CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 20, 2008

H.R. 6275
Alternative Minimum Tax Relief Act of 2008

As ordered reported by the Committee on Ways and Means on June 18, 2008

SUMMARY

H.R. 6275 would provide relief from the alternative minimum tax (AMT) for tax year 2008. Additionally, the bill would raise revenue by modifying the tax treatment of income ("carried interest") from investment services partnerships, denying a deduction for the domestic production of oil and gas products, limiting the ability of foreign corporations to use United States tax treaties to reduce their withholding taxes, requiring information reporting on merchants' credit and debit card transactions, and adjusting the rules for assessing levies on payments from the federal government to private vendors with outstanding tax liability. The bill would also shift some corporate income tax receipts from 2012 and 2014 into 2013. On balance, the Joint Committee on Taxation (JCT) estimates that enacting the bill would increase revenues by $158 million over the 2008-2013 period and by $68 million over the 2008-2018 period.

JCT has determined that the bill contains no intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA), but that it contains four private-sector mandates: the taxation of carried interest as ordinary income, the denial of the section 199 deduction for major integrated oil companies and freezing of the current deduction for other oil and gas producers, the limitation on the ability of foreign corporations to use United States tax treaties to reduce tax withholding, and the additional information reporting on credit and debit card transactions. JCT estimates that the costs required to comply with the mandates would exceed the annual threshold established by UMRA for private-sector mandates ($136 million in 2008, adjusted annually for inflation) in each of the next 10 years (2009 through 2018).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 6275 is shown in the following table.

	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													
Individual AMT relief	-1,230	-75,143	14,851	0	0	0	0	0	0	0	0	-61,522	-61,522
Altered Taxation of Carried Interest	82	3,519	3,810	3,832	3,591	3,243	2,818	2,567	2,383	2,458	2,678	18,077	30,981
Limiting the Section 199 Deduction for Oil and Gas Producers	0	367	955	1,170	1,258	1,352	1,453	1,562	1,578	1,805	2,065	5,102	13,565
Limiting the Use of Tax Treaties by Foreign Companies	13	551	592	636	667	701	719	737	755	774	796	3,160	6,941
Additional Information Reporting	0	0	0	24	620	860	1,262	1,630	1,717	1,802	1,888	1,504	9,802
Expanding the Application of a Levy on Certain Federal Payments	2	27	27	28	29	29	30	31	32	33	34	142	301
Corporate Estimated Tax Payments Due in 2012 and 2013	0	0	0	0	-9,934	43,629	-33,695	0	0	0	0	33,695	0
Total Changes	-1,133	-70,679	20,235	5,690	-3,769	49,814	-27,413	6,527	6,465	6,872	7,461	158	68

Source: Joint Committee on Taxation.

Note: AMT = Alternative Minimum Tax.

BASIS OF THE ESTIMATE

JCT estimated the effects of H.R. 6275 on revenues. For this estimate, JCT assumes the bill will be enacted by August 1, 2008.

Individual AMT Relief

H.R. 6275 would reduce revenues by raising the exemption amount against one's gross income for AMT purposes and by extending the rule that allows the use of nonrefundable credits against the AMT. Under current law, unmarried individuals, married individuals filing joint returns, and married individuals filing separate returns are permitted an exemption on their taxable income under the alternative minimum tax rules for 2008 of $33,750, $45,000, and $22,500, respectively. H.R. 6275 would raise those respective exemption amounts to $46,200, $69,950, and $34,975. Also, under current law, individuals with nonrefundable personal tax credits are permitted to claim the credits against the AMT in

2007 but not thereafter. H.R. 6275 would extend such treatment through tax year 2008. JCT estimates that this provision would decrease revenues by $61.5 billion over the 2008-2010 period.

Altered Taxation of Carried Interest

The bill would modify the rules for the taxation of income of a general partner in a private equity or hedge fund. Such a partner's income may include compensation that is determined as a share of the profits on the assets under the fund's management. This kind of compensation is referred to as carried interest. Under current law, carried interest is taxed at the long-term capital gains rate to the extent that the fund's profits reflect long-term capital gains. Under H.R. 6275, all carried interest would be taxed as ordinary income except for that which is directly attributable to such partner's invested capital. JCT estimates that enacting this provision would increase revenues by $31.0 billion over the 2008-2018 period.

Limiting the Section 199 Deduction for Oil and Gas Producers

Under current law, taxpayers are permitted a deduction under section 199 of the Internal Revenue Code of up to 6 percent of the income attributable to qualifying domestic production activity. That deduction will rise to 9 percent after 2009. H.R. 6275 would deny that tax deduction to any income of major integrated oil companies from the sale or exchange of oil, natural gas, or related byproducts beginning in 2009. The bill would also freeze the existing deduction at 6 percent for other oil and natural gas producers. JCT estimates that this provision would increase revenues by $13.6 billion over the 2009-2018 period.

Limiting the Use of Tax Treaties by Foreign Companies

The bill would change tax provisions that in some cases allow a U.S. subsidiary of a foreign parent corporation to avoid U.S. withholding tax on payments to a related subsidiary in another country that has a tax treaty with the United States. JCT estimates that this provision would increase revenues by $6.9 billion over the 2008-2018 period.

Information Reporting on Payment Card Transactions

H.R. 6275 would require banks and other payment settlement entities to report to the IRS the gross amount of money paid to merchants as settlement for credit and debit card transactions.

Such information reporting would be required beginning in tax year 2011. JCT estimates this provision would increase revenues by $9.8 billion over the 2011-2018 period.

Application of Continuous Levy

Under current law, the IRS may impose a continuous levy on federal payments to vendors of goods or services with unpaid, outstanding tax liability. The bill would expand the IRS' ability to impose such a levy to include federal payments for other kinds of property. JCT estimates that this provision would increase revenues by about $0.3 billion over the 2008-2018 period.

Corporate Estimated Tax Payments Due in 2012 and 2013

H.R. 6275 would shift revenues out of 2012 and 2014 and into 2013 by adjusting the portion of corporate estimated tax payments due in July through September of 2012 and 2013. JCT estimates that this change would reduce revenues by $9.9 billion in 2012, increase them by $43.6 billion in 2013, and reduce them by $33.7 billion in 2014.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has reviewed the bill and determined that it contains no intergovernmental mandates, but that it contains four private-sector mandates. The bill would alter the tax treatment of investment services income (carried interest) of general partners in private equity and hedge funds, deny the section 199 deduction for major integrated oil companies and freeze the current deduction for other oil and gas producers, limit the ability of foreign corporations to use United States tax treaties to reduce U.S. tax withholding, and require that additional information regarding the gross amount of credit and debit card transactions be reported to the IRS. JCT estimates that the costs required to comply with the mandates would exceed the annual threshold established by UMRA ($136 million in 2008, adjusted annually for inflation) in each of the next 10 years (2009 through 2018).

ESTIMATE PREPARED BY: Zachary Epstein

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis