the 2009-2018 period. In total, CBO estimates that enacting these three provisions would increase direct spending by \$36 million over the 2009-2018 period.

Include Combat Pay as Earned Income. The act would permanently extend the option for individuals to include combat pay in earned income for purposes of the earned income credit. In the event that the credit exceeds a taxpayer's liability in a tax year, the taxpayer is allowed a refundable credit for that excess amount, which is recorded as an outlay in the budget. JCT estimates that this change would increase outlays from the refundable credit by \$58 million over the 2009-2018 period.

PREVIOUS ESTIMATES

On November 6, 2007, CBO transmitted a cost estimate for H.R. 3997, the Heroes Earnings Assistance and Relief Tax Act of 2007, as ordered reported by the House Committee on Ways and Means. The cost estimates reflect differences in the two versions of the legislation.

On April 13, 2007, CBO transmitted a cost estimate for H.R. 337, the Military Families Financial Security Act of 2007, as introduced on January 9, 2007. Section 201 of H.R. 6081 is similar to that bill. The estimated cost of section 201 of H.R. 6081 is \$2 million higher, primarily because CBO assumes a later enactment date, and another year's cost-of-living adjustment is built into benefit levels.

ESTIMATE PREPARED BY:

Federal Revenues: Zachary Epstein and Shinobu Suzuki
Federal Spending: David Rafferty and Sheila Dacey

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Assistant Director for Budget Analysis